The Union Light, Heat and Power Company
d/b/a Duke Energy Kentucky
Case No. 2006-00172
Forecasted Test Period Filing Requirements
Table of Contents

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Case No. 2006-00172
Forecasted Test Period Filing Requirements
Table of Contents

Vol. #	Tab #	Filing Requirement	Description	Sponsoring Witness
			filed with the commission.	
1	15	807 KAR 5:001 Section 10 (4)(c)	Except for sewer utilities, applicants with more than twenty (20) customers affected by the proposed general rate adjustment shall give the required notice by one (1) of the following methods: 1. A typewritten notice mailed to all customers no later than the date the application is filed with the commission; 2. Publishing the notice in a trade publication or newsletter which is mailed to all customers no later than the date on which the application is filed with the commission; or 3. Publishing the notice once a week for three (3) consecutive weeks in a prominent manner in a newspaper of general circulation in the utility's service area, the first publication to be made within seven (7) days of the filing of the application with the commission.	Sandra P. Meyer
1	16	807 KAR 5:001 Section 10 (4)(d)	If notice is published, an affidavit from the publisher verifying that the notice was published, including the dates of the publication with an attached copy of the published notice, shall be filed with the Commission no later than forty-five (45) days of the filed date of the application.	Sandra P. Meyer
1	17	807 KAR 5:001 Section 10 (4)(e)	If notice is mailed, a written statement signed by the utility's chief officer in charge of Kentucky operations verifying the notice was mailed shall be filed with the Commission no later than thirty (30) days of the filed date of the application.	Sandra P. Meyer
1	18	807 KAR 5:001 Section 10 (4)(f)	All utilities, in addition to the above notification, shall post a sample copy of the required notification at their place of business no later than the date on which the application is filed which shall remain posted until the commission has finally determined the utility's rates.	Sandra P. Meyer
1	19	807 KAR 5:001 Section 10 (5)	Notice of hearing scheduled by the commission upon application by a utility for a general adjustment in rates shall be advertised by the utility by newspaper publication in the areas that will be affected in compliance with KRS 424.300.	Sandra P. Meyer
1	20	807 KAR 5:001 Section 10 (8)(a)	Financial data for forecasted period presented as pro forma adjustments to base period.	William Don Wathen, Jr.
1	21	807 KAR 5:001 Section 10 (8)(b)	Forecasted adjustments shall be limited to the 12 months immediately following the suspension period.	William Don Wathen, Jr.
1	22	807 KAR 5:001 Section 10 (8)(c)	Capitalization and net investment rate base shall be based on a 13 month average for the forecasted period.	William Don Wathen, Jr.

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d/b/a Duke Energy Kentucky
Case No. 2006-00172
Forecasted Test Period Filing Requirements
Table of Contents

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d/b/a Duke Energy Kentucky
Case No. 2006-00172
Forecasted Test Period Filing Requirements
Table of Contents

Vol. #	Tab #	Filing Requirement	Description	Sponsoring Witness
			2. Estimated completion date; 3. Total estimated cost of construction by year exclusive and inclusive of Allowance for Funds Used During construction ("AFUDC") or Interest During construction Credit; and 4. Most recent available total costs incurred exclusive and inclusive of AFUDC or Interest During Construction Credit.	
1	32	807 KAR 5:001 Section 10 (9)(g)	For all construction projects constituting less than 5% of annual construction budget within 3 year forecast, file aggregate of information requested in paragraph (f) 3 and 4 of this subsection.	Jim L. Stanley John J. Roebel
1	33	807 KAR 5:001 Section 10 (9)(h)	Financial forecast for each of 3 forecasted years included in capital construction budget supported by underlying assumptions made in projecting results of operations and including the following information: 1. Operating income statement (exclusive of dividends per share or earnings per share); 2. Balance sheet; 3. Statement of cash flows; 4. Revenue requirements necessary to support the forecasted rate of return; 5. Load forecast including energy and demand (electric); 6. Access line forecast (telephone); 7. Mix of generation (electric); 8. Mix of gas supply (gas); 9. Employee level; 10. Labor cost changes; 11. Capital structure requirements; 12. Rate base; 13. Gallons of water projected to be sold (water); 14. Customer forecast (gas, water); 15. MCF sales forecasts (gas); 16. Toll and access forecast of number of calls and number of minutes (telephone); and 17. A detailed explanation of any other information provided.	Brian P. Davey Lynn J. Good #6, #13, #16 & #17 Not applicable
1	34	807 KAR 5:001 Section 10 (9)(i)	Most recent FERC or FCC audit reports.	Dwight L. Jacobs
1	35	807 KAR 5:001 Section 10 (9)(j)	Prospectuses of most recent stock or bond offerings.	Lynn J. Good
1	36	807 KAR 5:001 Section 10 (9)(k)	Most recent FERC Form 1 (electric), FERC Form 2 (gas), or the Automated Reporting Management Information System Report (telephone) and PSC Form T (telephone).	Dwight L. Jacobs
2	37	807 KAR 5:001 Section 10 (9)(l)	Annual report to shareholders or members and statistical supplements for the most recent 5 years prior to application filing date.	Dwight L. Jacobs

The Union Light, Heat and Power Company
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Case No. 2006-00172
Forecasted Test Period Filing Requirements
Table of Contents

The Union Light, Heat and Power Company
d/b/a Duke Energy Kentucky
Case No. 2006-00172
Forecasted Test Period Filing Requirements
Table of Contents

The Union Light, Heat and Power Company
d/b/a Duke Energy Kentucky
Case No. 2006-00172
Forecasted Test Period Filing Requirements
Table of Contents

The Union Light, Heat and Power Company
d/b/a Duke Energy Kentucky
Case No. 2006-00172
Forecasted Test Period Filing Requirements
Table of Contents

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d/b/a Duke Energy Kentucky
Case No. 2006-00172
Forecasted Test Period Filing Requirements
Table of Contents

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE ADJUSTMENT
OF ELECTRIC RATES OF THE UNION
LIGHT, HEAT AND POWER COMPANY
D/B/A DUKE ENERGY KENTUCKY

CASE NO. 2006- 00172

FILING REQUIREMENTS

VOLUME 5

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **March 31, 2006**

or

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________to_________

Commission File Number	Registrant, State of Incorporation, Address and Telephone Number	I.R.S. Employer Identification No.
1-11377	**CINERGY CORP.** (A Delaware Corporation) 139 East Fourth Street Cincinnati, Ohio 45202 (513) 421-9500	**31-1385023**
1-1232	**THE CINCINNATI GAS & ELECTRIC COMPANY** (An Ohio Corporation) 139 East Fourth Street Cincinnati, Ohio 45202 (513) 421-9500	**31-0240030**
1-3543	**PSI ENERGY, INC.** (An Indiana Corporation) 1000 East Main Street Plainfield, Indiana 46168 (513) 421-9500	**35-0594457**

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.

Cinergy Corp.	Yes	X	No	___
The Cincinnati Gas & Electric Company	Yes	X	No	___
PSI Energy, Inc.	Yes	X	No	___

Indicate by check mark whether each registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

	Large Accelerated Filer	Accelerated Filer	Non-Accelerated Filer
Cinergy Corp.	X		
The Cincinnati Gas & Electric Company			X
PSI Energy, Inc.			X

Indicate by check mark whether the registrant is a shell (as defined in Rule 12b-2 of the Exchange Act).
Yes __ No X

This combined Form 10-Q is separately filed by **Cinergy Corp., The Cincinnati Gas & Electric Company,** and **PSI Energy, Inc.** Information contained herein relating to any individual registrant is filed by such registrant on its own behalf. Each registrant makes no representation as to information relating to the other registrants.

Cinergy Corp., The Cincinnati Gas & Electric Company, and PSI Energy, Inc. meet the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and are therefore filing their company specific information with the reduced disclosure format specified in General Instruction H(2) of Form 10-Q.

As of April 30, 2006, shares of common stock outstanding for each registrant were as listed:

Registrant	Description	Shares
Cinergy Corp.	Par value $.01 per share	-
The Cincinnati Gas & Electric Company	Par value $8.50 per share	89,663,086
PSI Energy, Inc.	Without par value, stated value $.01 per share	53,913,701

ULH&P, which previously was a separate Securities and Exchange Commission (SEC) reporting entity, has filed a Form 15 with the SEC to suspend its reporting obligations under the Securities Exchange Act of 1934.

TABLE OF CONTENTS

CINERGY CORP.

AND SUBSIDIARY COMPANIES

CINERGY CORP.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Quarter Ended March 31 2006	Quarter Ended March 31 2005
	(in thousands, except per share amounts) (unaudited)	
Operating Revenues		
Electric	$ 1,137,062	$ 914,359
Gas	355,556	313,096
Other	155,920	98,656
Total Operating Revenues	1,648,538	1,326,111
Operating Expenses		
Fuel, emission allowances, and purchased power	425,896	300,619
Gas purchased	232,006	208,600
Costs of fuel resold	146,298	85,762
Operation and maintenance	422,658	296,695
Depreciation and amortization	163,758	151,449
Taxes other than income taxes	87,278	78,932
Total Operating Expenses	1,477,894	1,122,057
Operating Income	170,644	204,054
Equity in Earnings of Unconsolidated Subsidiaries	4,095	4,836
Miscellaneous Income – Net	18,648	2,950
Interest Expense	84,894	64,003
Preferred Dividend Requirements of Subsidiaries	277	858
Income Before Taxes	108,216	146,979
Income Taxes	21,302	32,100
Income Before Discontinued Operations and Cumulative Effect of a Change in Accounting Principle	86,914	114,879
Discontinued operations, net of tax (Note 8)	(4,057)	2,477
Cumulative effect of a change in accounting principle, net of tax (Note 1(e)(i))	(3,493)	-
Net Income	$ 79,364	$ 117,356
Average Common Shares Outstanding – Basic	200,286	195,647
Earnings Per Common Share – Basic (Note 10)		
Income before discontinued operations and cumulative effect of a change in accounting principle	$ 0.43	$ 0.59
Discontinued operations, net of tax	(0.02)	0.01
Cumulative effect of a change in accounting principle, net of tax	(0.01)	-
Net Income	$ 0.40	$ 0.60
Average Common Shares Outstanding – Diluted	201,161	196,712
Earnings Per Common Share – Diluted (Note 10)		
Income before discontinued operations and cumulative effect of a change in accounting principle	$ 0.43	$ 0.59
Discontinued operations, net of tax	(0.02)	0.01
Cumulative effect of a change in accounting principle, net of tax	(0.02)	-
Net Income	$ 0.39	$ 0.60
Cash Dividends Declared Per Common Share	$ 0.64	$ 0.48

The accompanying notes as they relate to Cinergy Corp. are an integral part of these condensed consolidated financial statements.

CINERGY CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	March 31 2006	December 31 2005
	(dollars in thousands) *(unaudited)*	
Current Assets		
Cash and cash equivalents	**$ 147,557**	$ 146,056
Receivables less accumulated provision for doubtful accounts of $7,351 at March 31, 2006, and $4,767 at December 31, 2005	**1,163,713**	1,659,411
Fuel, emission allowances, and supplies	**521,516**	589,152
Energy risk management current assets	**595,292**	991,252
Prepayments and other	**410,443**	408,975
Total Current Assets	**2,838,521**	3,794,846
Property, Plant, and Equipment – at Cost		
Property, plant, and equipment	**16,249,269**	15,990,864
Accumulated depreciation	**5,563,590**	5,477,782
Net Property, Plant, and Equipment	**10,685,679**	10,513,082
Other Assets		
Regulatory assets	**1,045,511**	1,069,854
Investments in unconsolidated subsidiaries	**481,807**	479,466
Energy risk management non-current assets	**302,904**	306,959
Notes receivable, non-current	**165,191**	171,325
Goodwill and other intangible assets	**176,193**	169,081
Other	**637,337**	615,012
Total Other Assets	**2,808,943**	2,811,697
Assets of Discontinued Operations (Note 8)	**22,491**	34,215
Total Assets	**$ 16,355,634**	$ 17,153,840

The accompanying notes as they relate to Cinergy Corp. are an integral part of these condensed consolidated financial statements.

CINERGY CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS' EQUITY

	March 31 2006	December 31 2005
	(dollars in thousands) *(unaudited)*	
Current Liabilities		
Accounts payable	$ **1,347,350**	$ 1,879,528
Accrued taxes	**156,688**	219,469
Accrued interest	**86,034**	64,725
Notes payable and other short-term obligations (Note 4)	**1,090,765**	923,600
Long-term debt due within one year	**704,850**	360,730
Energy risk management current liabilities	**464,358**	1,010,585
Other	**158,093**	185,221
Total Current Liabilities	**4,008,138**	4,643,858
Non-Current Liabilities		
Long-term debt	**4,285,611**	4,459,695
Deferred income taxes	**1,502,784**	1,523,070
Unamortized investment tax credits	**88,677**	90,852
Accrued pension and other postretirement benefit costs	**719,347**	729,221
Regulatory liabilities	**565,481**	546,047
Energy risk management non-current liabilities	**330,061**	338,514
Other	**244,287**	184,569
Total Non-Current Liabilities	**7,736,248**	7,871,968
Liabilities of Discontinued Operations (Note 8)	**25,727**	28,876
Commitments and Contingencies		
Total Liabilities	**11,770,113**	12,544,702
Cumulative Preferred Stock of Subsidiaries		
Not subject to mandatory redemption	**11,258**	31,743
Common Stock Equity		
Common stock - \$.01 par value; authorized shares – 600,000,000; issued shares – 200,653,988 at March 31, 2006, and 199,707,338 at December 31, 2005; outstanding shares – 200,507,375 at March 31, 2006, and 199,565,684 at December 31, 2005	**2,007**	1,997
Paid-in capital	**3,017,579**	2,982,625
Retained earnings	**1,673,739**	1,721,716
Treasury shares at cost – 146,613 shares at March 31, 2006, and 141,654 shares at December 31, 2005	**(5,047)**	(4,823)
Accumulated other comprehensive loss	**(114,015)**	(124,120)
Total Common Stock Equity	**4,574,263**	4,577,395
Total Liabilities and Shareholders' Equity	**$ 16,355,634**	$ 17,153,840

The accompanying notes as they relate to Cinergy Corp. are an integral part of these condensed consolidated financial statements.

CINERGY CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN COMMON STOCK EQUITY

	Common Stock	Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Common Stock Equity
			(dollars in thousands, except per share amounts) (unaudited)			
Quarter Ended March 31, 2006						
Balance at January 1, 2006 (199,565,684 shares)	**$ 1,997**	**$ 2,982,625**	**$ 1,721,716**	**$ (4,823)**	**$ (124,120)**	**$ 4,577,395**
Comprehensive income:						
Net income			**79,364**			**79,364**
Other comprehensive income, net of tax effect of $(5,413)						
Foreign currency translation adjustment					**120**	**120**
Unrealized gain on investment trusts					**1,530**	**1,530**
Minimum pension liability adjustment					**916**	**916**
Cash flow hedges					**7,539**	**7,539**
Total comprehensive income						**89,469**
Issuance of common stock – net (946,650 shares)	**10**	**28,862**				**28,872**
Treasury shares purchased (4,959 shares)				**(224)**		**(224)**
Dividends on common stock ($0.64 per share)			**(127,314)**			**(127,314)**
Other		**6,092**	**(27)**			**6,065**
Ending balance at March 31, 2006 (200,507,375 shares)	**$ 2,007**	**$ 3,017,579**	**$ 1,673,739**	**$ (5,047)**	**$ (114,015)**	**$ 4,574,263**
Quarter Ended March 31, 2005						
Balance at January 1, 2005 (187,524,229 shares)	$ 1,877	$2, 559,715	$ 1,613,340	$ (4,336)	$ (54,674)	$ 4,115,922
Comprehensive income:						
Net income			117,356			117,3[illegible]
Other comprehensive income (loss), net of tax effect of $2,431						
Foreign currency translation adjustment					(5,838)	(5,838)
Unrealized loss on investment trusts					(1,175)	(1,175)
Cash flow hedges					1,856	1,856
Total comprehensive income						112,199
Issuance of common stock – net (10,475,010 shares)	104	353,753				353,857
Treasury shares purchased (9,585 shares)				(299)		(299)
Dividends on common stock ($0.48 per share)			(91,879)			(91,879)
Other		6,290	(113)			6,177
Ending balance at March 31, 2005 (197,989,654 shares)	$ 1,981	$2, 919,758	$ 1,638,704	$ (4,635)	$ (59,831)	$ 4,495,977

The accompanying notes as they relate to Cinergy Corp. are an integral part of these condensed consolidated financial statements.

CINERGY CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Quarter Ended March 31 2006	2005
	(dollars in thousands) *(unaudited)*	
Cash Flows from Operations		
Operating Activities		
Net income	$ 79,364	$ 117,356
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	163,793	153,419
Loss on impairment or disposal of subsidiaries and investments, net	7,398	6,818
Cumulative effect of a change in accounting principle, net of tax	3,493	-
Change in net position of energy risk management activities	(154,665)	66,342
Deferred income taxes and investment tax credits – net	(14,309)	(20,258)
Equity in earnings of unconsolidated subsidiaries	(4,095)	(4,836)
Return on equity investments	4,857	-
Allowance for equity funds used during construction	(3,065)	(1,987)
Regulatory asset/liability deferrals	(21,465)	(27,514)
Regulatory asset amortization	13,367	8,028
Accrued pension and other postretirement benefit costs	(20,177)	22,511
Cost of removal	(5,481)	(5,475)
Changes in current assets and current liabilities:		
Accounts and notes receivable	503,549	159,607
Fuel, emission allowances, and supplies	67,636	54,408
Prepayments	8,498	(65,218)
Accounts payable	(529,943)	(75,935)
Accrued taxes and interest	(39,267)	41,216
Other assets	(13,562)	(16,737)
Other liabilities	38,393	(33,627)
Net cash provided by operating activities	84,319	378,118
Investing Activities		
Construction expenditures (less allowance for equity funds used during construction)	(298,117)	(242,511)
Proceeds from notes receivable	5,466	4,852
Withdrawal of restricted cash held in trust	47,585	35,631
Other investments	(50,646)	(2,155)
Proceeds from distributions by investments and sale of investments and subsidiaries	1,480	32,071
Net cash used in investing activities	(294,232)	(172,112)
Financing Activities		
Change in short-term debt	166,891	(509,066)
Issuance of long-term debt	174,069	4,165
Redemption of long-term debt	(13,612)	(3,516)
Retirement of preferred stock of subsidiaries	(20,485)	-
Issuance of common stock	28,872	353,857
Dividends on common stock	(127,314)	(91,879)
Excess tax benefits from stock options	2,993	-
Net cash provided by (used in) financing activities	211,414	(246,439)
Net increase (decrease) in cash and cash equivalents	1,501	(40,433)
Cash and cash equivalents at beginning of period	146,056	164,541
Cash and cash equivalents at end of period	$ 147,557	$ 124,108
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for:		
Interest (net of amount capitalized)	$ 65,279	$ 60,902
Income taxes	$ 78,653	$ 7,671

The accompanying notes as they relate to Cinergy Corp. are an integral part of these condensed consolidated financial statements.

THE CINCINNATI GAS & ELECTRIC COMPANY
AND SUBSIDIARY COMPANIES

THE CINCINNATI GAS & ELECTRIC COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Quarter Ended March 31 2006	2005
	(dollars in thousands) *(unaudited)*	
Operating Revenues		
Electric	$ 637,509	$ 464,331
Gas	321,965	306,354
Other	47,633	52,671
Total Operating Revenues	1,007,107	823,356
Operating Expenses		
Fuel, emission allowances, and purchased power	205,300	145,702
Gas purchased	232,006	207,782
Costs of fuel resold	44,291	40,986
Operation and maintenance	185,126	142,072
Depreciation and amortization	67,918	65,240
Taxes other than income taxes	68,192	59,434
Total Operating Expenses	802,833	661,216
Operating Income	204,274	162,140
Miscellaneous Income – Net	8,487	3,523
Interest Expense	29,680	22,950
Income Before Taxes	183,081	142,713
Income Taxes	66,718	58,047
Net Income	$ 116,363	$ 84,666
Preferred Dividend Requirement	164	211
Net Income Applicable to Common Stock	$ 116,199	$ 84,455
Net Income	$ 116,363	$ 84,666
Other Comprehensive Income, Net of Tax	1,751	1,718
Comprehensive Income	$ 118,114	$ 86,384

The accompanying notes as they relate to The Cincinnati Gas & Electric Company are an integral part of these condensed consolidated financial statements.

THE CINCINNATI GAS & ELECTRIC COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	March 31 2006	December 31 2005
	(dollars in thousands) *(unaudited)*	
Current Assets		
Cash and cash equivalents	$ 8,027	$ 9,674
Receivables less accumulated provision for doubtful accounts	307,790	384,444
Accounts receivable from affiliated companies	104,279	37,718
Fuel, emission allowances, and supplies	210,905	225,982
Energy risk management current assets	271,236	543,787
Prepayments and other	109,757	177,417
Total Current Assets	1,011,994	1,379,022
Property, Plant, and Equipment – at Cost		
Property, plant, and equipment	7,902,076	7,775,765
Accumulated depreciation	2,851,729	2,815,852
Net Property, Plant, and Equipment	5,050,347	4,959,913
Other Assets		
Regulatory assets	532,503	555,798
Energy risk management non-current assets	115,780	180,197
Other	175,645	158,913
Total Other Assets	823,928	894,908
Total Assets	$ 6,886,269	$ 7,233,843

The accompanying notes as they relate to The Cincinnati Gas & Electric Company are an integral part of these condensed consolidated financial statements.

THE CINCINNATI GAS & ELECTRIC COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS' EQUITY

		March 31 2006		December 31 2005
		(dollars in thousands) *(unaudited)*		
Current Liabilities				
Accounts payable	$	**426,617**	$	562,887
Accounts payable to affiliated companies		**82,280**		243,793
Accrued taxes		**227,286**		177,551
Accrued interest		**32,039**		24,438
Notes payable and other short-term obligations (Note 4)		**112,100**		112,100
Notes payable to affiliated companies (Note 4)		**222,371**		114,252
Long-term debt due within one year		**5,111**		5,042
Energy risk management current liabilities		**242,393**		552,105
Other		**33,500**		35,795
Total Current Liabilities		**1,383,697**		1,827,963
Non-Current Liabilities				
Long-term debt		**1,777,872**		1,638,028
Deferred income taxes		**1,058,062**		1,055,093
Unamortized investment tax credits		**65,771**		67,229
Accrued pension and other postretirement benefit costs		**252,130**		245,950
Regulatory liabilities		**161,695**		151,670
Energy risk management non-current liabilities		**127,121**		183,678
Other		**68,795**		68,315
Total Non-Current Liabilities		**3,511,446**		3,409,963
Commitments and Contingencies				
Total Liabilities		**4,895,143**		5,237,926
Cumulative Preferred Stock				
Not subject to mandatory redemption		**-**		20,485
Common Stock Equity				
Common stock – $8.50 par value; authorized shares – 120,000,000; outstanding shares – 89,663,086 at March 31, 2006, and December 31, 2005		**762,136**		762,136
Paid-in capital		**603,249**		603,249
Retained earnings		**671,196**		657,254
Accumulated other comprehensive loss		**(45,455)**		(47,207)
Total Common Stock Equity		**1,991,126**		1,975,432
Total Liabilities and Shareholders' Equity	**$**	**6,886,269**	$	7,233,843

The accompanying notes as they relate to The Cincinnati Gas & Electric Company are an integral part of these condensed consolidated financial statements.

THE CINCINNATI GAS & ELECTRIC COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Quarter Ended March 31 2006	2005
	(dollars in thousands) (unaudited)	
Operating Activities		
Net income	$ 116,363	$ 84,666
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	67,918	65,240
Deferred income taxes and investment tax credits -- net	6,793	(13,253)
Change in net position of energy risk management activities	(29,301)	19,869
Allowance for equity funds used during construction	(570)	(130)
Regulatory asset/liability deferrals	(799)	950
Regulatory asset amortization	6,903	3,773
Accrued pension and other postretirement benefit costs	6,180	5,746
Cost of removal	(1,695)	(1,294)
Changes in current assets and current liabilities:		
Accounts and notes receivable	12,038	14,775
Fuel, emission allowances, and supplies	15,077	14,169
Prepayments	67,659	(24,688)
Accounts payable	(240,236)	8,983
Accrued taxes and interest	57,336	52,063
Other assets	(23,232)	(801)
Other liabilities	(135)	7,346
Net cash provided by operating activities	60,299	237,414
Investing Activities		
Construction expenditures (less allowance for equity funds used during construction)	(134,356)	(98,580)
Withdrawal of restricted funds held in trust	8,137	7,822
Other investments	-	103
Net cash used in investing activities	(126,219)	(90,655)
Financing Activities		
Change in short-term debt, including net affiliate notes	48,627	(103,297)
Issuance of long-term debt	139,806	-
Redemption of long-term debt	(1,255)	-
Retirement of preferred stock	(20,485)	-
Dividends on preferred stock	(164)	-
Dividends on common stock	(102,256)	(38,296)
Net cash provided by (used in) financing activities	64,273	(141,593)
Net increase (decrease) in cash and cash equivalents	(1,647)	5,166
Cash and cash equivalents at beginning of period	9,674	4,154
Cash and cash equivalents at end of period	$ 8,027	$ 9,320
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for:		
Interest (net of amount capitalized)	$ 20,505	$ 20,187
Income taxes	$ 454	$ 8,891

The accompanying notes as they relate to The Cincinnati Gas & Electric Company are an integral part of these condensed consolidated financial statements.

PSI ENERGY, INC.

AND SUBSIDIARY COMPANY

PSI ENERGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

		Quarter Ended March 31	
		2006	2005
		(dollars in thousands) *(unaudited)*	
Operating Revenues			
Electric		$ 485,711	$ 425,408
Operating Expenses			
Fuel, emission allowances, and purchased power		201,068	132,036
Operation and maintenance		136,862	113,713
Depreciation and amortization		74,369	73,704
Taxes other than income taxes		15,504	15,661
Total Operating Expenses		427,803	335,114
Operating Income		57,908	90,294
Miscellaneous Income – Net		8,450	3,377
Interest Expense		34,929	24,765
Income Before Taxes		31,429	68,906
Income Taxes		12,682	26,561
Net Income		$ 18,747	$ 42,345
Preferred Dividend Requirement		113	647
Net Income Applicable to Common Stock		$ 18,634	$ 41,698
Net Income		$ 18,747	$ 42,345
Other Comprehensive Income (Loss), Net of Tax		8,004	(1,195)
Comprehensive Income		$ 26,751	$ 41,150

The accompanying notes as they relate to PSI Energy, Inc. are an integral part of these condensed consolidated financial statements.

PSI ENERGY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	March 31 2006	December 31 2005
	(dollars in thousands)	
	(unaudited)	
Current Assets		
Cash and cash equivalents	**$ 28,506**	$ 31,860
Restricted deposits	**35,284**	32,649
Receivables less accumulated provision for doubtful accounts	**77,435**	142,280
Accounts receivable from affiliated companies	**24,296**	75,698
Fuel, emission allowances, and supplies	**182,114**	170,345
Prepayments and other	**47,895**	42,415
Total Current Assets	**395,530**	495,247
Property, Plant, and Equipment – at Cost		
Property, plant, and equipment	**7,384,372**	7,289,552
Accumulated depreciation	**2,484,665**	2,456,183
Net Property, Plant, and Equipment	**4,899,707**	4,833,369
Other Assets		
Regulatory assets	**513,008**	514,056
Other	**366,215**	399,510
Total Other Assets	**879,223**	913,566
Total Assets	**$ 6,174,460**	$ 6,242,182

The accompanying notes as they relate to PSI Energy, Inc. are an integral part of these condensed consolidated financial statements.

PSI ENERGY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS' EQUITY

	March 31 2006	December 31 2005
	(dollars in thousands) *(unaudited)*	
Current Liabilities		
Accounts payable	$ 92,854	$ 116,994
Accounts payable to affiliated companies	34,168	53,455
Accrued taxes	63,412	33,713
Accrued interest	42,413	34,530
Notes payable and other short-term obligations (Note 4)	185,500	185,500
Notes payable to affiliated companies (Note 4)	195,878	249,712
Long-term debt due within one year	329,428	328,149
Other	63,663	56,271
Total Current Liabilities	1,007,316	1,058,324
Non-Current Liabilities		
Long-term debt	1,889,827	1,891,713
Deferred income taxes	578,683	609,569
Unamortized investment tax credits	22,906	23,624
Accrued pension and other postretirement benefit costs	233,485	227,435
Regulatory liabilities	403,786	394,377
Other	63,598	63,919
Total Non-Current Liabilities	3,192,285	3,210,637
Commitments and Contingencies		
Total Liabilities	4,199,601	4,268,961
Cumulative Preferred Stock		
Not subject to mandatory redemption	11,258	11,258
Common Stock Equity		
Common stock – without par value; $.01 stated value; authorized shares – 60,000,000; outstanding shares – 53,913,701 at March 31, 2006, and December 31, 2005	539	539
Paid-in capital	840,692	840,692
Retained earnings	1,141,826	1,148,192
Accumulated other comprehensive loss	(19,456)	(27,460)
Total Common Stock Equity	1,963,601	1,961,963
Total Liabilities and Shareholders' Equity	$ 6,174,460	$ 6,242,182

The accompanying notes as they relate to PSI Energy, Inc. are an integral part of these condensed consolidated financial statements.

PSI ENERGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Quarter Ended March 31 2006	2005
	(dollars in thousands) (unaudited)	
Operating Activities		
Net income	$ 18,747	$ 42,345
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	74,369	73,704
Deferred income taxes and investment tax credits – net	(24,601)	10,158
Allowance for equity funds used during construction	(2,494)	(1,857)
Regulatory asset/liability deferrals	(20,666)	(28,464)
Regulatory asset amortization	6,464	4,256
Accrued pension and other postretirement benefit costs	6,054	6,078
Cost of removal	(3,786)	(4,181)
Changes in current assets and current liabilities:		
Accounts and notes receivable	116,247	44,102
Fuel, emission allowances, and supplies	(11,769)	(3,293)
Prepayments	(213)	1,929
Accounts payable	(43,428)	(41,126)
Accrued taxes and interest	37,582	20,272
Other assets	(2,234)	(3,877)
Other liabilities	8,418	(330)
Net cash provided by operating activities	158,690	119,716
Investing Activities		
Construction expenditures (less allowance for equity funds used during construction)	(119,180)	(113,801)
Withdrawal of restricted funds held in trust	37,869	25,276
Other investments	(1,028)	(125)
Net cash used in investing activities	(82,339)	(88,650)
Financing Activities		
Change in short-term debt, including net affiliate notes	(53,834)	13,794
Redemption of long-term debt	(759)	-
Dividends on preferred stock	(112)	(647)
Dividends on common stock	(25,000)	(51,853)
Net cash used in financing activities	(79,705)	(38,706)
Net decrease in cash and cash equivalents	(3,354)	(7,640)
Cash and cash equivalents at beginning of period	31,860	10,794
Cash and cash equivalents at end of period	$ 28,506	$ 3,154
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for:		
Interest (net of amount capitalized)	$ 29,297	$ 29,435
Income taxes	$ 12,495	$ 9,850

The accompanying notes as they relate to PSI Energy, Inc. are an integral part of these condensed consolidated financial statements.

INDEX

NOTES TO CONDENSED FINANCIAL STATEMENTS

NOTES TO CONDENSED FINANCIAL STATEMENTS

In this report **Cinergy** (which includes **Cinergy Corp.** and all of our regulated and non-regulated subsidiaries) is, at times, referred to in the first person as "we," "our," or "us." In addition, when discussing **Cinergy's** financial information, it necessarily includes the results of The Cincinnati Gas & Electric Company (**CG&E**), PSI Energy, Inc. (**PSI**), The Union Light, Heat and Power Company (ULH&P) and all of **Cinergy's** other consolidated subsidiaries. When discussing **CG&E's** financial information, it necessarily includes the results of ULH&P and all of **CG&E's** other consolidated subsidiaries.

1. Organization and Summary of Significant Accounting Policies

(a) *Merger with Duke*

In March 2006, **Cinergy** and 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).

Duke and **Cinergy** believe that the combination will provide substantial strategic and financial benefits to their shareholders, employees and customers, including:

- increased financial strength and flexibility;
- stronger utility business platform;
- greater scale and fuel diversity, as well as improved operational efficiencies for the merchant generation business;
- broadened electric distribution platform;
- improved reliability and customer service through the sharing of best practices;
- increased scale and scope of the electric and gas businesses with stand-alone strength;
- complementary positions in the midwest;
- greater customer diversity;
- combined expertise; and
- significant cost savings synergies.

As a condition to the merger approval, the Public Utilities Commission of Ohio (PUCO) and the Kentucky Public Service Commission (KPSC) required that certain merger related savings be refunded to customers in each service territory and provided additional conditions that the new company would have to meet. While the merger itself was not subject to approval by the IURC, the IURC approved, subject to similar conditions, certain affiliate agreements in connection with the merger. Key elements of these provisions were:

- **CG&E** will provide a rate credit of approximately $15 million for one year to facilitate economic development in a time of increasing rates and a credit of approximately $21 million to **CG&E's** gas and electric customers in Ohio for one year, with both credits beginning January 1, 2006.

  In April 2006, The Office of the Ohio Consumers' Counsel (OCC) filed a Notice of Appeal with the Supreme Court of Ohio, requesting the Court remand the PUCO's merger approval for a full evidentiary hearing. The Office of the Ohio Consumers' Counsel alleges that the PUCO committed reversible error on both procedural and substantive grounds, in among other things, failing to set the matter for a full evidentiary hearing, failing to consider evidence regarding the transfer of the Duke Energy North America (DENA) assets to **CG&E**, and failing to lift the stay on discovery. **CG&E** and the OCC have resolved this matter through settlement and we expect the OCC to withdraw its appeal.

- **PSI** will provide a rate credit of $40 million to **PSI** customers over a one year period and $5 million for low-income energy assistance and clean coal technology. In April 2006, Interveners, Citizens Action

Coalition of Indiana, Inc., filed a Verified Petition for Rehearing and Reconsideration claiming that **PSI** should be ordered to provide an additional $5 million in rate credits to customers to be consistent with the NCUC order. An order on the Petition is expected in the second quarter of 2006.

- ULH&P will 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.

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.

The consummation of the merger triggered certain "change in control" provisions that provided enhanced, and/or accelerated benefits to management level employees in the event of a qualifying transaction. See Note 2(b)(*iii*) for additional information on these payments.

Purchase price allocation and goodwill

Duke has been determined to be the acquirer and **Cinergy** the acquiree under generally accepted accounting principles. The merger is being recorded using the purchase method of accounting whereby the total purchase price of approximately $9 billion is being allocated to **Cinergy's** identifiable tangible and intangible assets acquired and liabilities assumed based on their fair values. **Cinergy Corp.'s** results of operations will be included in Duke Energy Holding's results beginning April 2006.

The allocation of the purchase price to the net assets of **Cinergy** and the resulting goodwill determination are not yet complete. However, preliminary indications are that the acquisition will result in approximately $4 billion of goodwill.

Based on management's review and analysis of relevant Securities and Exchange Commission (SEC) regulations, **Cinergy** expects the impacts of purchase accounting, including goodwill, to be pushed down and recorded on the financial statements of **Cinergy**. Management also expects that a portion of the purchase price will be pushed down and recorded on the financial statements of **CG&E**. Since the merger did not occur until April 2006, all impacts of push-down accounting will be implemented in the second quarter financial statements of **Cinergy** and **CG&E**. Our review of SEC regulations has indicated that **PSI's** financial statements are not required to use push-down accounting and management does not anticipate electing to do so.

(b) *Presentation*

Financial Statements

Our Condensed Financial Statements reflect all adjustments (which include normal, recurring adjustments) necessary in the opinion of the registrants 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 registrants' combined Form 10-K for the year ended December 31, 2005 (2005 10-K). We have restated certain prior-year amounts in **Cinergy's** financial statements, including cash flows, to reflect the impact of discontinued operations in 2005 and 2006. For a further discussion of discontinued operations, see Note 8. Also, certain amounts in the 2005 Condensed Financial Statements have been reclassified to conform to the 2006 presentation.

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

- Valuing derivative contracts used in our energy marketing and trading activities;
- Evaluating the regulatory recoverability of various costs;
- Providing reserves for contingencies, including legal, environmental, and income taxes; and

- Evaluating various non-regulated fixed assets and investments for impairment.

These estimates and judgments are discussed more fully in "Critical Accounting Estimates" in our 2005 10-K. Actual results could differ, as these estimates and assumptions involve judgment about future events or performance.

(c) ***Revenue Recognition***

Utility Revenues

CG&E, and **PSI** (collectively, our utility operating companies) record *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 **Cinergy**, **CG&E**, and **PSI** as of March 31, 2006 and 2005, were as follows:

	2006	2005
	(in millions)	
Cinergy	$ 172	$ 143
CG&E	105	86
PSI	67	57

(d) ***Derivatives***

(i) Hedges of Natural Gas held in Storage

Cinergy designates derivatives as fair value hedges for certain volumes of our natural gas held in storage. Under this accounting election, changes in the fair value of both the derivative as well as the hedged item (the specified gas held in storage) are included in *Gas Operating Revenues* in **Cinergy's** Condensed Consolidated Statements of Income. We assess the effectiveness of the derivatives in offsetting the change in fair value of the gas held in storage on a quarterly basis. Selected information on **Cinergy's** hedge accounting activities for the quarters ended March 31, 2006 and 2005 were as follows:

	2006	2005
	(in millions)	
Portion of loss on hedging instruments determined to be ineffective	$ (5)	$ (4)
Portion of gain on hedging instruments related to changes in time value excluded from assessment of ineffectiveness	36	4
Total included in *Gas operating revenues*	$ 31	$ -

(ii) Generation Portfolio Optimization

CG&E attempts to optimize the value of its non-regulated generation portfolio, which includes generation assets, fuel, and emission allowances. When power is sold forward, we typically purchase the fuel and emission allowances required to produce the power to lock in our eventual margin at the time of delivery. The market values of these commodities change independently over time and when economic, **CG&E** may purchase forward power to be used to deliver against the forward power sales, and in turn sell the fuel and/or emission allowances.

Emission allowances and the majority of fuel contracts typically follow the accrual method of accounting. However, generally accepted accounting principles (GAAP) requires that certain forward purchases of coal and forward sales of power (those classified as derivatives) use the mark-to-market (MTM) method of accounting. This differing accounting treatment for the various components of the generation portfolio can lead to volatility in reported earnings. A hypothetical $1.00 per megawatt hour (MWh) change consistently applied to all forward power prices would have resulted in a change in fair value of these contracts, and therefore unrealized gains or losses, of approximately $7.4 million as of March 31, 2006. A hypothetical $1.00 per ton change consistently applied to all forward coal prices would have resulted in a change in fair value of these contracts of approximately $3.5 million as of March 31, 2006.

(iii) Trading & Marketing

Cinergy and **CG&E** measure the market risk inherent in the trading portfolio employing value at risk (VaR) analysis, as discussed in the 2005 10-K. The change in VaR from the 2005 10-K was not material to our financial position or results of operations.

(e) *Accounting Changes*

(i) Share-Based Payment

In December 2004, the FASB issued a replacement of SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure*, (Statement 148), (Statement 123), *SFAS No. 123 (revised 2004), Share-Based Payment* (Statement 123R). This standard requires, among other things, accounting for all stock-based compensation arrangements under the fair value method. The standard also requires compensation awards that involve the achievement of a certain company stock price (or similar measure) to have the likelihood of reaching those targets incorporated into the fair value of the award. The number of awards paid out under **Cinergy's** performance-based share awards under the Cinergy Corp. 1996 Long-Term Incentive Compensation Plan (LTIP) is based on **Cinergy's** expected total shareholder return (TSR) as measured against a pre-defined peer group. Therefore, these awards were required to be re-valued at fair value upon adoption.

We adopted Statement 123R on January 1, 2006 using the modified prospective application. **Cinergy** recognized a loss of approximately $3.5 million, net of tax, for the cumulative effect of this change in accounting principle. The cumulative effect is due to the use of a new model that incorporates the expected TSR into the fair value of **Cinergy's** performance-based share awards under the LTIP. This model is used to value all performance-based share awards under the LTIP, beginning January 1, 2006.

In 2003, we prospectively adopted accounting for our stock-based compensation plans using the fair value recognition provisions of Statement 123, as amended by Statement 148, for all employee awards granted or with terms modified on or after January 1, 2003. Therefore, the impact of implementation of Statement 123R on stock options and remaining awards, other than the aforementioned performance-based share awards, within our stock-based compensation plans was not material. See additional detail regarding **Cinergy's** stock-based compensation plans in Note 2(b).

(ii) Accounting for Servicing of Financial Assets

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets* (Statement 156) an amendment of SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. Statement 156 establishes new standards for how entities that service financial assets account for their servicing rights. **CG&E** retains servicing responsibilities for its role as collection agent for receivables sold to Cinergy Receivables Company, LLC. We are in the process of evaluating the impact of adopting this new standard on **Cinergy's** accounts receivable sales program. Currently, we are unable to predict whether the implementation of this accounting standard will be material to our financial position or results of operations. We will adopt Statement 156 on January 1, 2007.

(iii) Determining Variability in Application of FASB Interpretation No. 46(R) (FIN 46(R)-6)

In April 2006, the FASB staff issued FASB Interpretation No. 46(R)-6 (FIN 46(R)-6) to address how to determine the variability to be considered in applying FIN 46(R), *Consolidation of Variable Interest Entities*. The variability that is considered in applying FIN 46(R) affects the determination of whether the entity is a variable interest entity (VIE), which interests are variable interests in the entity, and which party, if any, is the primary beneficiary of the VIE. The variability affects the calculation of expected losses and expected residual returns. This Statement is effective July 1, 2006. **Cinergy** does not anticipate that the adoption of FIN 46(R)-6 will have a material impact on our financial position or results of operations.

2. Common Stock

(a) *Changes In Common Stock Outstanding*

Cinergy issues new **Cinergy Corp.** common stock shares to satisfy obligations under certain of its employee stock plans and the Cinergy Corp. Direct Stock Purchase and Dividend Reinvestment Plan. During the three months ended March 31, 2006, **Cinergy** issued 1.7 million shares under these plans.

Cash dividends declared for the quarter ended March 31, 2006 included dividends of $0.48 per share which were declared by the board of directors on January 16, 2006 and partial dividends of $0.1564 per share which were declared on March 10, 2006.

In April 2006, **CG&E** filed a petition with the FERC for a declaratory ruling that **CG&E's** payment of dividends out of its paid-in capital account, using the balance transferred from the retained earnings account, resulting from purchase accounting arising from the Duke/**Cinergy** merger, would not violate section 305(a) of the Federal Power Act, which generally precludes dividends out of paid-in capital. Such a ruling is necessary because purchase/push-down accounting will reset retained earnings to zero as of April 3, 2006, thus precluding **CG&E** from using pre-merger retained earnings to pay dividends. Until this approval is received, **CG&E's** ability to pay dividends will be constrained to earnings since April 3, 2006. The FERC has approved such dividend payments in proceedings involving other mergers. At this time, **CG&E** cannot predict the outcome of this proceeding.

Cinergy Corp. owns all of the common stock of **CG&E** and **PSI**. Effective April 3, 2006, 100 percent of **Cinergy's** outstanding stock was converted into 1.56 shares of Duke Energy Holding stock. See Note 1(a) for additional information.

(b) *Stock-based Compensation Plans*

We currently have the following stock-based compensation plans:

- LTIP;
- SOP;
- Employee Stock Purchase and Savings Plan;
- Retirement Plan for Directors;
- Directors' Equity Compensation Plan;
- Directors' Deferred Compensation Plan;
- 401(k) Plans; and
- 401(k) Excess Plan.

The LTIP and SOP are discussed below. The activity in 2006 and 2005 for the remaining stock-based compensation plans was not significant.

In 2003, we prospectively adopted accounting for our stock-based compensation plans using the fair value recognition provisions of Statement 123, as amended by Statement 148, for all employee awards granted or with terms modified on or after January 1, 2003. Effective January 1, 2006, **Cinergy** adopted Statement 123R. See Note 1(e)(*i*) for additional information regarding this new accounting standard.

For the three months ended March 31, 2006 and 2005, total compensation cost for the above plans was $22 million and $12 million, respectively. The total income tax benefit recognized for share-based compensation arrangements was $9 million in 2006 and $5 million in 2005. Costs associated with the immediate vesting of shares and options in conjunction with the consummation of the merger with Duke as discussed below, will be accounted for as part of purchase accounting.

(i) LTIP

Under this plan, certain key employees may be granted incentive and non-qualified stock options, stock appreciation rights (SARs), non-vested stock awards, dividend equivalents, phantom stock, the opportunity to earn performance-based shares and certain other stock-based awards. Stock options are granted to participants with an option price equal to or greater than the fair market value on the grant date, and generally with a vesting period of three years. The vesting period begins on the grant date and all options expire within 10 years from that date. Expense for stock options granted to retirement eligible employees is recognized immediately as these employees are deemed to immediately vest in their stock options. There are 14,500,000 shares authorized for issuance under the LTIP plan.

Most options granted prior to May 8, 2005 were immediately vested upon consummation of the April 3, 2006 merger with Duke. Options granted after May 8, 2005 were converted to Duke Energy Corporation options on April 3, 2006 at the 1.56 conversion rate and will continue to be expensed over the remaining portion of the three-year vesting period, unless granted to retirement eligible employees. Duke Energy Corporation plans to issue new Duke Energy Corporation common shares when the above options are exercised.

Previously, performance-based share awards were paid 50 percent in common stock and 50 percent in cash. As of December 31, 2005, all performance shares were classified as liabilities as management intends to pay all outstanding awards in cash. As a result, the expected cash payout portion of the performance shares were reported in *Current Liabilities - Other* and *Non-Current Liabilities - Other*. Total cash paid for the performance-based share liabilities were $5 million and $14 million for the quarters ended March 31, 2006 and 2005, respectively.

Entitlement to performance-based share awards is based on **Cinergy's** TSR over designated Cycles as measured against a pre-defined peer group of utility companies (Relative TSR). Target grants of performance-based shares were made for the following Cycles:

Cycle	Grant Date	Performance Period	Target Grant of Shares
			(in thousands)
VIII	1/2004	2004-2006	367
IX	1/2005	2005-2007	342
X	1/2006	2006-2008	351

The target award is earned if **Cinergy's** Relative TSR ranking is at the 55th percentile at the end of the performance period. The maximum payout is equal to 200 percent of the target and the minimum payout is zero, depending on **Cinergy's** ranking above or below the 55th percentile target.

We use a path-dependent model that incorporates expected Relative TSR into the fair value determination of **Cinergy's** performance-based share awards with the adoption of Statement 123R. The model uses three year historical volatilities and correlations for all companies in the pre-defined peer group, including **Cinergy**, to simulate **Cinergy's** Relative TSR as of the end of each Cycle. For each simulation, **Cinergy's** Relative TSR associated with the simulated stock price at the end of the cycle period plus expected dividends within the period results in a value per share for the award portfolio. The average of these simulations is the expected portfolio value per share. Actual life to date results of **Cinergy's** Relative TSR for each Cycle is incorporated within the model.

All performance shares under Cycles VIII and IX vested immediately at 200 percent of target with the April 3, 2006 consummation of the merger. Cycle X performance shares vested on a pro-rata basis also at 200 percent of target at the consummation of the merger.

(ii) Stock Option Activity

Stock option activity for the three months ended March 31, 2006 is summarized as follows:

	LTIP and SOP			
	Shares Subject to Option	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Term**	**Aggregate Intrinsic Value**
				(in millions)
Balance at December 31, 2005	5,484,649	34.72		
Options granted[1]	**674,900**	**42.45**		
Options exercised	**(1,488,171)**	**33.37**		**$ 16**
Options forfeited/expired	**(6,300)**	**41.11**		
Balance at March 31, 2006	**4,665,078**	**$ 36.30**	**6.32 yrs**	**$ 43**
Options Exercisable[2]**:**				
At March 31, 2006	**2,433,378**	**$ 32.94**	**4.27 yrs**	**$ 30**

(1) Options have not been granted under the SOP since 2001.
(2) 475,867 options exercisable pertain to the SOP.

For the three months ended March 31, 2006, we received $29 million in cash from the exercise of outstanding stock options. The tax benefit realized from these exercised options was $14 million. The total compensation expense related to unvested options at March 31, 2006 was $3 million which will be recognized over a weighted average period of 2.24 years. The total fair-value of options granted during the quarters ended March 31, 2006 and 2005 were $6.66 per share and $5.65 per share, respectively. The total intrinsic value of options exercised was $16 million and $2 million for the three months ended March 31, 2006 and 2005, respectively.

The fair values of options granted were estimated as of the grant date using the Black-Scholes option-pricing model using the assumptions listed in the following table for the three months ended March 31:

	LTIP	
	2006	2005
Risk-free interest rate[1]	**4.33%**	3.62%
Expected dividend yield[2]	**4.41%**	4.52%
Expected life[3]	**5.01 yrs.**	4.99 yrs.
Expected volatility[4]	**22.43%**	21.28%

(1) The risk free rate is based upon the U.S. Treasury zero-coupon issues with a remaining term equal to the expected term of the options.
(2) The expected dividend yield is based upon annualized dividends and the closing stock price on the grant date.
(3) The expected term of options is derived from historical data.
(4) Volatility is based upon the historical volatility with a look back period equal to the expected term of the options.

(iii) Merger-Related Obligations

Several of the Company's benefit plans contain "change-in-control" clauses that provide enhanced, and/or accelerated benefits to management level employees in the event of a qualifying transaction such as occurred with the consummation of the merger with Duke as discussed in Note 1(a) in April 2006. These include benefits paid pursuant to the LTIP and certain payments under Cinergy's Annual Incentive Plan. Certain employees are also entitled to additional severance and benefits in the event they are involuntarily terminated without "cause" or voluntarily terminate for "good reason" (as such terms are defined in their employment agreements) in connection with or following the merger.

On December 30, 2005, **Cinergy** entered into agreements with 28 employees to accelerate the payment of a portion of the amounts discussed above, otherwise expected to be paid after December 31, 2005, in order to mitigate the Company's taxes and related expenses. Payments totaling $70 million were made in December pursuant to these agreements. The agreements amend the employees' employment agreements, and benefit plans in which they participate, to accelerate into 2005 the payment of certain amounts that they have previously earned or are expected to earn after December 31, 2005. Among other things, the Company prepaid performance shares under the LTIP and severance payments for certain individuals. In the event an employee who received such amounts voluntarily terminated his employment prior to the closing of the merger, the employee would have been obligated to repay all of the payments, and if the merger did not close on or prior to December 15, 2006, the employee would have been obligated to repay half of the payments, to reflect his or her estimated tax liability upon receipt of the accelerated payments; in each case, less any amounts that the employee has already earned through such date. None of the 28 employees invoked this payback provision. By accelerating these payments, the Company will mitigate taxes and related expenses that it would otherwise incur if it had waited until after 2005 to make these payments.

The majority of these payments were recorded as prepaid compensation in *Prepayments and other*. Approximately half of these payments were accounted for as a retention bonus and expensed over the period between January 1, 2006 and the closing of the merger with Duke. The remainder, representing the half that executives must repay if the merger was never consummated, remained in *Prepayments and other* until the merger closed and were accounted for as part of purchase/push-down accounting.

In addition to payments made in December, based on certain assumptions and using our current best estimates, the Company's remaining contractual obligations that were triggered upon merger consummation, including severance payments for those executives that have indicated their intention to terminate for "good reason", was approximately $100 million and these amounts were accounted for in April when the merger closed. These payments only included amounts payable pursuant to existing benefit arrangements, employment contracts, and voluntary severance accepted by employees and contingent on the merger closing. These payments do not include the value of accelerated stock options and retirement benefits earned prior to the merger.

3. Cumulative Preferred Stock

In March 2006, **CG&E** redeemed all outstanding shares of its $16.98 million notional amount 4% Cumulative Preferred Stock, and its $3.5 million notional amount 4.75% Cumulative Preferred Stock at a price of $108 per share and $101 per share, respectively, plus accrued and unpaid dividends.

In May 2006, **PSI** redeemed all outstanding shares of its $3.7 million notional amount 3.5% Cumulative Preferred Stock, its $3.9 million notional amount 4.32% Cumulative Preferred Stock and its $3.7 million notional amount 4.16% Cumulative Preferred Stock at par, respectively, plus accrued and unpaid dividends.

4. Notes Payable and Other Short-term Obligations

Cinergy Corp.'s short-term borrowings consist primarily of unsecured revolving lines of credit and the sale of commercial paper. **Cinergy Corp.**'s revolving credit facility and commercial paper program also support the short-term borrowing needs of **CG&E**, and **PSI**. In addition, **Cinergy Corp.**, **CG&E**, and **PSI** maintain uncommitted lines of credit. These facilities are not firm sources of capital but rather informal agreements to lend money, subject to availability, with pricing determined at the time of advance. The following table summarizes our *Notes payable and other short-term obligations* and *Notes payable to affiliated companies*:

	March 31, 2006			December 31, 2005		
	Established Lines	Outstanding	Weighted Average Rate	Established Lines	Outstanding	Weighted Average Rate
			(dollars in millions)			
Cinergy						
Cinergy Corp.						
Revolving line[1]	$ 2,000	$ -	-%	$ 2,000	$ -	-%
Uncommitted lines	40	-	-	40	-	-
Commercial paper[2]		697	4.86		515	4.43
Utility operating companies						
Uncommitted lines	75	-	-	75	-	-
Pollution control notes		298	3.68		298	4.00
Non-regulated subsidiaries						
Revolving lines[3]	150	60	5.33	150	77	4.95
Short-term debt		11	9.97		9	9.96
Pollution control notes		25	3.53		25	3.90
Cinergy Total		$ 1,091	4.59 %		$ 924	4.37%
CG&E						
Uncommitted lines	$ 15	$ -	-%	$ 15	$ -	-%
Pollution control notes		112	3.56		112	3.86
Money pool		222	4.84		114	4.41
CG&E Total		$ 334	4.41 %		$ 226	4.14%
PSI						
Uncommitted lines	$ 60	$ -	-%	$ 60	$ -	-%
Pollution control notes		186	3.76		186	4.07
Money pool		196	4.84		250	4.41
PSI Total		$ 382	4.32 %		$ 436	4.27%

(1) Consists of a five-year facility which was entered into in September 2005, matures in September 2010, and contains $500 million sublimits each for **CG&E** and **PSI**.

(2) **Cinergy Corp.**'s commercial paper program limit is $1.5 billion. The commercial paper program is supported by **Cinergy Corp.**'s revolving line of credit

(3) Relates to a Cinergy Canada, Inc. three-year senior revolving credit facility that matures in December 2007.

(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

In our credit facility, **Cinergy Corp.** has covenanted to maintain:

- a consolidated net worth of $2 billion; and
- a ratio of consolidated indebtedness to consolidated total capitalization not in excess of 65 percent.

As part of **CG&E's** $500 million sublimit under the $2 billion five-year credit facility, **CG&E** has covenanted to maintain:

- a consolidated net worth of $1 billion; and
- a ratio of consolidated indebtedness to consolidated total capitalization not in excess of 65 percent.

As part of **PSI's** $500 million sublimit under the $2 billion five-year credit facility, **PSI** has covenanted to maintain:

- a consolidated net worth of $900 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.

The latter two events, however, are subject to dollar-based materiality thresholds. As of March 31, 2006, **Cinergy, CG&E,** and **PSI** are in compliance with all of their debt covenants.

5. Energy Trading Credit Risk

Cinergy's extension of credit for energy marketing and trading is governed by a Corporate Credit Policy. Written guidelines approved by **Cinergy's** Risk Policy Committee document the management approval levels for credit limits, evaluation of creditworthiness, and credit risk mitigation procedures. Exposures to credit risks are monitored daily by the Corporate Credit Risk function, which is independent of all trading operations. As of March 31, 2006, 93 percent of **Cinergy's** credit exposure and 88 percent of **CG&E's** credit expense, net of credit collateral, related to energy trading and marketing activity was with counterparties rated investment grade or the counterparties' obligations were guaranteed or secured by an investment grade entity. The majority of these investment grade counterparties are externally rated. If a counterparty has an external rating, the lower of Standard & Poor's Ratings Services or Moody's Investors Service is used; otherwise, **Cinergy's** internal rating of the counterparty is used. **Cinergy's** remaining seven percent represents credit exposure of $72 million and **CG&E's** remaining 12 percent represents credit exposure of $25 million with counterparties rated non-investment grade.

As of March 31, 2006, **CG&E** had a concentration of trading credit exposure of $75 million with two counterparties accounting for greater than 10 percent of **CG&E's** total trading credit exposure. These counterparties are rated investment grade.

Energy commodity prices can be extremely volatile and the market can, at times, lack liquidity. Because of these issues, credit risk for energy commodities is generally greater than with other commodity trading.

We continually review and monitor our credit exposure to all counterparties and secondary counterparties. If appropriate, we may adjust our credit reserves to attempt to compensate for increased credit risk within the industry. Counterparty credit limits may be adjusted on a daily basis in response to changes in a counterparty's financial status or public debt ratings.

6. Pension and Other Postretirement Benefits

As discussed in the 2005 10-K, **Cinergy Corp.** sponsors both pension and other postretirement benefits plans. Our 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. In addition, we sponsor non-qualified pension plans (plans that do not meet the criteria for certain tax benefits) that cover officers, certain other key employees, and non-employee directors. 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.

There were no qualified pension benefit contributions for the first three months of 2006. **Cinergy** expects to make approximately $120 million in qualified pension contributions during the remainder of 2006.

Our benefit plans' costs for the quarters ended March 31, 2006 and 2005, included the following components:

	Qualified Pension Benefits		Non-Qualified Pension Benefits		Other Postretirement Benefits	
Quarter Ended March 31	**2006**	2005	**2006**	2005	**2006**	2005
			(in millions)			
Service cost	**$ 10.9**	$ 9.6	**$ 1.4**	$ 1.4	**$ 1.6**	$ 1.6
Interest cost	**24.7**	24.1	**2.1**	1.8	**5.6**	5.7
Expected return on plans' assets	**(23.4)**	(22.0)	**-**	-	**-**	-
Amortization of transition (asset) obligation	**-**	-	**-**	-	**-**	0.1
Amortization of prior service cost	**0.9**	1.1	**0.6**	0.5	**(0.2)**	(0.1)
Amortization of actuarial losses	**4.6**	1.9	**1.0**	0.6	**2.5**	2.7
Net periodic benefit cost	**$ 17.7**	$ 14.7	**$ 5.1**	$ 4.3	**$ 9.5**	$ 10.0

The net periodic benefit costs by registrant for the quarter and year to date ended March 31, 2006 and 2005, were as follows:

	Qualified Pension Benefits		Non-Qualified Pension Benefits		Other Postretirement Benefits	
Quarter Ended March 31	**2006**	2005	**2006**	2005	**2006**	2005
			(in millions)			
Cinergy[1]	**$ 17.7**	$ 14.7	**$ 5.1**	$ 4.3	**$ 9.5**	$ 10.0
CG&E and subsidiaries	**5.5**	4.4	**0.2**	0.2	**2.5**	2.6
PSI	**4.4**	3.8	**0.2**	0.2	**4.6**	4.9

(1) The results of **Cinergy** also include amounts related to non-registrants.

7. 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, we expect to spend approximately \$1.5 billion to reduce mercury, SO_2, and NO_X emissions. 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. See (b)(*i*) for more details. **CG&E** receives partial recovery of depreciation and financing costs related to environmental compliance projects for 2005-2008 through its rate stabilization plan (RSP). See (b)(*ii*) for more details.

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 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. 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 March 2000, the United States also filed in the United States District Court for the Southern District of Ohio an amended complaint in a separate lawsuit alleging violations of the CAA relating to PSD, NSR, and Ohio SIP requirements regarding various generating stations, including a generating station operated by Columbus Southern Power Company (CSP) and jointly-owned by CSP, The Dayton Power and Light Company (DP&L), and **CG&E**. The EPA is seeking injunctive relief and civil penalties of up to $27,500 per day for each violation. This suit is being defended by CSP. In April 2001, the United States District Court for the Southern District of Ohio in that case ruled that the Government and the intervening plaintiff environmental groups cannot seek monetary damages for alleged violations that occurred prior to November 3, 1994; however, they are entitled to seek injunctive relief for such alleged violations. Neither party appealed that decision. This matter was heard in trial in July 2005. A decision is pending.

In addition, **Cinergy** and **CG&E** have been informed by DP&L that in June 2000, the EPA issued a Notice of Violation (NOV) to DP&L for alleged violations of PSD, NSR, and Ohio SIP requirements at a station operated by DP&L and jointly-owned by DP&L, CSP, and **CG&E**. The NOV indicated the EPA may (1) issue an order requiring compliance with the requirements of the Ohio SIP, or (2) bring a civil action seeking injunctive relief and civil penalties of up to $27,500 per day for each violation. In September 2004, Marilyn Wall and the Sierra Club brought a lawsuit against **CG&E**, DP&L and CSP for alleged violations of the CAA at this same generating station. This case is currently in discovery in front of the same judge who has the CSP case.

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.

(v) Zimmer Generating Station (Zimmer Station) Lawsuit

In November 2004, a citizen of the Village of Moscow, Ohio, the town adjacent to **CG&E's** Zimmer Station, brought a purported class action in the United States District Court for the Southern District of Ohio seeking monetary damages and injunctive relief against **CG&E** for alleged violations of the CAA, the Ohio SIP, and Ohio laws against nuisance and common law nuisance. The plaintiffs have filed a number of additional notices of intent to sue and two lawsuits raising claims similar to those in the original claim. One lawsuit was dismissed on procedural grounds and the remaining two have been consolidated. The plaintiff filed a motion for class certification, which is fully briefed and pending decision. At this time, we cannot predict whether the outcome of this matter will have a material impact on our financial position or results of operations. We intend to defend this lawsuit vigorously in court.

(vi) Manufactured Gas Plant (MGP) Sites

Coal tar residues, related hydrocarbons, and various metals have been found in at least 22 sites that **PSI** or its predecessors previously owned and sold in a series of transactions with Northern Indiana Public Service Company (NIPSCO) and Indiana Gas Company, Inc. (IGC). The 22 sites are in the process of being studied and will be remediated, if necessary. In 1998 NIPSCO, IGC, and **PSI** entered into Site Participation and Cost Sharing Agreements to allocate liability and responsibilities between them. Thus far, **PSI** has primary responsibility for investigating, monitoring and, if necessary, remediating nine of these sites. In December 2003, **PSI** entered into a voluntary remediation plan with the state of Indiana, providing a formal framework for the investigation and cleanup of the nine sites. The Indiana Department of Environmental Management oversees investigation and cleanup of all of these sites.

In April 1998, **PSI** filed suit in Hendricks County in the state of Indiana against its general liability insurance carriers. **PSI** sought a declaratory judgment to obligate its insurance carriers to (1) defend MGP claims against **PSI** and compensate **PSI** for its costs of investigating, preventing, mitigating, and remediating damage to property and paying claims related to MGP sites; or (2) pay **PSI's** cost of defense. **PSI** settled, in principle, its claims with all but one of the insurance carriers in January 2005 prior to commencement of the trial. With respect to the lone insurance carrier, a jury returned a verdict against **PSI** in February 2005. **PSI** has appealed this decision. At the present time, **PSI** cannot predict the outcome of this litigation, including the outcome of the appeal.

PSI has accrued costs related to investigation, remediation, and groundwater monitoring for those sites where such costs are probable and can be reasonably estimated. We will continue to investigate and remediate the sites as outlined in the voluntary remediation plan. As additional facts become known and investigation is completed, we will assess whether the likelihood of incurring additional costs becomes probable. Until all investigation and remediation is complete, we are unable to determine the overall impact on our financial position or results of operations.

CG&E has performed site assessments on certain of their sites where we believe MGP activities have occurred at some point in the past and have found no imminent risk to the environment. At the present time, **CG&E** cannot predict whether investigation and/or remediation will be required in the future at any of these sites.

(vii) Asbestos Claims Litigation

PSI and **CG&E**, have been named as defendants or co-defendants in lawsuits related to asbestos at their electric generating stations. Currently, there are approximately 130 pending lawsuits (the majority of which are **PSI** cases). In these lawsuits, plaintiffs claim to have been exposed to asbestos-containing products in the course of their work as outside contractors in the construction and maintenance of **CG&E** and **PSI** generating stations. The plaintiffs further claim that as the property owner of the generating stations, **CG&E** and **PSI** should be held liable for their injuries and illnesses based on an alleged duty to warn and protect them from any asbestos exposure. The impact on **CG&E's** and **PSI's** financial position or results of operations of these cases to date has not been material.

Of these lawsuits, one case filed against **PSI** has been tried to verdict. The jury returned a verdict against **PSI** on a negligence claim and a verdict for **PSI** on punitive damages. **PSI** appealed this decision up to the Indiana Supreme Court. In October 2005, the Indiana Supreme Court upheld the jury's verdict. **PSI** paid the judgment of approximately $630,000 in the fourth quarter of 2005. In addition, **PSI** has settled over 150 other claims for amounts, which neither individually nor in the aggregate, are material to **PSI's** financial position or results of operations. Based on estimates under varying assumptions, concerning such uncertainties, such as, among others: (i) the number of contractors potentially exposed to asbestos during construction or maintenance of **PSI** generating plants; (ii) the possible incidence of various illnesses among exposed workers, and (iii) the potential settlement costs without federal or other legislation that addresses asbestos tort actions, **PSI** estimates that the range of reasonably possible exposure in existing and future suits over the next 50 years could range from an immaterial amount to approximately $60 million, exclusive of costs to defend these cases. This estimated range of exposure may change as additional settlements occur and claims are made in Indiana and more case law is established.

CG&E has been named in fewer than 10 cases and as a result has virtually no settlement history for asbestos cases. Thus, **CG&E** is not able to reasonably estimate the range of potential loss from current or future lawsuits. However, potential judgments or settlements of existing or future claims could be material to **CG&E**.

(viii) Dunavan Waste Superfund Site

In July and October 2005, **PSI** received notices from the EPA that it has been identified as a de minimus potentially responsible party under the Comprehensive Environmental Response, Compensation, and Liability Act at the Dunavan Waste Oil Site in Oakwood, Vermilion County, Illinois. At this time, **PSI** does not have any further information regarding the scope of potential liability associated with this matter.

(ix) Ontario, Canada Lawsuit

We understand that a class action lawsuit was filed in Superior Court in Ontario, Canada against us and approximately 20 other utility and power generation companies alleging various claims relating to environmental emissions from coal-fired power generation facilities in the United States and Canada and damages of approximately $50 billion, with continuing damages in the amount of approximately $4 billion annually. We understand that the lawsuit also claims entitlement to punitive and exemplary damages in the amount of $1 billion. We have not yet been served in this lawsuit, however, if served, we intend to defend this lawsuit vigorously in court. We are not able to predict whether resolution of this matter would have a material effect on our financial position or results of operations.

(x) Hurricane Katrina Lawsuit

On April 19, 2006, **Cinergy** was named in the third amended complaint of a purported class action filed in the United States District Court for the Southern District of Mississippi. Plaintiffs claim that **Cinergy**, along with numerous other utilities, oil companies, coal companies and chemical companies, is liable for damages relating to losses suffered by victims of Hurricane Katrina. Plaintiffs claim that **Cinergy's**, and others, greenhouse gas emissions contributed to the frequency and intensity of storms such as Hurricane Katrina. **Cinergy** has not been served with this lawsuit. At this time, we are not able to predict whether resolution of this matter would have a material effect on our financial position or results of operations.

(b) *Regulatory*

(i) PSI Environmental Compliance Case

In November 2004, **PSI** filed a compliance plan case with the IURC seeking approval of **PSI's** plan for complying with SO_2, NO_X, and mercury emission reduction requirements discussed previously in (a)(*i*), including approval of cost recovery and an overall rate of return of eight percent related to certain projects. **PSI** requested approval to recover the financing, depreciation, and operation and maintenance costs, among others, related to $1.08 billion in capital projects designed to reduce emissions of SO_2, NO_X, and mercury at **PSI's** coal-burning generating stations. An evidentiary hearing was held in May 2005. In December 2005, **PSI**, the Indiana Office of the Utility Consumer Counselor, and the PSI Industrial Group filed a settlement agreement providing for approval of **PSI's** compliance plan, and approval of financing, depreciation, and operation and maintenance cost recovery. The settlement agreement provides for 20-year depreciation in lieu of **PSI's** originally requested 18-year depreciation, the use of **PSI's** then weighted cost of capital to determine the overall rate of return rather than eight percent as originally requested, caps the amount of cost recovery for the Gallagher Generating Station baghouse projects, and removes the Activated Carbon Injection component of those projects. A final IURC Order is expected in the first half of 2006.

(ii) CG&E Electric Rate Filings

CG&E operates under an RSP which was approved by the PUCO in November 2004, and which expires December 31, 2008.

One of the components of **CG&E's** RSP is a fuel clause recovery mechanism, which was recently audited by the PUCO's auditor. The auditor recommended alternate methodologies for administration of the fuel clause recovery mechanism that varies from **CG&E's** current practice. A hearing before PUCO examiners was held in early November at which the PUCO staff took positions contrary to **CG&E's** current practice. **CG&E** officials also testified at the hearing concerning our current practices. In January 2006, **CG&E** signed a settlement on the RSP with the PUCO staff. The two intervening parties have agreed not to oppose the settlement. In February 2006, the PUCO issued an order approving the settlement agreement. We do not expect the agreement to have a material impact on **CG&E's** or **Cinergy's** results of operations.

In March 2005, the Ohio Consumers' Counsel appealed the Commission's approval of the RSP to the Supreme Court of Ohio. The Supreme Court of Ohio recently ruled on the rate stabilization plan for another Ohio utility, and in that ruling, upheld the market prices charged by the utility to its consumers as approved by the Commission but overturned the competitive bid process approved by the Commission on the basis that the Commission rejected the bid price on behalf on consumers and the applicable statute requires customer involvement. **CG&E's** RSP does not contain a competitive bid process pursuant to a statutory exception. **CG&E** does not expect a significant, if any, change to its RSP as a result of this case but cannot predict the outcome of its case. We expect the court to decide the case in 2006.

CG&E has also filed a distribution rate case to recover certain distribution costs with rates becoming effective on January 1, 2006 and **CG&E** has deferred certain costs in 2004 and 2005 pursuant to its RSP. The parties to the proceeding agreed upon and filed a settlement setting the recommended annual revenue increase at approximately $51 million. In December 2005, the PUCO issued an order approving the settlement agreement.

(iii) 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 the Company 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 the Company'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.

(iv) Gas Distribution Plant

In June 2003, the PUCO approved an amended settlement agreement between **CG&E** and the PUCO staff in a gas distribution safety case arising out of a gas leak at a service head-adapter (SHA) style riser on **CG&E's** distribution system. The amended settlement agreement required **CG&E** to expend a minimum of $700,000 to replace SHA risers by December 31, 2003, and to file a comprehensive plan addressing all SHA risers on its distribution system. **CG&E** filed a comprehensive plan with the PUCO in December 2004 providing for replacement of approximately 5,000 risers in 2005 with continued monitoring thereafter. **CG&E** estimates the replacement cost of these risers will not be material. In April 2005, the PUCO issued an order closing this case. The PUCO issued a separate order opening a statewide investigation into riser leaks in gas pipeline systems throughout Ohio. At this time, **Cinergy** and **CG&E** cannot predict the outcome or the impact of the statewide investigation.

(v) PUCO Merger Approval Appeal to the Supreme Court

In April 2006, The Office of the Ohio Consumers' Counsel filed a Notice of Appeal with the Supreme Court of Ohio, requesting the Court remand the Commission's merger approval for a full evidentiary hearing. The Office of the Ohio Consumers' Counsel alleges that the Commission committed reversible error on both procedural and substantive grounds, in among other things, failing to set the matter for a full evidentiary hearing, failing to consider evidence regarding the transfer of the DENA assets to **CG&E**, and failing to lift the stay on discovery. While **CG&E** cannot predict the outcome of this matter, it is unlikely that the Court's decision will affect the consummation of the merger.

(vi) IURC Merger Approval Request for Rehearing and Reconsideration

In April 2006, Interveners, Citizens Action Coalition of Indiana, Inc., filed a Verified Petition for Rehearing and Reconsideration claiming that **PSI** should be ordered to provide an additional $5 million in rate credits to customers to be consistent with the NCUC order. An order on the Petition is expected in the second quarter of 2006.

(c) *Other*

(i) Synthetic Fuel Production

Cinergy produces synthetic fuel from two facilities that qualify for tax credits (through 2007) in accordance with Section 29/45K of the Internal Revenue Code if certain requirements are satisfied. These credits reduce **Cinergy's** income tax liability and therefore **Cinergy's** effective tax rate. **Cinergy's** sale of synthetic fuel has generated $339 million in tax credits through December 31, 2005 and an additional $18 million, after reducing for phase-out, through March 31, 2006. Section 29/45K provides for a phase-out of the credit if the average price of crude oil during a calendar year exceeds a specified threshold. The phase-out is based on a prescribed calculation and definition of crude oil prices. Based on current crude oil prices, we believe that for 2006 and 2007 the amount of the tax credits will be reduced, perhaps significantly. If oil prices are high enough, we may idle the plants, as the value of the credits would not exceed the net costs to produce the synthetic fuel. During the first quarter of 2006, an agreement was in place with the plant operator which would indemnify **Cinergy** in the event that tax credits are insufficient to support operating expenses. **Cinergy's** net investment in the plants at March 31, 2006 was approximately $37 million.

The Internal Revenue Service (IRS) is currently auditing **Cinergy** for the 2002, 2003, and 2004 tax years. We expect the IRS will evaluate the various key requirements for claiming our Section 29/45K credits related to synthetic fuel. If the IRS challenges our Section 29/45K tax credits related to synthetic fuel, and such challenges are successful, this could result in the disallowance of up to all $357 million in previously claimed credits for synthetic fuel produced by the applicable **Cinergy** facilities and a loss of our ability to claim future credits for synthetic fuel produced by such facilities. We believe that we operate in conformity with all the necessary requirements to be allowed such tax credits under Section 29/45K.

(ii) FirstEnergy Lawsuit

FirstEnergy has filed a lawsuit in the Court of Common Pleas in Summit County, Ohio against **Cinergy** with respect to a transaction between **Cinergy** and a subsidiary of FirstEnergy, relating to a joint venture company, Avon Energy Partners Holdings (Avon). In 1999, the FirstEnergy subsidiary acquired **Cinergy's** share of Avon which it subsequently sold to a third party. The original transaction documents included an indemnity by **Cinergy** with respect to a certain investment owned by Avon. FirstEnergy claims that this indemnity was triggered by its sale of Avon to a third party, and is seeking to recover $15 million from **Cinergy**. On April 28, 2006, the court granted **Cinergy's** motion for summary judgment, thus ruling that **Cinergy** is not obligated to pay the $15 million sought by FirstEnergy. FirstEnergy has appealed this decision. At this time, we cannot predict the outcome of this matter.

(iii) Guarantees

In the ordinary course of business, **Cinergy** enters into various agreements providing financial or performance assurances to third parties on behalf of certain unconsolidated subsidiaries and joint ventures. These agreements are entered into primarily to support or enhance the creditworthiness otherwise attributed to these entities on a stand-alone basis, thereby facilitating the extension of sufficient credit to accomplish their intended commercial purposes. The guarantees have various termination dates, from short-term (less than one year) to open-ended.

In many cases, the maximum potential amount of an outstanding guarantee is an express term, set forth in the guarantee agreement, representing the maximum potential obligation of **Cinergy** under that guarantee (excluding, at times, certain legal fees to which a guaranty beneficiary may be entitled). In those cases where there is no maximum potential amount expressly set forth in the guarantee agreement, we calculate the maximum potential amount by considering the terms of the guaranteed transactions, to the extent such amount is estimable.

Cinergy Corp. has also provided performance guarantees on behalf of certain unconsolidated subsidiaries and joint ventures. These guarantees support performance under various agreements and instruments (such as construction contracts, operation and maintenance agreements, and energy service agreements). **Cinergy Corp.** may be liable in the event of an unexcused breach of a guaranteed performance obligation by an unconsolidated subsidiary. **Cinergy Corp.** has estimated its maximum potential liability to be $52 million under these guarantees as of March 31, 2006. **Cinergy Corp.** may also have recourse to third parties for claims required to be paid under certain of these guarantees. The majority of these guarantees expire at the completion of the underlying performance agreement, the majority of which expire from 2016 to 2019.

Cinergy has entered into contracts that include indemnification provisions as a routine part of its business activities. Examples of these contracts include purchase and sale agreements and operating agreements. In general, these provisions indemnify the counterparty for matters such as breaches of representations and warranties and covenants contained in the contract. In some cases, particularly with respect to purchase and sale agreements, the potential liability for certain indemnification obligations is capped, in whole or in part (generally at an aggregate amount not exceeding the sale price), and subject to a deductible amount before any payments would become due. In other cases (such as indemnifications for willful misconduct of employees in a joint venture), the maximum potential liability is not estimable given that the magnitude of any claims under those indemnifications would be a function of the extent of damages actually incurred. **Cinergy** has estimated the maximum potential liability, where estimable, to be $137 million under these indemnification provisions. The termination period for the majority of matters provided by indemnification provisions in these types of agreements generally ranges from 2006 to 2010.

We believe the likelihood that **Cinergy** would be required to perform or otherwise incur any significant losses associated with any or all of the guarantees described in the preceding paragraphs is remote.

8. Discontinued Operations

In December 2005, **Cinergy** completed the sale of a wholly-owned subsidiary in the Czech Republic that was engaged in the generation and sale of heat and electricity. At the time of the sale, the subsidiary had assets of approximately $113 million and liabilities of approximately $12 million. The net, after-tax, gain from the sale was approximately $18 million (including a net, after-tax, cumulative currency translation gain of approximately $24 million).

In December 2005, **Cinergy** began taking steps to sell its wholly-owned North American energy management and energy performance contracting business. In December 2005, **Cinergy** recognized a $17 million pre-tax impairment charge to value this business to its estimated fair value less cost to sell in accordance with being deemed held for sale. In April 2006, **Cinergy** completed the sale of this business. The net, after tax, loss on the sale was approximately $19 million (including the $17 million impairment charge recognized in December 2005).

These consolidated entities have been presented as *Discontinued operations, net of tax* in **Cinergy's** Condensed Consolidated Statements of Income and as *Assets/Liabilities of Discontinued Operations* in **Cinergy's** Condensed Consolidated Balance Sheets. The discontinued operations were part of Commercial Business Unit (Commercial). The accompanying financial statements and prior year financial statements have been reclassified to account for these entities as such.

The following table reflects the assets and liabilities, the results of operations, and the income (loss) on disposal related to investments accounted for as discontinued operations for the quarters ended March 31, 2006 and 2005.

	March 31 2006	March 31 2005
	(in millions)	
Revenues[1]	$ 5	$ 18
Income (Loss) Before Taxes	$ (3)	$ 3
Income Taxes Expense (Benefit)	$ (1)	$ 1
Income (Loss) from Discontinued Operations		
Income (Loss) from operations, net of tax	$ (2)	$ 2
Loss on disposal, net of tax	(2)	-
Total Income (Loss) from Discontinued Operations	$ (4)	$ 2
Assets		
Current assets	$ 9	$ 34
Property, plant, and equipment-net	-	120
Other assets	13	29
Total Assets	$ 22	$ 183
Liabilities		
Current liabilities	$ 8	$ 7
Long-term debt (including Long-term debt due within one year)	13	17
Other	5	16
Total Liabilities	$ 26	$ 40
Cash Flows		
Operating Activities	$ 3	$ 10
Investing Activities	2	3
Financing Activities	(5)	(8)
Total Cash Flows	$ -	$ 5

(1) Presented for informational purposes only. All results of operations are reported net in our Statements of Income.

9. Financial Information by Business Segment

As discussed in the 2005 10-K, we conduct operations through our subsidiaries and manage our businesses through the following three reportable segments:

- Regulated Business Unit (Regulated);
- Commercial; and
- Power Technology and Infrastructure Services Business Unit (Power Technology and Infrastructure).

Regulated consists of **PSI's** regulated generation and transmission and distribution operations, and **CG&E** and its subsidiaries' regulated electric and gas transmission and distribution systems and its subsidiaries' regulated electric generation. Regulated plans, constructs, operates, and maintains **Cinergy's** transmission and distribution systems and delivers gas and electric energy to consumers. Regulated also earns revenues from wholesale customers primarily by these customers transmitting electric power through **Cinergy's** transmission system. These businesses are subject to cost of service rate making where rates to be charged to customers are based on prudently incurred costs over a test period plus a reasonable rate of return.

Commercial manages our wholesale generation and energy marketing and trading activities. Commercial also performs energy risk management activities, provides customized energy solutions and is responsible for all of our international operations.

Power Technology and Infrastructure primarily manages Cinergy Ventures, LLC (Ventures), **Cinergy's** venture capital subsidiary. Ventures identifies, invests in, and integrates new energy technologies into **Cinergy's** existing businesses, focused primarily on operational efficiencies and clean energy technologies. In addition, Power Technology and Infrastructure manages our investments in other energy infrastructure and telecommunication service providers.

Following are the financial results by business unit. Certain prior-year amounts have been reclassified to conform to the current presentation.

Financial results by business unit for the quarters ended March 31, 2006, and March 31, 2005, are as indicated below.

	Cinergy Business Units					
	Regulated	Commercial	Power Technology and Infrastructure	Total	Reconciling Eliminations[1]	Consolidated
			(in millions)			
Quarter ended March 31, 2006						
Operating revenues						
External customers	$ 1,026	$ 623	$ -	$ 1,649	$ -	$ 1,649
Intersegment revenues	-	1	-	1	(1)	-
Gross margins						
Electric[2]	478	233	-	711	-	711
Gas[3]	90	34	-	124	-	124
Discontinued operations, net of tax[4]	-	(4)	-	(4)	-	(4)
Cumulative effect of a change in accounting principle, net of tax[5]	(2)	(1)	-	(3)	-	(3)
Net income (loss)	34	50	(5)	79	-	79
Quarter ended March 31, 2005						
Operating revenues						
External customers	$ 912	$ 414	$ -	$ 1,326	$ -	$ 1,326
Intersegment revenues	12	45	-	57	(57)	-
Gross margins						
Electric[2]	442	172	-	614	-	614
Gas[3]	98	6	-	104	-	104
Discontinued operations, net of tax[4]	-	2	-	2	-	2
Net income (loss)	76	45	(4)	117	-	117

(1) The Reconciling Eliminations category eliminates the intersegment revenues of Commercial and Regulated.
(2) Electric gross margins are calculated as *Electric operating revenues* less *Fuel, emission allowances, and purchased power* expense from the Condensed Consolidated Statements of Income.
(3) Gas gross margins are calculated as *Gas operating revenues* less *Gas purchased* expense from the Condensed Consolidated Statements of Income.
(4) See Note 8 for additional information.
(5) See Note 1(e)(*i*) for additional information.

Total segment assets at March 31, 2006 and December 31, 2005, are as indicated below:

	Cinergy Business Units			
	Regulated	Commercial[1]	Power Technology and Infrastructure	Total
		(in millions)		
Segment assets from continuing operations	**$ 10,285**	**$ 5,927**	**$ 122**	**$ 16,334**
Segment assets from discontinued operations	**-**	**22**	**-**	**22**
Total segment assets at March 31, 2006	**$ 10,285**	**$ 5,949**	**$ 122**	**$ 16,356**
Segment assets from continuing operations	$ 9,963	$ 7,025	$ 132	$ 17,120
Segment assets from discontinued operations	-	34	-	34
Total segment assets at December 31, 2005	$ 9,963	$ 7,059	$ 132	$ 17,154

(1) The decrease in Commercial's assets was primarily due to decreases in energy risk management assets and decreases in trade receivables.

10. Earnings Per Common Share (EPS)

A reconciliation of EPS – basic to EPS – diluted from continuing operations is presented below for the quarters ended March 31, 2006 and 2005:

	Income	Shares	EPS
	(in thousands, except per share amounts)		
Quarter Ended March 31, 2006			
EPS – basic:			
Income from continuing operations – basic	**$ 86,914**	**200,286**	**$ 0.43**
EPS – diluted:			
Common stock options		**713**	
Directors' compensation plans		**162**	
Income from continuing operations – diluted	**$ 86,914**	**201,161**	**$ 0.43**
Quarter Ended March 31, 2005			
EPS – basic:			
Income from continuing operations – basic	$ 114,879	195,647	$ 0.59
EPS – diluted:			
Common stock options		627	
Directors' compensation plans		148	
Stock purchase contracts		290	
Income from continuing operations – diluted	$ 114,879	196,712	$ 0.59

Options to purchase shares of common stock are excluded from the calculation of EPS – diluted, if they are considered to be anti-dilutive. Share amounts of 1.3 million and 1.5 million were excluded from the EPS – diluted calculation for the quarters ended March 31, 2006 and 2005, respectively.

11. Ac quisition and Transfer of Generating Assets

(a) *Transfer of Duke Generating Assets to CG&E – Subsequent Event*

In April 2006, Duke contributed to **CG&E** its ownership interest in five plants, representing a mix of combined cycle and peaking plants, with a combined capacity of 3,760 megawatts (MWs), as follows:

Generating Plant	Location	Ownership Interest	Fuel Type	Owned MW Capacity
Fayette	Fayette County, Pennsylvania	100 %	Gas	620
Hanging Rock	Lawrence County, Ohio	100	Gas	1,240
Lee	Lee County, Illinois	100	Gas	640
Vermillion	Vermillion County, Indiana	75	Gas	640
Washington	Washington County, Ohio	100	Gas	620
				3,760

The transaction was effective in April 2006 and was accounted for at Duke's net book value for these assets. The LLCs holding these generating plants, which were indirect subsidiaries of Duke, were first distributed to Duke, which then contributed them to **Cinergy** which, in turn, contributed them to **CG&E**. In the final step, the LLCs were then merged into **CG&E**.

In connection with the contribution of these assets, **CG&E** assumed certain related liabilities. In particular, **CG&E** assumed from Duke all payment, performance, and other obligations of Duke, with respect to certain deferred tax liabilities related to the assets. The following table summarizes this transaction for **CG&E**:

	(in millions)
Assets Received	
Generating Assets	$ 1,563
Other Assets	15
Total Assets Received	$ 1,578
Liabilities Assumed	
Deferred Tax Liabilities	$ 181
Other	11
Total Liabilities Assumed	$ 192
Contributed Capital from Duke	$ 1,386

As part of this transaction, Duke Capital LLC, a subsidiary of Duke, agreed to reimburse **CG&E** through April 2016 in the event of certain cash shortfalls that may result from **CG&E's** ownership of the five stations.

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

In January 2006, **CG&E** contributed 100 percent of its ownership interest in one generating unit and one peaking plant with a combined capacity of 727 MWs and its 69 percent interest in another generating station with an owned capacity of 414 MWs to ULH&P, its wholly owned subsidiary. The transaction was effective as of January 1, 2006 at a net book value of approximately $140 million.

In this report, **Cinergy** (which includes **Cinergy Corp.** and all of our regulated and non-regulated subsidiaries) is, at times, referred to in the first person as "we," "our," or "us."

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING INFORMATION

This document includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are based on management's beliefs and assumptions. These forward-looking statements are identified by terms and phrases such as "anticipate", "believe", "intend", "estimate", "expect", "continue", "should", "could", "may", "plan", "project", "predict", "will", and similar expressions.

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 materially from those indicated in any forward-looking statement include, but are not limited to:

- Factors affecting operations, such as:

  (1) unanticipated weather conditions;
  (2) unscheduled generation outages;
  (3) unusual maintenance or repairs;
  (4) unanticipated changes in costs;
  (5) environmental incidents; and
  (6) 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 by our non-regulated businesses 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.
- Business uncertainties, contractual restrictions, and the potential inability to attract and retain key personnel.

We undertake no obligation to update the information contained herein.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In this report, **Cinergy** (which includes **Cinergy Corp.** and all of its regulated and non-regulated subsidiaries) is, at times, referred to in the first person as "we", "our", or "us".

The following discussion should be read in conjunction with the accompanying financial statements and related notes included elsewhere in this report and the combined Form 10-K for the year ended December 31, 2005 (2005 10-K). We have reclassified certain prior-year amounts in the financial statements of **Cinergy**, The Cincinnati Gas & Electric Company (**CG&E**), and PSI Energy, Inc. (**PSI**) to conform to current presentation. The following discussions of results are not necessarily indicative of the results to be expected in any future period.

MERGER

In March 2006, **Cinergy** and 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).

Duke and **Cinergy** believe that the combination will provide substantial strategic and financial benefits to their shareholders, employees and customers, including:

- increased financial strength and flexibility;
- stronger utility business platform;
- greater scale and fuel diversity, as well as improved operational efficiencies for the merchant generation business;
- broadened electric distribution platform;
- improved reliability and customer service through the sharing of best practices;
- increased scale and scope of the electric and gas businesses with stand-alone strength;
- complementary positions in the midwest;
- greater customer diversity;
- combined expertise; and
- significant cost savings synergies.

As a condition to the merger approval, the Public Utilities Commission of Ohio (PUCO) and the Kentucky Public Service Commission (KPSC) required that certain merger related savings be refunded to customers in each service territory and provided additional conditions that the new company would have to meet. While the merger itself was not subject to approval by the IURC, the IURC approved, subject to similar conditions, certain affiliate agreements in connection with the merger. Key elements of these provisions were:

- **CG&E** will provide a rate credit of approximately $15 million for one year to facilitate economic development in a time of increasing rates and a credit of approximately $21 million to **CG&E's** gas and electric customers in Ohio for one year, with both credits beginning January 1, 2006.

  In April 2006, The Office of the Ohio Consumers' Counsel (OCC) filed a Notice of Appeal with the Supreme Court of Ohio, requesting the Court remand the PUCO's merger approval for a full evidentiary hearing. The Office of the Ohio Consumers' Counsel alleges that the PUCO committed reversible error on both procedural and substantive grounds, in among other things, failing to set the matter for a full evidentiary hearing, failing to consider evidence regarding the transfer of the Duke Energy North America (DENA) assets to **CG&E**, and failing to lift the stay on discovery. **CG&E** and the OCC have resolved this matter through settlement and we expect the OCC to withdraw its appeal.

- **PSI** will provide a rate credit of $40 million to **PSI** customers over a one year period and $5 million for low-income energy assistance and clean coal technology. In April 2006, Interveners, Citizens Action Coalition of Indiana, Inc., filed a Verified Petition for Rehearing and Reconsideration claiming that **PSI** should be ordered to provide an additional $5 million in rate credits to customers to be consistent with the NCUC order. An order on the Petition is expected in the second quarter of 2006.

- ULH&P will 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.

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.

The consummation of the merger triggered certain change in control provisions that provided enhanced, and/or accelerated benefits to management level employees in the event of a qualifying transaction. See Note 2(b)(*iii*) of the "Notes to Condensed Financial Statements" in "Item 1. Financial Information" for additional information on these payments.

Purchase price allocation and goodwill

Duke has been determined to be the acquirer and **Cinergy** the acquiree under generally accepted accounting principles. The merger is being recorded using the purchase method of accounting whereby the total purchase price of approximately $9 billion is being allocated to **Cinergy's** identifiable tangible and intangible assets acquired and liabilities assumed based on their fair values. **Cinergy Corp.'s** results of operations will be included in Duke Energy Holding's results beginning April 3, 2006.

The allocation of the purchase price to the net assets of **Cinergy** and the resulting goodwill determination are not yet complete. However, preliminary indications are that the acquisition will result in approximately $4 billion of goodwill.

Based on management's review and analysis of relevant Securities and Exchange Commission (SEC) regulations, **Cinergy** expects the impacts of purchase accounting, including goodwill, to be pushed down and recorded on the financial statements of **Cinergy**. Management also expects that a portion of the purchase price will be pushed down and recorded on the financial statements of **CG&E**. Since the merger did not occur until April 2006, all impacts of push-down accounting will be implemented in the second quarter financial statements of **Cinergy** and **CG&E**. Our review of SEC regulations has indicated that **PSI's** financial statements are not required to use push-down accounting and management does not anticipate electing to do so.

2006 QUARTERLY RESULTS OF OPERATIONS – CINERGY

Summary of Results

The Results of Operations discussion for **Cinergy** is presented in a reduced disclosure format in accordance with General Instruction H(2)(a) of Form 10-Q.

Given the dynamics of our business, which include regulatory revenues with directly offsetting expenses and commodity trading operations for which results are primarily reported on a net basis, we have concluded that a discussion of our results on a gross margin basis is most appropriate. Electric gross margins represent electric operating revenues less the related direct costs of fuel, emission allowances, and purchased power. Gas gross margins represent gas operating revenues less the related direct cost of gas purchased. Within each of these areas, we will discuss the key drivers of our results.

Electric and gas gross margins and net income for **Cinergy** for the quarters ended March 31, 2006 and 2005 were as follows:

	Cinergy			
	2006	2005	Change	% Change
	(in millions)			
Electric gross margin[1]	**$ 711**	$ 614	$ 97	16 %
Gas gross margin[2]	**124**	104	20	19
Net income	**79**	117	(38)	(32)

[1] Electric gross margin is calculated as *Electric operating revenues* less *Fuel, emission allowances, and purchased power* expense from the Condensed Statements of Income.
[2] Gas gross margin is calculated as *Gas operating revenues* less *Gas purchased* expense from the Condensed Statements of Income.

Gross Margins

The 16 percent increase in electric gross margins was primarily due to the following factors:

- An increase in retail margins from **CG&E's** rate stabilization plan (RSP), primarily due to its implementation for residential customers in January 2006 and increased margins from non-residential customers related to the timing of collection of fuel, purchased power, and emission allowance costs;
- An increase due to timing differences in revenue recognition between certain components of our generation portfolio, some of which are accounted for on a mark-to-market basis and some on an accrual basis; and
- An increase in the average price received per megawatt hour (MWh), due to the return of certain **CG&E** retail customers to full electric service and a **CG&E** retail distribution base rate increase implemented in January 2006.

Partially offsetting these increases were:

- A decline in margins from power marketing and trading contracts, primarily due to strong results in the first quarter of 2005;
- A decline in **PSI's** non-retail margins, primarily driven by an adverse ruling from the IURC on a fuel-related matter; and
- A decline due to milder weather in the first quarter of 2006, as compared to 2005.

The 19 percent increase in gas gross margins was primarily due to timing differences in revenue recognition between physical storage activities (which are accounted for on an accrual basis) and the associated derivative contracts that hedge the physical storage (which are accounted for on a mark-to-market basis).

Net Income

The 32 percent decrease in net income was primarily due to the following factors:

- An increase in *Operation and maintenance* expense resulting primarily from:
  - Significant merger related costs incurred in the first quarter of 2006, see Note 2(b)(*iii*) of the "Notes to Condensed Financial Statements" in "Item 1. Financial Information" for further information;
  - An increase in health care costs and incentive compensation; and
  - Increased costs at our synthetic fuel facilities primarily related to production costs at a facility purchased in the second quarter of 2005.
- An increase in *Interest Expense*, primarily due to an increase in interest expense related to a tax contingency and an increase in average long-term debt outstanding.

Partially offsetting these increased expenses were increases in electric and gas gross margins as previously discussed and an increase in *Miscellaneous Income – Net* primarily due to impairment and disposal charges recognized in 2005 on certain investments.

2006 QUARTERLY RESULTS OF OPERATIONS - CG&E

Summary of Results

The Results of Operations discussion for **CG&E** is presented in a reduced disclosure format in accordance with General Instruction H(2)(a) of Form 10-Q.

Electric and gas gross margins and net income for **CG&E** for the quarters ended March 31, 2006 and 2005 were as follows:

	CG&E			
	2006	2005	Change	% Change
	(in millions)			
Electric gross margin[1]	**$ 432**	$ 319	$ 113	35 %
Gas gross margin[2]	**90**	99	(9)	(9)
Net income	**116**	85	31	36

[1] Electric gross margin is calculated as *Electric operating revenues* less *Fuel, emission allowances, and purchased power* expense from the Condensed Statements of Income.

[2] Gas gross margin is calculated as *Gas operating revenues* less *Gas purchased* expense from the Condensed Statements of Income.

Gross Margins

The 35 percent increase in electric gross margins was primarily due to the following factors:

- An increase in retail margins from the RSP, primarily due to its implementation for residential customers in January 2006 and increased margins from non-residential customers related to the timing of collection of fuel, purchased power, and emission allowance costs;
- An increase due to timing differences in revenue recognition between certain components of our generation portfolio, some of which are accounted for on a mark-to-market basis and some on an accrual basis; and
- An increase in the average price received per MWh, due to the return of certain retail customers to full electric service and a retail distribution base rate increase implemented in January 2006.

Partially offsetting these increases were:

- A decline in margins from power marketing and trading contracts, primarily due to strong results in the first quarter of 2005; and
- A decline due to milder weather in the first quarter of 2006, as compared to 2005.

The nine percent decrease in gas gross margins was primarily due to milder weather in the first quarter of 2006, as compared to 2005, and a decline in non-weather related demand. Partially offsetting these declines was a ULH&P base rate increase implemented in October 2005.

Net Income

The 36 percent increase in net income was primarily due to the increase in electric gross margins, as previously discussed.

Partially offsetting the increased margins was an increase in *Operation and maintenance* expenses associated with various increases in operating expenses, including significant merger related costs in the first quarter of 2006, see Note 2(b)(*iii*) of the "Notes to Condensed Financial Statements" in "Item 1. Financial Information" for further information.

2006 QUARTERLY RESULTS OF OPERATIONS - PSI

Summary of Results

The Results of Operations discussion for PSI is presented in a reduced disclosure format in accordance with General Instruction H(2)(a) of Form 10-Q.

Electric gross margins and net income for PSI for the quarters ended March 31, 2006 and 2005 was as follows:

	PSI			
	2006	2005	Change	% Change
		(in millions)		
Electric gross margin[(1)]	**$ 285**	$ 293	$ (8)	(3) %
Net income	**19**	42	(23)	(55)

[(1)] Electric gross margin is calculated as *Electric operating revenues* less *Fuel, emission allowances, and purchased power* expense from the Condensed Statements of Income.

Gross Margins

The three percent decrease in electric gross margins was primarily due to the following factors:

- A decline in non-retail margins, primarily driven by an adverse ruling from the IURC on a fuel-related matter; and
- A decline due to milder weather in the first quarter of 2006, as compared to 2005.

Partially offsetting these declines was growth in non-weather related demand.

Net Income

The 55 percent decrease in net income was primarily due to the following factors:

- An increase in *Operation and maintenance* expense due in part to significant merger related costs in the first quarter of 2006, see Note 2(b)(*iii*) of the "Notes to Condensed Financial Statements" in "Item 1. Financial Information" for further information.
- The decrease in electric gross margins, as previously discussed; and
- An increase in *Interest Expense*, primarily due to an increase in average long-term debt outstanding and an increase in interest expense related to a tax contingency.

Partially offsetting these increased expenses and decreased margins was an increase in *Miscellaneous Income -- Net.*

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are our controls and other procedures that are designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 (Exchange Act) is recorded, processed, summarized, and reported, within the time periods specified by the Securities and Exchange Commission's (SEC) rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we have evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of March 31, 2006, and, based upon this evaluation, our chief executive officer and chief financial officer have concluded that these controls and procedures are effective in providing reasonable assurance that information requiring disclosure is recorded, processed, summarized, and reported within the timeframe specified by the SEC's rules and forms.

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we have evaluated changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended March 31, 2006 and found no change that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

CLEAN AIR ACT (CAA) 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**, The Cincinnati Gas & Electric Company (**CG&E**), and PSI Energy, Inc. (**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 state implementation plan (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 Environmental Protection Agency (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 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. 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 March 2000, the United States also filed in the United States District Court for the Southern District of Ohio an amended complaint in a separate lawsuit alleging violations of the CAA relating to PSD, NSR, and Ohio SIP requirements regarding various generating stations, including a generating station operated by Columbus Southern Power Company (CSP) and jointly-owned by CSP, The Dayton Power and Light Company (DP&L), and **CG&E**. The EPA is seeking injunctive relief and civil penalties of up to $27,500 per day for each violation. This suit is being defended by CSP. In April 2001, the United States District Court for the Southern District of Ohio in that case ruled that the Government and the intervening plaintiff environmental groups cannot seek monetary damages for alleged violations that occurred prior to November 3, 1994; however, they are entitled to seek injunctive relief for such alleged violations. Neither party appealed that decision. This matter was heard in trial in July 2005. A decision is pending.

In addition, **Cinergy** and **CG&E** have been informed by DP&L that in June 2000, the EPA issued a Notice of Violation (NOV) to DP&L for alleged violations of PSD, NSR, and Ohio SIP requirements at a station operated by DP&L and jointly-owned by DP&L, CSP, and **CG&E**. The NOV indicated the EPA may (1) issue an order requiring compliance with the requirements of the Ohio SIP, or (2) bring a civil action seeking injunctive relief and civil penalties of up to $27,500 per day for each violation. In September 2004, Marilyn Wall and the Sierra Club brought a lawsuit against **CG&E**, DP&L and CSP for alleged violations of the CAA at this same generating station. This case is currently in discovery in front of the same judge who has the CSP case.

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.

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.

ZIMMER GENERATING STATION (ZIMMER STATION) LAWSUIT

In November 2004, a citizen of the Village of Moscow, Ohio, the town adjacent to **CG&E's** Zimmer Station, brought a purported class action in the United States District Court for the Southern District of Ohio seeking monetary damages and injunctive relief against **CG&E** for alleged violations of the CAA, the Ohio SIP, and Ohio laws against nuisance and common law nuisance. The plaintiffs have filed a number of additional notices of intent to sue and two lawsuits raising claims similar to those in the original claim. One lawsuit was dismissed on procedural grounds and the remaining two have been consolidated. The plaintiff filed a motion for class certification, which is fully briefed and pending decision. At this time, we cannot predict whether the outcome of this matter will have a material impact on our financial position or results of operations. We intend to defend this lawsuit vigorously in court.

MANUFACTURED GAS PLANT (MGP) SITES

Coal tar residues, related hydrocarbons, and various metals have been found in at least 22 sites that **PSI** or its predecessors previously owned and sold in a series of transactions with Northern Indiana Public Service Company (NIPSCO) and Indiana Gas Company, Inc. (IGC). The 22 sites are in the process of being studied and will be remediated, if necessary. In 1998 NIPSCO, IGC, and **PSI** entered into Site Participation and Cost Sharing Agreements to allocate liability and responsibilities between them. Thus far, **PSI** has primary responsibility for investigating, monitoring and, if necessary, remediating nine of these sites. In December 2003, **PSI** entered into a voluntary remediation plan with the state of Indiana, providing a formal framework for the investigation and cleanup of the nine sites. The Indiana Department of Environmental Management oversees investigation and cleanup of all of these sites.

In April 1998, **PSI** filed suit in Hendricks County in the state of Indiana against its general liability insurance carriers. **PSI** sought a declaratory judgment to obligate its insurance carriers to (1) defend MGP claims against **PSI** and compensate **PSI** for its costs of investigating, preventing, mitigating, and remediating damage to property and paying claims related to MGP sites; or (2) pay **PSI's** cost of defense. **PSI** settled, in principle, its claims with all but one of the insurance carriers in January 2005 prior to commencement of the trial. With respect to the lone insurance carrier, a jury returned a verdict against **PSI** in February 2005. **PSI** has appealed this decision. At the present time, **PSI** cannot predict the outcome of this litigation, including the outcome of the appeal.

PSI has accrued costs related to investigation, remediation, and groundwater monitoring for those sites where such costs are probable and can be reasonably estimated. We will continue to investigate and remediate the sites as outlined in the voluntary remediation plan. As additional facts become known and investigation is completed, we will assess whether the likelihood of incurring additional costs becomes probable. Until all investigation and remediation is complete, we are unable to determine the overall impact on our financial position or results of operations.

CG&E has performed site assessments on certain of their sites where we believe MGP activities have occurred at some point in the past and have found no imminent risk to the environment. At the present time, **CG&E** cannot predict whether investigation and/or remediation will be required in the future at any of these sites.

ASBESTOS CLAIMS LITIGATION

PSI and **CG&E**, have been named as defendants or co-defendants in lawsuits related to asbestos at their electric generating stations. Currently, there are approximately 130 pending lawsuits (the majority of which are **PSI** cases). In these lawsuits, plaintiffs claim to have been exposed to asbestos-containing products in the course of their work as outside contractors in the construction and maintenance of **CG&E** and **PSI** generating stations. The plaintiffs further claim that as the property owner of the generating stations, **CG&E** and **PSI** should be held liable for their injuries and illnesses based on an alleged duty to warn and protect them from any asbestos exposure. The impact on **CG&E's** and **PSI's** financial position or results of operations of these cases to date has not been material.

Of these lawsuits, one case filed against **PSI** has been tried to verdict. The jury returned a verdict against **PSI** on a negligence claim and a verdict for **PSI** on punitive damages. **PSI** appealed this decision up to the Indiana Supreme Court. In October 2005, the Indiana Supreme Court upheld the jury's verdict. **PSI** paid the judgment of approximately $630,000 in the fourth quarter of 2005. In addition, **PSI** has settled over 150 other claims for amounts, which neither individually nor in the aggregate, are material to **PSI's** financial position or results of operations. Based on estimates under varying assumptions, concerning such uncertainties, such as, among others: (i) the number of contractors potentially exposed to asbestos during construction or maintenance of **PSI** generating plants; (ii) the possible incidence of various illnesses among exposed workers, and (iii) the potential settlement costs without federal or other legislation that addresses asbestos tort actions, **PSI** estimates that the range of reasonably possible exposure in existing and future suits over the next 50 years could range from an immaterial amount to approximately $60 million, exclusive of costs to defend these cases. This estimated range of exposure may change as additional settlements occur and claims are made in Indiana and more case law is established.

CG&E has been named in fewer than 10 cases and as a result has virtually no settlement history for asbestos cases. Thus, **CG&E** is not able to reasonably estimate the range of potential loss from current or future lawsuits. However, potential judgments or settlements of existing or future claims could be material to **CG&E**.

DUNAVAN WASTE SUPERFUND SITE

In July and October 2005, **PSI** received notices from the EPA that it has been identified as a de minimus potentially responsible party under the Comprehensive Environmental Response, Compensation, and Liability Act at the Dunavan Waste Oil Site in Oakwood, Vermilion County, Illinois. At this time, **PSI** does not have any further information regarding the scope of potential liability associated with this matter.

ONTARIO, CANADA LAWSUIT

We understand that a class action lawsuit was filed in Superior Court in Ontario, Canada against us and approximately 20 other utility and power generation companies alleging various claims relating to environmental emissions from coal-fired power generation facilities in the United States and Canada and damages of approximately $50 billion, with continuing damages in the amount of approximately $4 billion annually. We understand that the lawsuit also claims entitlement to punitive and exemplary damages in the amount of $1 billion. We have not yet been served in this lawsuit, however, if served, we intend to defend this lawsuit vigorously in court. We are not able to predict whether resolution of this matter would have a material effect on our financial position or results of operations.

HURRICANE KATRINA LAWSUIT

On April 19, 2006, **Cinergy** was named in the third amended complaint of a purported class action filed in the United States District Court for the Southern District of Mississippi. Plaintiffs claim that **Cinergy**, along with numerous other utilities, oil companies, coal companies and chemical companies, is liable for damages relating to losses suffered by victims of Hurricane Katrina. Plaintiffs claim that **Cinergy's**, and others, greenhouse gas emissions contributed to the frequency and intensity of storms such as Hurricane Katrina. **Cinergy** has not been served with this lawsuit. At this time, we are not able to predict whether resolution of this matter would have a material effect on our financial position or results of operations.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2005, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

ITEM 6. EXHIBITS

The documents listed below are being filed, or have previously been filed, on behalf of **Cinergy Corp.**, The Cincinnati Gas & Electric Company (**CG&E**), and PSI Energy, Inc. (**PSI**) and are incorporated herein by reference from the documents indicated and made a part hereof. Exhibits not identified as previously filed are filed herewith:

Exhibit Designation	Registrant	Nature of Exhibit	Previously Filed as Exhibit to:
10.1	**Cinergy Corp.**	Consulting Agreement, dated March 31, 2006, between Michael J. Cyrus and **Cinergy Corp.**	**Cinergy Corp.** Form 8-K, filed April 6, 2006
10.2	**Cinergy Corp.**	Summary of Amendment to Employment Agreement of James E. Rogers, Michael J. Cyrus, Marc E. Manly, Lynn J. Good and James L. Turner.	**Cinergy Corp.** Form 8-K, filed April 6, 2006
10.3	**Cinergy Corp.**	Agreement, dated March 31, 2006, between James E. Rogers and **Cinergy Corp.**	**Cinergy Corp.** Form 8-K, filed April 6, 2006
10.4	**CG&E**	Keepwell Agreement, dated April 10, 2006, between Duke Capital LLC and **CG&E**.	**CG&E** Form 8-K, filed April 14, 2006
Certificates			
31-a	**Cinergy Corp.**	Certification by David L. Hauser pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	
31-b	**Cinergy Corp.**	Certification by Steven K. Young pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	
31-c	**CG&E** **PSI**	Certification by James L. Turner pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	
31-d	**CG&E** **PSI**	Certification by Myron L. Caldwell pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	
32-a	**Cinergy Corp.**	Certification by David L. Hauser pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	
32-b	**Cinergy. Corp.**	Certification by Steven K. Young pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	
32-c	**CG&E** **PSI**	Certification by James L. Turner pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	
32-d	**CG&E** **PSI**	Certification by Myron L. Caldwell pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Cinergy Corp., The Cincinnati Gas & Electric Company, and PSI Energy, Inc. each Securities Exchange Act of 1934, has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CINERGY CORP.
Registrants

Date: May 9, 2006

/s/ David L. Hauser
David L. Hauser
(duly authorized officer
and
principal executive officer)

Date: May 9, 2006

/s/ Steven K. Young
Steven K. Young
(duly authorized officer
and
principal financial officer)

THE CINCINNATI GAS & ELECTRIC COMPANY
PSI ENERGY, INC.
Registrants

Date: May 9, 2006

/s/ Myron L. Caldwell
Myron L. Caldwell
(duly authorized officer
and
principal financial officer)

Date: May 9, 2006

/s/ Dwight L. Jacobs
Dwight L. Jacobs
(duly authorized officer
and
chief accounting officer)

10kWIZARD
SEC POWER SEARCH

FORM 10-Q

UNION LIGHT HEAT &POWER CO - N/A

Filed: November 04, 2005 (period: September 30, 2005)

Quarterly report which provides a continuing view of a company's financial position

Table of Contents

PART I.

PART II.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10–Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2005

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number	Registrant, State of Incorporation, Address and Telephone Number	I.R.S. Employer Identification No.
1–11377	**CINERGY CORP.** (A Delaware Corporation) 139 East Fourth Street Cincinnati, Ohio 45202 (513) 421–9500	31–1385023
1–1232	**THE CINCINNATI GAS & ELECTRIC COMPANY** (An Ohio Corporation) 139 East Fourth Street Cincinnati, Ohio 45202 (513) 421–9500	31–0240030
1–3543	**PSI ENERGY, INC.** (An Indiana Corporation) 1000 East Main Street Plainfield, Indiana 46168 (513) 421–9500	35–0594457

2–7793

THE UNION LIGHT, HEAT AND POWER COMPANY

31–0473080

(A Kentucky Corporation)
139 East Fourth Street
Cincinnati, Ohio 45202
(513) 421–9500

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether each registrant is an accelerated filer (as defined in Rule 12b–2 of the Act).

Cinergy Corp.	Yes	☒	No	☐
The Cincinnati Gas & Electric Company	Yes	☐	No	☒
PSI Energy, Inc.	Yes	☐	No	☒
The Union Light, Heat and Power Company	Yes	☐	No	☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b–2 of the Exchange Act). Yes ☐ No ☒

This combined Form 10–Q is separately filed by **Cinergy Corp.**, **The Cincinnati Gas & Electric Company**, **PSI Energy, Inc.**, and **The Union Light, Heat and Power Company**. Information contained herein relating to any individual registrant is filed by such registrant on its own behalf. Each registrant makes no representation as to information relating to the other registrants.

The Union Light, Heat and Power Company meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10–Q and is therefore filing its company specific information with the reduced disclosure format specified in General Instruction H(2) of Form 10–Q.

As of October 31, 2005, shares of common stock outstanding for each registrant were as listed:

Registrant	Description	Shares
Cinergy Corp.	Par value $.01 per share	199,435,602
The Cincinnati Gas & Electric Company	Par value $8.50 per share	89,663,086
PSI Energy, Inc.	Without par value, stated value $.01 per share	53,913,701
The Union Light, Heat and Power Company	Par value $15.00 per share	585,333

TABLE OF CONTENTS

Item Number

PART I. FINANCIAL INFORMATION

CINERGY CORP.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Quarter Ended September 30		Year to Date September 30	
	2005	2004	2005	2004
	(in thousands, except per share amounts) (unaudited)			
Operating Revenues				
Electric	$ **1,134,494**	$ 952,406	$ **2,975,129**	$ 2,681,078
Gas	**84,073**	65,298	**476,767**	524,226
Other	**146,712**	110,879	**371,895**	265,674
Total Operating Revenues	**1,365,279**	1,128,583	**3,823,791**	3,470,978
Operating Expenses				
Fuel, emission allowances, and purchased power	**459,964**	341,218	**1,077,641**	933,864
Gas purchased	**30,446**	19,792	**295,135**	290,728
Costs of fuel resold	**118,619**	86,917	**297,469**	203,441
Operation and maintenance	**342,221**	325,787	**1,025,131**	968,981
Depreciation	**129,597**	114,668	**386,537**	333,856
Taxes other than income taxes	**65,101**	57,001	**209,115**	204,320
Total Operating Expenses	**1,145,948**	945,383	**3,291,028**	2,935,190
Operating Income	**219,331**	183,200	**532,763**	535,788
Equity in Earnings of Unconsolidated Subsidiaries	**6,795**	8,016	**25,206**	18,095
Miscellaneous Income (Expense) – Net	**17,012**	(944)	**33,886**	(11,419)
Interest Expense	**76,932**	71,775	**209,644**	209,446
Preferred Dividend Requirements of Subsidiaries	**603**	858	**2,319**	2,574
Income Before Taxes	**165,603**	117,639	**379,892**	330,444
Income Taxes	**33,666**	24,716	**79,891**	76,002
Net Income	$ **131,937**	$ 92,923	$ **300,001**	$ 254,442
Average Common Shares Outstanding – Basic	**199,069**	180,881	**197,741**	180,129
Earnings Per Common Share – Basic (Note 11)	$ **0.67**	$ 0.51	$ **1.52**	$ 1.41
Average Common Shares Outstanding – Diluted	**200,167**	183,478	**198,777**	182,564
Earnings Per Common Share – Diluted (Note 11)	$ **0.66**	$ 0.50	$ **1.51**	$ 1.39
Cash Dividends Declared Per Common Share (Note 2)	$ **0.96**	$ 0.47	$ **1.92**	$ 1.41

The accompanying notes as they relate to Cinergy Corp. are an integral part of these condensed consolidated financial statements.

CINERGY CORP.

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30 2005	December 31 2004
	(dollars in thousands) (unaudited)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ **165,831**	$ 164,541
Notes receivable, current	**81,622**	214,513
Accounts receivable less accumulated provision for doubtful accounts of $4,489 at September 30, 2005, and $5,514 at December 31, 2004	**1,482,068**	1,061,140
Fuel, emission allowances, and supplies	**607,925**	444,750
Energy risk management current assets	**1,260,255**	381,146
Prepayments and other	**567,113**	174,624
Total Current Assets	**4,164,814**	2,440,714
Property, Plant, and Equipment – at Cost		
Utility plant in service	**10,642,931**	10,076,468
Construction work in progress	**398,130**	333,687
Total Utility Plant	**11,041,061**	10,410,155
Non–regulated property, plant, and equipment	**4,853,947**	4,700,009
Accumulated depreciation	**5,447,931**	5,180,699
Net Property, Plant, and Equipment	**10,447,077**	9,929,465
Other Assets		
Regulatory assets	**1,021,277**	1,030,333
Investments in unconsolidated subsidiaries	**486,795**	513,675
Energy risk management non–current assets	**397,471**	138,787
Notes receivable, non–current	**177,127**	193,857
Other investments	**128,581**	125,367
Restricted funds held in trust	**277,400**	358,006
Goodwill and other intangible assets	**152,342**	132,752
Other	**213,323**	119,361
Total Other Assets	**2,854,316**	2,612,138
Total Assets	$ **17,466,207**	$ 14,982,317

The accompanying notes as they relate to Cinergy Corp. are an integral part of these condensed consolidated financial statements.

CINERGY CORP.

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30 2005	December 31 2004
	(dollars in thousands) (unaudited)	
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ **2,142,077**	$ 1,348,576
Accrued taxes	**266,459**	216,804
Accrued interest	**69,504**	54,473
Notes payable and other short–term obligations (Note 5)	**1,198,670**	958,910
Long–term debt due within one year	**349,012**	219,967
Energy risk management current liabilities	**1,419,332**	310,741
Other	**141,448**	171,188
Total Current Liabilities	**5,586,502**	3,280,659
Non–Current Liabilities		
Long–term debt	**4,022,076**	4,227,741
Deferred income taxes	**1,445,371**	1,597,120
Unamortized investment tax credits	**93,070**	99,723
Accrued pension and other postretirement benefit costs	**652,409**	688,277
Regulatory liabilities	**578,520**	557,419
Energy risk management non–current liabilities	**420,326**	127,340
Other	**195,230**	225,298
Total Non–Current Liabilities	**7,407,002**	7,522,918
Commitments and Contingencies		
Total Liabilities	**12,993,504**	10,803,577
Cumulative Preferred Stock of Subsidiaries		
Not subject to mandatory redemption	**31,743**	62,818
Common Stock Equity		
Common stock – $.01 par value; authorized shares – 600,000,000; issued shares – 199,280,386 at September 30, 2005, and 187,653,506 at December 31, 2004; outstanding shares – 199,139,968 at September 30, 2005, and 187,524,229 at December 31, 2004	**1,993**	1,877
Paid–in capital	**2,969,103**	2,559,715
Retained earnings	**1,534,752**	1,613,340
Treasury shares at cost – 140,418 shares at September 30, 2005, and 129,277 shares at December 31, 2004	**(4,776)**	(4,336)
Accumulated other comprehensive loss	**(60,112)**	(54,674)
Total Common Stock Equity	**4,440,960**	4,115,922
Total Liabilities and Shareholders' Equity	$ **17,466,207**	$ 14,982,317

The accompanying notes as they relate to Cinergy Corp. are an integral part of these condensed consolidated financial statements.

CINERGY CORP.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN COMMON STOCK EQUITY

(dollars in thousands, except per share amounts)
(unaudited)

	Common Stock	Paid–in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Common Stock Equity
Quarter Ended September 30, 2005						
Balance at July 1, 2005 (198,528,683 shares)	**$ 1,987**	**$ 2,941,747**	**$ 1,594,053**	**$ (4,766)**	**$ (67,634)**	**$ 4,465,387**
Comprehensive income:						
Net income			**131,937**			**131,937**
Other comprehensive income (loss), net of tax effect of $(6,194)						
Foreign currency translation adjustment					**(285)**	**(285)**
Unrealized gain on investment trusts					**1,104**	**1,104**
Minimum pension liability adjustment					**(571)**	**(571)**
Cash flow hedges					**7,274**	**7,274**
Total comprehensive income						**139,459**
Issuance of common stock – net (611,574 shares)	**6**	**25,861**				**25,867**
Treasury shares purchased (289 shares)				**(10)**		**(10)**
Dividends on common stock ($0.96 per share) (Note 2)			**(191,120)**			**(191,120)**
Other		**1,495**	**(118)**			**1,377**
Ending balance at September 30, 2005 (199,139,968 shares)	**$ 1,993**	**$ 2,969,103**	**$ 1,534,752**	**$ (4,776)**	**$ (60,112)**	**$ 4,440,960**
Quarter Ended September 30, 2004						
Balance at July 1, 2004 (180,323,246 shares)	$ 1,804	$ 2,248,084	$ 1,543,883	$ (3,966)	$ (39,804)	$ 3,750,001
Comprehensive income:						
Net income			92,923			92,923
Other comprehensive loss, net of tax effect of $(1,162)						
Foreign currency translation adjustment					(741)	(741)
Unrealized loss on investment trusts					(662)	(662)
Cash flow hedges					(138)	(138)
Total comprehensive income						91,382
Issuance of common stock – net (675,273 shares)	7	20,989				20,996
Treasury shares purchased (2,963 shares)				(60)		(60)
Dividends on common stock ($0.47 per share)			(84,873)			(84,873)
Other		3,578	(85)			3,493
Ending balance at September 30, 2004 (180,995,556 shares)	$ 1,811	$ 2,272,651	$ 1,551,848	$ (4,026)	$ (41,345)	$ 3,780,939

The accompanying notes as they relate to Cinergy Corp. are an integral part of these condensed consolidated financial statements.

CINERGY CORP.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN COMMON STOCK EQUITY

(Continued)

	Common Stock	Paid–in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Common Stock Equity
	(dollars in thousands, except per share amounts) (unaudited)					
Year to Date September 30, 2005						
Balance at January 1, 2005 (187,524,229 shares)	**$ 1,877**	**$ 2,559,715**	**$ 1,613,340**	**$ (4,336)**	**$ (54,674)**	**$ 4,115,922**
Comprehensive income:						
Net income			**300,001**			**300,001**
Other comprehensive income (loss), net of tax effect of $441						
Foreign currency translation adjustment					**(13,392)**	**(13,392)**
Unrealized gain on investment trusts					**150**	**150**
Minimum pension liability adjustment					**(571)**	**(571)**
Cash flow hedges					**8,375**	**8,375**
Total comprehensive income						**294,563**
Issuance of common stock – net (11,626,880 shares)	**116**	**403,374**				**403,490**
Treasury shares purchased (11,141 shares)				**(440)**		**(440)**
Dividends on common stock ($1.92 per share) (Note 2)			**(378,196)**			**(378,196)**
Other		**6,014**	**(393)**			**5,621**
Ending balance at September 30, 2005 (199,139,968 shares)	**$ 1,993**	**$ 2,969,103**	**$ 1,534,752**	**$ (4,776)**	**$ (60,112)**	**$ 4,440,960**
Year to Date September 30, 2004						
Balance at January 1, 2004 (178,336,854 shares)	$ 1,784	$ 2,195,985	$ 1,551,003	$ (3,255)	$ (44,835)	$ 3,700,682
Comprehensive income:						
Net income			254,442			254,442
Other comprehensive income (loss), net of tax effect of $(1,928)						
Foreign currency translation adjustment					691	691
Unrealized gain on investment trusts					(166)	(166)
Cash flow hedges					2,965	2,965
Total comprehensive income						257,932
Issuance of common stock – net (2,683,696 shares)	27	67,200				67,227
Treasury shares purchased (24,994 shares)				(771)		(771)
Dividends on common stock ($1.41 per share)			(253,418)			(253,418)
Other		9,466	(179)			9,287
Ending balance at September 30, 2004 (180,995,556 shares)	$ 1,811	$ 2,272,651	$ 1,551,848	$ (4,026)	$ (41,345)	$ 3,780,939

The accompanying notes as they relate to Cinergy Corp. are an integral part of these condensed consolidated financial statements.

CINERGY CORP.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year to Date September 30	
	2005	2004
	(dollars in thousands) (unaudited)	
Cash Flows from Operations		
Operating Activities		
Net income	**$ 300,001**	$ 254,442
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**386,537**	333,856
Loss on impairment or disposal of subsidiaries and investments, net	**7,542**	38,268
Change in net position of energy risk management activities	**263,784**	(35,463)
Deferred income taxes and investment tax credits – net	**(16,249)**	81,649
Equity in earnings of unconsolidated subsidiaries	**(25,206)**	(18,095)
Return on equity investments	**25,081**	—
Allowance for equity funds used during construction	**(6,043)**	(1,122)
Regulatory asset/liability deferrals	**(145,233)**	(39,115)
Regulatory assets amortization	**102,603**	74,176
Accrued pension and other postretirement benefit costs	**(35,868)**	(60,136)
Cost of removal	**(17,499)**	(13,037)
Changes in current assets and current liabilities:		
Accounts and notes receivable	**(290,569)**	358,465
Fuel, emission allowances, and supplies	**(262,408)**	(78,502)
Prepayments	**(381,515)**	(70,124)
Accounts payable	**698,363**	(161,574)
Accrued taxes and interest	**(13,630)**	(88,347
Other assets	**(36,224)**	(7,295)
Other liabilities	**(56,363)**	68,087
Net cash provided by operating activities	**497,104**	636,133
Financing Activities		
Change in short–term debt	**239,760**	783,258
Issuance of long–term debt	**54,183**	—
Redemption of long–term debt	**(144,799)**	(824,411)
Retirement of preferred stock of subsidiaries	**(31,075)**	—
Issuance of common stock	**403,490**	67,227
Dividends on common stock	**(282,541)**	(253,418)
Net cash provided by (used in) financing activities	**239,018**	(227,344)
Investing Activities		
Construction expenditures (less allowance for equity funds used during construction)	**(777,382)**	(473,354)
Proceeds from notes receivable	**14,848**	12,966
Withdrawal of restricted cash held in trust	**104,473**	14,861
Acquisitions and other investments	**(107,147)**	(9,734)
Proceeds from distributions by investments and sale of investments and subsidiaries	**30,376**	29,726
Net cash used in investing activities	**(734,832)**	(425,535)
Net increase (decrease) in cash and cash equivalents	**1,290**	(16,746)
Cash and cash equivalents at beginning of period	**164,541**	169,120
Cash and cash equivalents at end of period	**$ 165,831**	$ 152,374
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for:		
Interest (net of amount capitalized)	**$ 204,893**	$ 219,100
Income taxes	**$ 81,259**	$ 46,272

The accompanying notes as they relate to Cinergy Corp. are an integral part of these condensed consolidated financial statements.

THE CINCINNATI GAS & ELECTRIC COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Quarter Ended September 30		Year to Date September 30	
	2005	2004	2005	2004
	(dollars in thousands) (unaudited)			
Operating Revenues				
Electric	$ **547,990**	$ 452,074	$ **1,472,211**	$ 1,303,235
Gas	**69,147**	60,055	**475,970**	478,358
Other	**61,481**	41,668	**174,257**	83,390
Total Operating Revenues	**678,618**	553,797	**2,122,438**	1,864,983
Operating Expenses				
Fuel, emission allowances, and purchased power	**211,968**	140,307	**512,125**	389,462
Gas purchased	**31,264**	19,721	**295,135**	290,656
Costs of fuel resold	**47,310**	28,953	**137,528**	66,327
Operation and maintenance	**176,088**	153,292	**509,712**	453,213
Depreciation	**45,747**	45,943	**136,117**	135,806
Taxes other than income taxes	**51,573**	45,316	**163,448**	158,816
Total Operating Expenses	**563,950**	433,532	**1,754,065**	1,494,280
Operating Income	**114,668**	120,265	**368,373**	370,703
Miscellaneous Income – Net	**4,434**	7,204	**11,587**	13,247
Interest Expense	**26,830**	24,083	**73,632**	68,934
Income Before Taxes	**92,272**	103,386	**306,328**	315,016
Income Taxes	**29,588**	39,313	**105,354**	118,179
Net Income	$ **62,684**	$ 64,073	$ **200,974**	$ 196,837
Preferred Dividend Requirement	**211**	211	**634**	634
Net Income Applicable to Common Stock	$ **62,473**	$ 63,862	$ **200,340**	$ 196,203
Net Income	$ **62,684**	$ 64,073	$ **200,974**	$ 196,837
Other Comprehensive Income (Loss), Net of Tax	**1,772**	(2)	**3,501**	2,881
Comprehensive Income	$ **64,456**	$ 64,071	$ **204,475**	$ 199,718

The accompanying notes as they relate to The Cincinnati Gas & Electric Company are an integral part of these condensed consolidated financial statements.

THE CINCINNATI GAS & ELECTRIC COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30 2005	December 31 2004
	(dollars in thousands) (unaudited)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ **8,353**	$ 4,154
Notes receivable from affiliated companies	**32,748**	121,559
Accounts receivable less accumulated provision for doubtful accounts	**545,981**	145,105
Accounts receivable from affiliated companies	**81,982**	30,916
Fuel, emission allowances, and supplies	**222,571**	199,769
Energy risk management current assets	**669,897**	148,866
Prepayments and other	**263,541**	54,650
Total Current Assets	**1,825,073**	705,019
Property, Plant, and Equipment – at Cost		
Utility plant in service		
Electric	**2,305,398**	2,249,352
Gas	**1,236,671**	1,179,764
Common	**254,138**	249,576
Total Utility Plant In Service	**3,796,207**	3,678,692
Construction work in progress	**81,306**	45,762
Total Utility Plant	**3,877,513**	3,724,454
Non–regulated property, plant, and equipment	**3,792,749**	3,660,226
Accumulated depreciation	**2,799,014**	2,694,708
Net Property, Plant, and Equipment	**4,871,248**	4,689,972
Other Assets		
Regulatory assets	**506,063**	609,550
Energy risk management non–current assets	**207,759**	47,276
Restricted funds held in trust	**72,094**	93,671
Other	**136,857**	86,871
Total Other Assets	**922,773**	837,368
Total Assets	**$ 7,619,094**	$ 6,232,359

The accompanying notes as they relate to The Cincinnati Gas & Electric Company are an integral part of these condensed consolidated financial statements.

THE CINCINNATI GAS & ELECTRIC COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30 2005	December 31 2004
	(dollars in thousands) (unaudited)	
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	**$ 873,633**	$ 332,316
Accounts payable to affiliated companies	**119,164**	85,127
Accrued taxes	**292,459**	149,010
Accrued interest	**26,173**	19,408
Notes payable and other short–term obligations (Note 5)	**112,100**	112,100
Notes payable to affiliated companies (Note 5)	**204,519**	180,116
Long–term debt due within one year	**—**	150,000
Energy risk management current liabilities	**740,692**	120,204
Other	**33,191**	33,712
Total Current Liabilities	**2,401,931**	1,181,993
Non–Current Liabilities		
Long–term debt	**1,594,617**	1,443,668
Deferred income taxes	**972,421**	1,090,897
Unamortized investment tax credits	**68,702**	73,120
Accrued pension and other postretirement benefit costs	**226,858**	228,058
Regulatory liabilities	**186,228**	164,846
Energy risk management non–current liabilities	**216,727**	40,184
Other	**58,870**	70,395
Total Non–Current Liabilities	**3,324,423**	3,111,168
Commitments and Contingencies		
Total Liabilities	**5,726,354**	4,293,161
Cumulative Preferred Stock		
Not subject to mandatory redemption	**20,485**	20,485
Common Stock Equity		
Common stock – $8.50 par value; authorized shares – 120,000,000; outstanding shares – 89,663,086 at September 30, 2005, and December 31, 2004	**762,136**	762,136
Paid–in capital	**584,176**	584,176
Retained earnings	**560,274**	610,232
Accumulated other comprehensive loss	**(34,331)**	(37,831)
Total Common Stock Equity	**1,872,255**	1,918,713
Total Liabilities and Shareholders' Equity	**$ 7,619,094**	$ 6,232,359

The accompanying notes as they relate to The Cincinnati Gas & Electric Company are an integral part of these condensed consolidated financial statements.

THE CINCINNATI GAS & ELECTRIC COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year to Date September 30	
	2005	**2004**
	(dollars in thousands) (unaudited)	
Operating Activities		
Net income	**$ 200,974**	$ 196,837
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**136,117**	135,806
Deferred income taxes and investment tax credits – net	**(32,449)**	47,546
Change in net position of energy risk management activities	**115,518**	(32,032)
Allowance for equity funds used during construction	**(804)**	(699)
Regulatory asset/liability deferrals	**(1,342)**	(11,469)
Regulatory assets amortization	**69,501**	41,688
Accrued pension and other postretirement benefit costs	**(1,200)**	(20,287)
Cost of removal	**(4,969)**	(5,490)
Changes in current assets and current liabilities:		
Accounts and notes receivable	**(363,131)**	(20,238)
Fuel, emission allowances, and supplies	**(76,742)**	(49,786)
Prepayments	**(208,887)**	(36,751)
Accounts payable	**494,516**	11,201
Accrued taxes and interest	**110,459**	31,839
Other assets	**586**	(14,009)
Other liabilities	**(2,083)**	5,973
Net cash provided by operating activities	**436,064**	280,129
Financing Activities		
Change in short–term debt, including net affiliate notes	**24,403**	196,383
Redemption of long–term debt	**—**	(110,000)
Dividends on preferred stock	**(634)**	(634)
Dividends on common stock	**(169,459)**	(168,509)
Net cash used in financing activities	**(145,690)**	(82,760)
Investing Activities		
Construction expenditures (less allowance for equity funds used during construction)	**(309,385)**	(219,307)
Withdrawal of restricted funds held in trust	**23,153**	—
Other investments	**57**	15,321
Net cash used in investing activities	**(286,175)**	(203,986)
Net increase (decrease) in cash and cash equivalents	**4,199**	(6,617)
Cash and cash equivalents at beginning of period	**4,154**	15,842
Cash and cash equivalents at end of period	**$ 8,353**	$ 9,225
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for:		
Interest (net of amount capitalized)	**$ 69,717**	$ 65,629
Income taxes	**$ 12,370**	$ 16,646

The accompanying notes as they relate to The Cincinnati Gas & Electric Company are an integral part of these condensed consolidated financial statements.

PSI ENERGY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Quarter Ended September 30		Year to Date September 30	
	2005	2004	2005	2004
	(dollars in thousands) (unaudited)			
Operating Revenues				
Electric	**$ 572,930**	$ 480,089	**$ 1,426,795**	$ 1,310,812
Operating Expenses				
Fuel, emission allowances, and purchased power	**234,552**	183,644	**500,668**	493,689
Operation and maintenance	**113,006**	118,914	**356,045**	350,467
Depreciation	**65,860**	54,675	**199,155**	158,565
Taxes other than income taxes	**12,126**	10,481	**38,059**	41,014
Total Operating Expenses	**425,544**	367,714	**1,093,927**	1,043,735
Operating Income	**147,386**	112,375	**332,868**	267,077
Miscellaneous Income – Net	**5,481**	2,213	**15,973**	5,777
Interest Expense	**29,360**	24,864	**81,037**	66,489
Income Before Taxes	**123,507**	89,724	**267,804**	206,365
Income Taxes	**57,500**	41,237	**116,723**	91,626
Net Income	**$ 66,007**	$ 48,487	**$ 151,081**	$ 114,739
Preferred Dividend Requirement	**391**	647	**1,685**	1,940
Net Income Applicable to Common Stock	**$ 65,616**	$ 47,840	**$ 149,396**	$ 112,799
Net Income	**$ 66,007**	$ 48,487	**$ 151,081**	$ 114,739
Other Comprehensive Income (Loss), Net of Tax	**6,676**	(614)	**4,946**	(248)
Comprehensive Income	**$ 72,683**	$ 47,873	**$ 156,027**	$ 114,491

The accompanying notes as they relate to PSI Energy, Inc. are an integral part of these condensed consolidated financial statements.

PSI ENERGY, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

		September 30 2005		December 31 2004
		(dollars in thousands) (unaudited)		
ASSETS				
Current Assets				
Cash and cash equivalents	$	**30,540**	$	10,794
Restricted deposits		**28,926**		22,063
Notes receivable from affiliated companies		**26,996**		72,958
Accounts receivable less accumulated provision for doubtful accounts		**90,499**		31,177
Accounts receivable from affiliated companies		**9,777**		437
Fuel, emission allowances, and supplies		**173,836**		108,793
Prepayments and other		**19,445**		11,804
Total Current Assets		**380,019**		258,026
Property, Plant, and Equipment – at Cost				
Utility plant in service		**6,846,723**		6,397,776
Construction work in progress		**316,401**		287,925
Total Utility Plant		**7,163,124**		6,685,701
Accumulated depreciation		**2,415,964**		2,284,932
Net Property, Plant, and Equipment		**4,747,160**		4,400,769
Other Assets				
Regulatory assets		**515,215**		420,783
Other investments		**74,604**		73,39(
Restricted funds held in trust		**193,628**		264,335
Other		**84,667**		32,587
Total Other Assets		**868,114**		791,101
Total Assets	**$**	**5,995,293**	$	5,449,896

The accompanying notes as they relate to PSI Energy, Inc. are an integral part of these condensed consolidated financial statements.

PSI ENERGY, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30 2005	December 31 2004
	(dollars in thousands) (unaudited)	
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ **126,725**	$ 65,151
Accounts payable to affiliated companies	**81,547**	38,292
Accrued taxes	**157,400**	65,871
Accrued interest	**30,912**	27,532
Notes payable and other short–term obligations (Note 5)	**135,500**	135,500
Notes payable to affiliated companies (Note 5)	**373,682**	130,580
Long–term debt due within one year	**326,166**	50,000
Other	**56,034**	33,326
Total Current Liabilities	**1,287,966**	546,252
Non–Current Liabilities		
Long–term debt	**1,468,641**	1,824,219
Deferred income taxes	**622,950**	638,061
Unamortized investment tax credits	**24,368**	26,603
Accrued pension and other postretirement benefit costs	**206,449**	209,992
Regulatory liabilities	**392,292**	392,573
Other	**72,364**	88,665
Total Non–Current Liabilities	**2,787,064**	3,180,113
Commitments and Contingencies		
Total Liabilities	**4,075,030**	3,726,365
Cumulative Preferred Stock		
Not subject to mandatory redemption	**11,258**	42,333
Common Stock Equity		
Common stock – without par value; $.01 stated value; authorized shares – 60,000,000; outstanding shares – 53,913,701 at September 30, 2005, and December 31, 2004	**539**	539
Paid–in capital	**826,019**	626,019
Retained earnings	**1,101,479**	1,078,617
Accumulated other comprehensive loss	**(19,032)**	(23,977)
Total Common Stock Equity	**1,909,005**	1,681,198
Total Liabilities and Shareholders' Equity	$ **5,995,293**	$ 5,449,896

The accompanying notes as they relate to PSI Energy, Inc. are an integral part of these condensed consolidated financial statements.

PSI ENERGY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year to Date September 30	
	2005	2004
	(dollars in thousands) (unaudited)	
Operating Activities		
Net income	$ **151,081**	$ 114,739
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**199,155**	158,565
Deferred income taxes and investment tax credits – net	**13,225**	48,045
Allowance for equity funds used during construction	**(5,238)**	(423)
Regulatory asset/liability deferrals	**(143,891)**	(27,646)
Regulatory assets amortization	**33,102**	32,488
Accrued pension and other postretirement benefit costs	**(3,543)**	(7,493)
Cost of removal	**(12,530)**	(7,547)
Changes in current assets and current liabilities:		
Accounts and notes receivable	**(22,700)**	25,120
Fuel, emission allowances, and supplies	**(110,059)**	21,300
Prepayments	**253**	(820)
Accounts payable	**89,716**	(3,147)
Accrued taxes and interest	**56,346**	2,855
Other assets	**(38,164)**	2,856
Other liabilities	**18,733**	(7,228)
Net cash provided by operating activities	**225,486**	351,664
Financing Activities		
Change in short–term debt, including net affiliate notes	**243,102**	(34,857)
Issuance of long–term debt	**48,656**	—
Redemption of long–term debt	**(130,000)**	—
Contribution from parent	**200,000**	—
Retirement of preferred stock	**(31,075)**	—
Dividends on preferred stock	**(1,862)**	(1,940)
Dividends on common stock	**(111,245)**	(84,709)
Net cash provided by (used in) financing activities	**217,576**	(121,506)
Investing Activities		
Construction expenditures (less allowance for equity funds used during construction)	**(397,655)**	(217,413)
Withdrawal of restricted funds held in trust	**74,800**	14,861
Acquisitions and other investments	**(100,461)**	(2,063)
Net cash used in investing activities	**(423,316)**	(204,615)
Net increase in cash and cash equivalents	**19,746**	25,543
Cash and cash equivalents at beginning of period	**10,794**	6,565
Cash and cash equivalents at end of period	$ **30,540**	$ 32,108
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for:		
Interest (net of amount capitalized)	$ **85,455**	$ 74,245
Income taxes	$ **40,450**	$ 28,302

The accompanying notes as they relate to PSI Energy, Inc. are an integral part of these condensed consolidated financial

statements.

THE UNION LIGHT, HEAT AND POWER COMPANY

CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Quarter Ended September 30		Year to Date September 30	
	2005	2004	2005	2004
	(dollars in thousands) (unaudited)			
Operating Revenues				
Electric	$ **71,994**	$ 63,751	$ **183,002**	$ 176,698
Gas	**13,439**	11,119	**89,887**	85,243
Total Operating Revenues	**85,433**	74,870	**272,889**	261,941
Operating Expenses				
Electricity purchased from parent company for resale	**49,028**	45,461	**128,464**	124,768
Gas purchased	**6,573**	5,214	**57,397**	53,528
Operation and maintenance	**16,978**	14,893	**50,182**	42,448
Depreciation	**5,260**	4,992	**15,547**	14,944
Taxes other than income taxes	**534**	(567)	**3,618**	2,110
Total Operating Expenses	**78,373**	69,993	**255,208**	237,798
Operating Income	**7,060**	4,877	**17,681**	24,143
Miscellaneous Income – Net	**656**	294	**2,219**	1,035
Interest Expense	**1,703**	1,263	**5,150**	3,760
Income Before Taxes	**6,013**	3,908	**14,750**	21,418
Income Taxes	**2,379**	1,608	**5,409**	8,139
Net Income	$ **3,634**	$ 2,300	$ **9,341**	$ 13,279
Other Comprehensive Loss, Net of Tax	**(17)**	—	**(17)**	—
Comprehensive Income	$ **3,617**	$ 2,300	$ **9,324**	$ 13,279

The accompanying notes as they relate to The Union Light, Heat and Power Company are an integral part of these condensed financial statements.

THE UNION LIGHT, HEAT AND POWER COMPANY

CONDENSED BALANCE SHEETS

	September 30 2005	December 31 2004
	(dollars in thousands) (unaudited)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ **7,888**	$ 4,197
Notes receivable from affiliated companies	**4,800**	20,675
Accounts receivable less accumulated provision for doubtful accounts	**1,388**	1,451
Accounts receivable from affiliated companies	**537**	5,671
Inventory and supplies	**11,132**	8,500
Prepayments and other	**883**	285
Total Current Assets	**26,628**	40,779
Property, Plant, and Equipment – at Cost		
Utility plant in service		
Electric	**293,347**	285,828
Gas	**270,895**	256,667
Common	**42,071**	42,176
Total Utility Plant In Service	**606,313**	584,671
Construction work in progress	**14,275**	6,070
Total Utility Plant	**620,588**	590,741
Accumulated depreciation	**186,471**	176,726
Net Property, Plant, and Equipment	**434,117**	414,015
Other Assets		
Regulatory assets	**6,786**	10,070
Other	**2,628**	2,801
Total Other Assets	**9,414**	12,871
Total Assets	**$ 470,159**	$ 467,665

The accompanying notes as they relate to The Union Light, Heat and Power Company are an integral part of these condensed financial statements.

THE UNION LIGHT, HEAT AND POWER COMPANY

CONDENSED BALANCE SHEETS

	September 30 2005	December 31 2004
	(dollars in thousands) (unaudited)	
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current Liabilities		
Accounts payable	$ **5,441**	$ 16,028
Accounts payable to affiliated companies	**19,537**	22,236
Accrued interest	**1,644**	1,370
Notes payable to affiliated companies (Note 5)	**9,563**	11,246
Other	**10,094**	7,009
Total Current Liabilities	**46,279**	57,889
Non–Current Liabilities		
Long–term debt	**94,392**	94,340
Deferred income taxes	**60,592**	58,422
Unamortized investment tax credits	**2,436**	2,626
Accrued pension and other postretirement benefit costs	**17,535**	17,762
Regulatory liabilities	**34,392**	29,979
Other	**12,696**	14,136
Total Non–Current Liabilities	**222,043**	217,265
Commitments and Contingencies		
Total Liabilities	**268,322**	275,154
Common Stock Equity		
Common stock – $15.00 par value; authorized shares – 1,000,000; outstanding shares – 585,333 at September 30, 2005, and December 31, 2004	**8,780**	8,780
Paid–in capital	**23,455**	23,455
Retained earnings	**170,904**	161,562
Accumulated other comprehensive loss	**(1,302)**	(1,286)
Total Common Stock Equity	**201,837**	192,511
Total Liabilities and Shareholder's Equity	**$ 470,159**	$ 467,665

The accompanying notes as they relate to The Union Light, Heat and Power Company are an integral part of these condensed financial statements.

THE UNION LIGHT, HEAT AND POWER COMPANY

CONDENSED STATEMENTS OF CASH FLOWS

	Year to Date September 30	
	2005	**2004**
	(dollars in thousands) (unaudited)	
Operating Activities		
Net income	**$ 9,341**	$ 13,279
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**15,547**	14,944
Deferred income taxes and investment tax credits – net	**4,296**	3,865
Allowance for equity funds used during construction	**(445)**	12
Regulatory asset/liability deferrals	**944**	2,851
Regulatory assets amortization	**2,697**	1,046
Accrued pension and other postretirement benefit costs	**(227)**	(2,124)
Cost of removal	**(858)**	(1,267)
Changes in current assets and current liabilities:		
Accounts and notes receivable	**21,072**	17,364
Inventory and supplies	**(2,632)**	(2,853)
Prepayments	**(598)**	(148)
Accounts payable	**(13,286)**	(12,716)
Accrued taxes and interest	**3,398**	5,273
Other assets	**596**	409
Other liabilities	**(2,221)**	(1,178)
Net cash provided by operating activities	**37,624**	38,757
Financing Activities		
Change in short–term debt, including net affiliate notes	**(1,683)**	(8,338)
Net cash used in financing activities	**(1,683)**	(8,338)
Investing Activities		
Construction expenditures (less allowance for equity funds used during construction)	**(32,250)**	(24,619)
Net cash used in investing activities	**(32,250)**	(24,619)
Net increase in cash and cash equivalents	**3,691**	5,800
Cash and cash equivalents at beginning of period	**4,197**	1,899
Cash and cash equivalents at end of period	**$ 7,888**	$ 7,699
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for:		
Interest (net of amount capitalized)	**$ 4,638**	$ 3,814
Income taxes	**$ —**	$ 4

The accompanying notes as they relate to The Union Light, Heat and Power Company are an integral part of these condensed financial statements.

INDEX

NOTES TO CONDENSED FINANCIAL STATEMENTS

NOTES TO CONDENSED FINANCIAL STATEMENTS

In this report **Cinergy** (which includes **Cinergy Corp.** and all of our regulated and non–regulated subsidiaries) is, at times, referred to in the first person as "we," "our," or "us." In addition, when discussing **Cinergy's** financial information, it necessarily includes the results of The Cincinnati Gas & Electric Company (**CG&E**), PSI Energy, Inc. (**PSI**), The Union Light, Heat and Power Company (**ULH&P**) and all of **Cinergy's** other consolidated subsidiaries. When discussing **CG&E's** financial information, it necessarily includes the results of **ULH&P** and all of **CG&E's** other consolidated subsidiaries.

1. Organization and Summary of Significant Accounting Policies

(a) *Pending Merger*

On May 8, 2005, **Cinergy Corp.** entered into an agreement and plan of merger with Duke Energy Corporation (Duke), a North Carolina corporation, whereby **Cinergy Corp.** will be merged with Duke. Under the merger agreement, each share of **Cinergy Corp.** common stock will be converted into 1.56 shares of common stock of the newly formed company, Duke Energy Holding Corp.

The merger agreement has been approved by both companies' Boards of Directors. Consummation of the merger is subject to customary conditions, including, among others, the approval of the shareholders of both companies and the approvals of various regulatory authorities. See Note 13 for further information regarding the pending merger.

(b) *Presentation*

Our Condensed Financial Statements reflect all adjustments (which include normal, recurring adjustments) necessary in the opinion of the registrants 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 registrants' combined Form 10–K for the year ended December 31, 2004 (2004 10–K). Certain amounts in the 2004 Condensed Financial Statements have been reclassified to conform to the 2005 presentation.

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

- Valuing derivative contracts used in our energy marketing and trading activities;
- Evaluating the regulatory recoverability of various costs;
- Providing reserves for contingencies, including legal, environmental, and income taxes; and
- Evaluating various non–regulated fixed assets and investments for impairment.

These estimates and judgments are discussed more fully in "Critical Accounting Estimates" in our 2004 10–K. Actual results could differ, as these estimates and assumptions involve judgment about future events or performance.

(c) *Revenue Recognition*

(i) Utility Revenues

CG&E, **PSI**, and **ULH&P** (collectively, our utility operating companies) record *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 **Cinergy**, **CG&E**, **PSI**, and **ULH&P** as of September 30, 2005 and 2004, were as follows:

	2005	2004
	(in millions)	
Cinergy	$ **152**	$ 137
CG&E and subsidiaries	**80**	68
PSI	**72**	69
ULH&P	**13**	12

(ii) Energy Marketing and Trading Revenues

We market and trade electricity, natural gas, and other energy–related products. Many of the contracts associated with these products qualify as derivatives in accordance with Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (Statement 133). We designate derivative transactions as either trading or non–trading at the time they are originated in accordance with Emerging Issues Task Force Issue 02–3, *Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities*. Trading contracts are reported on a net basis and non–trading contracts are reported on a gross basis. Net reporting requires presentation of realized and unrealized gains and losses on trading derivatives on a net basis in *Operating Revenues*. Gross reporting requires presentation of sales contracts in *Operating Revenues* and purchase contracts in *Fuel, emission allowances, and purchased power* expense or *Gas purchased* expense.

(iii) Other Operating Revenues

Cinergy and **CG&E** recognize revenue from coal origination, which represents marketing of physical coal. These revenues are included in *Other Operating Revenues* on the Condensed Consolidated Statements of Income. *Other Operating Revenues* for **Cinergy** also includes sales of synthetic fuel.

(d) *Derivatives*

Cinergy designates derivatives as fair value hedges for certain volumes of our natural gas held in storage. Under this accounting election, changes in the fair value of both the derivative as well as the hedged item (the specified gas held in storage) are included in *Gas Operating Revenues* in **Cinergy's** Condensed Consolidated Statements of Income. We assess the effectiveness of the derivatives in offsetting the change in fair value of the gas held in storage on a quarterly basis. Selected information on **Cinergy's** hedge accounting activities for the quarter and year to date ended September 30, 2005 and 2004 were as follows:

	Quarter		Year to Date	
	2005	2004	2005	2004
	(in millions)			
Portion of loss on hedging instruments determined to be ineffective	$ **(25)**	$ (3)	$ (24)	$ —
Portion of gain (loss) on hedging instruments related to changes in time value excluded from assessment of ineffectiveness	**28**	(6)	24	(8)

Total included in *Gas Operating Revenues*	**$ 3**	$ (9)	$ —	$ (8)

(e) *Accounting Changes*

(i) *Asset Retirement Obligations*

In March 2005, the Financial Accounting Standards Board (FASB) issued Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (Interpretation 47), an interpretation of Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* (Statement 143). Statement 143 requires recognition of legal obligations associated with the retirement or removal of long–lived assets at the time the obligations are incurred. Interpretation 47 clarifies that a conditional asset retirement obligation (which occurs when the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity) is a legal obligation within the scope of Statement 143. As such, the fair value of a conditional asset retirement obligation must be recognized as a liability when incurred if the liability's fair value can be reasonably estimated. Interpretation 47 also clarifies when sufficient information exists to reasonably estimate the fair value of an asset retirement obligation.

Cinergy will adopt Interpretation 47 on December 31, 2005. Upon adoption of Interpretation 47 **Cinergy** will recognize the impact, if any, of additional liabilities for conditional asset retirement obligations as a cumulative effect of a change in accounting principle. We continue to evaluate the impact of adopting this new interpretation and are currently unable to predict whether the implementation of this accounting standard will be material to our financial position or results of operations.

(ii) Share–Based Payment

In December 2004, the FASB issued a replacement of Statement of Financial Accounting Standards No. 123, *Accounting for Stock–Based Compensation* (Statement 123), *Statement of Financial Accounting Standards No. 123 (revised 2004), Share–Based Payment* (Statement 123R). This standard will require, among other things, accounting for all stock–based compensation arrangements under the fair value method.

In 2003, we prospectively adopted accounting for our stock–based compensation plans using the fair value recognition provisions of Statement 123, as amended by Statement of Financial Accounting Standards No. 148, *Accounting for Stock–Based Compensation–Transition and Disclosure*, for all employee awards granted or with terms modified on or after January 1, 2003. Therefore, the impact of implementation of Statement 123R on stock options within our stock–based compensation plans is not expected to be material. Statement 123R contains certain provisions that will modify the accounting for various types of stock–based compensation other than stock options. We are in the process of evaluating the impact of this new standard on our plans. **Cinergy** will adopt Statement 123R on January 1, 2006.

(iii) Income Taxes

In October 2004, the American Jobs Creation Act (AJCA) was signed into law. The AJCA includes a one–time deduction of 85 percent of certain foreign earnings that are repatriated, as defined in the AJCA. Based on our analysis, repatriation pursuant to this provision will not have a material impact on our financial position or results of operations.

2. Common Stock

As discussed in the 2004 10–K, in January and February 2005, **Cinergy Corp.** issued a total of 9.2 million shares of common stock pursuant to certain stock purchase contracts that were issued as a component of combined securities in December 2001. Net proceeds from the transaction of $316 million were used to reduce short–term debt.

Cinergy issues new **Cinergy Corp.** common stock shares to satisfy obligations under certain of its employee stock plans and the Cinergy Corp. Direct Stock Purchase and Dividend Reinvestment Plan. During the nine months ended September 30, 2005, **Cinergy** issued 2.5 million shares under these plans.

In June 2005, **Cinergy Corp.** contributed $200 million in capital to **PSI**. The capital contribution was used to repay short–term indebtedness and is consistent with supporting **PSI's** current credit ratings.

Cash dividends declared for the quarter ended September 30, 2005 include dividends of $0.48 per share which were declared by the board of directors on July 21 and dividends of $0.48 per share which were declared on September 30.

3. Cumulative Preferred Stock

In August 2005, **PSI** redeemed all of its $31.075 million notional amount 6.875% Cumulative Preferred Stock.

4. Long–Term Debt

In August 2005, **PSI** redeemed all of its $50 million 6.50% Synthetic Putable Yield Securities due August 1, 2026 through the exercise of call provisions within the securities.

In August 2005, **PSI** redeemed all of its $50 million principal amount Series ZZ First Mortgage secured 5 ¾% Series 1993B Environmental Revenue Refunding Bonds, due February 15, 2028. **PSI** redeemed these bonds with the proceeds from the issuance by the Indiana Finance Authority of $50 million principal amount of its Environmental Revenue Refunding Bonds, Series 2005A, due July 1, 2035. The bonds bear a fixed rate of interest through 2035 of 4.50 percent.

In September 2005, **PSI** redeemed all of its $30 million principal amount 7.125% Series AAA First Mortgage Bonds, due 2024.

In October 2005, **PSI** borrowed the proceeds from the Indiana Finance Authority's issuance of $50 million principal amount of its Environmental Revenue Bonds, Series 2005C, due October 1, 2040. The initial interest rate for Series 2005C Bonds was 2.75%. This rate will initially reset on December 2, 2005 and then every 35 days by auction thereafter. Because the holders cannot tender the Series 2005C Bonds for purchase by the issuer while the Series 2005C Bonds are in the auction rate mode, these debt obligations are classified as *Long–term debt.* **PSI** is using the proceeds from these borrowings to assist in the acquisition and construction of solid waste disposal facilities located at various generating stations in Indiana.

Also in October 2005, **PSI** issued $350 million principal amount of its 6.12% Debentures due October 15, 2035. Proceeds from this issuance were used for general corporate purposes and the repayment of outstanding short–term indebtedness.

5. Notes Payable and Other Short–term Obligations

Cinergy Corp.'s short–term borrowings consist primarily of unsecured revolving lines of credit and the sale of commercial paper. **Cinergy Corp.'s** revolving credit facility and commercial paper program also support the short–term borrowing needs of **CG&E**, **PSI**, and **ULH&P**. In addition, **Cinergy Corp.**, **CG&E**, and **PSI** maintain uncommitted lines of credit. These facilities are not firm sources of capital but rather informal agreements to lend money, subject to availability, with pricing determined at the time of advance. The following table summarizes our *Notes payable and other short–term obligations* and *Notes payable to affiliated companies*:

	September 30, 2005			December 31, 2004		
	Established Lines	Outstanding	Weighted Average Rate	Established Lines	Outstanding	Weighted Average Rate
	(dollars in millions)					
Cinergy						
Cinergy Corp.						
Revolving line(1)	$ 2,000	$ —	—%	$ 2,000	$ —	—%
Uncommitted lines	40	—	—	40	—	—
Commercial paper(2)		874	3.88		676	2.45
Utility operating companies						
Uncommitted lines	75	—	—	75	—	—
Pollution control notes		248	3.20		248	2.43
Non–regulated subsidiaries						
Revolving lines(3)	162	45	4.29	158	8	5.67
Short–term debt		7	9.39		2	4.50
Pollution control notes		25	3.10		25	2.30
Cinergy Total		$ 1,199	3.77%		$ 959	2.47%
CG&E and subsidiaries						
Uncommitted lines	$ 15	$ —	—%	$ 15	$ —	—%
Pollution control notes		112	3.11		112	2.34
Money pool		205	3.87		180	2.38
CG&E Total		$ 317	3.60%		$ 292	2.36%
PSI						
Uncommitted lines	$ 60	$ —	—%	$ 60	$ —	—%
Pollution control notes		136	3.28		136	2.49
Money pool		373	3.87		130	2.38
PSI Total		$ 509	3.71%		$ 266	2.44%
ULH&P						
Money pool		$ 10	3.87%		$ 11	2.38%
ULH&P Total		$ 10	3.87%		$ 11	2.38%

(1) Consists of a five–year facility which was entered into in September 2005, matures in September 2010, and contains $500 million sublimits each for **CG&E** and **PSI**, and a $65 million sublimit for **ULH&P** (which may be increased to $100 million upon the completion of its pending transaction with **CG&E** in which **ULH&P** will acquire interests in three of **CG&E's** electric generating stations. See Note 12(a) for further information regarding this transaction.)

(2) **Cinergy Corp.'s** commercial paper program limit is $1.5 billion. The commercial paper program is supported by **Cinergy Corp.'s** revolving line of credit.

(3) Of the $162 million and $158 million, in 2005 and 2004, respectively, $150 million relates to a three–year senior revolving credit facility that Cinergy Canada, Inc. entered into in December 2004 that matures in December 2007.

Short–term Notes

In September 2005, **Cinergy Corp.**, **CG&E**, **PSI,** and **ULH&P** entered into a five–year revolving credit facility with a termination date of September 2010 which can be extended twice, each extension for an additional one–year period. The new credit agreement replaces two existing credit agreements, one dated April 2004 and one dated December 2004.

The new credit agreement provides that the pending merger between Duke and **Cinergy Corp.** will not be considered a fundamental change or a "Change of Control" for purposes of the credit agreement.

For purposes of making borrowings the new credit agreement does not require certain environmental, litigation or material adverse change representations and warranties that were in the credit agreements it replaced.

At September 30, 2005, **Cinergy Corp.** had $898 million 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			$ 874	
Letter of credit support			228	
Total(1)		$ 2,000	1,102	$ 898

(1) In September 2005, **Cinergy Corp.** successfully placed a $2 billion senior unsecured revolving credit facility which replaced the $1 billion five–year facility, set to expire in December 2009, and the $1 billion three–year facility, set to expire in April 2007. **CG&E** and **PSI** each have $500 million borrowing sublimits on this facility, and **ULH&P** has a $65 million borrowing sublimit on this facility (which may be increased to $100 million upon the completion of its pending transaction with **CG&E** in which **ULH&P** will acquire interests in three of **CG&E's** electric generating stations. See Note 12(a) for further information regarding this transaction.)

In our credit facility, **Cinergy Corp.** has covenanted to maintain:

- a consolidated net worth of $2 billion; and
- a ratio of consolidated indebtedness to consolidated total capitalization not in excess of 65 percent.

As part of **CG&E's** $500 million sublimit under the $2 billion five–year credit facility, **CG&E** has covenanted to maintain:

- a consolidated net worth of $1 billion; and

- a ratio of consolidated indebtedness to consolidated total capitalization not in excess of 65 percent.

As part of **PSI's** $500 million sublimit under the $2 billion five–year credit facility, **PSI** has covenanted to maintain:

- a consolidated net worth of $900 million; and
- a ratio of consolidated indebtedness to consolidated total capitalization not in excess of 65 percent.

As part of **ULH&P's** $65 million sublimit under the $2 billion five–year credit facility, **ULH&P** has covenanted to maintain:

- a consolidated net worth of $150 million, provided that in the event that the sublimit has been increased to $100 million the consolidated net worth would be $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.

The latter two events, however, are subject to dollar–based materiality thresholds. As of September 30, 2005, **Cinergy**, **CG&E**, **PSI,** and **ULH&P** are in compliance with all of their debt covenants.

Variable Rate Pollution Control Notes

In October 2005, **PSI** borrowed the proceeds from the Indiana Finance Authority's issuance of $50 million principal amount of its Environmental Revenue Bonds, Series 2005B, due October 1, 2040. Holders of the Series 2005B Bonds are entitled to credit enhancement in the form of a standby letter of credit, which if drawn upon, provides for the payment of both interest and principal on the Series 2005B Bonds. The initial interest rate for the Series 2005B Bonds was 2.75% and is reset weekly. Because the holders have the right to have their Bonds redeemed on a weekly basis, they are classified as *Notes payable and other short–term obligations.* **PSI** is using the proceeds from these borrowings to assist in the acquisition and construction of solid waste disposal facilities located at various generating stations in Indiana.

6. Energy Trading Credit Risk

Cinergy's extension of credit for energy marketing and trading is governed by a Corporate Credit Policy. Written guidelines approved by **Cinergy's** Risk Policy Committee document the management approval levels for credit limits, evaluation of creditworthiness, and credit risk mitigation procedures. Exposures to credit risks are monitored daily by the Corporate Credit Risk function, which is independent of all trading operations. As of September 30, 2005, 92 percent of the credit exposure, net of credit collateral, related to energy trading and marketing activity was with counterparties rated investment grade or the counterparties' obligations were guaranteed or secured by an investment grade entity. The majority of these investment grade counterparties are externally rated. If a counterparty has an external rating, the lower of Standard & Poor's Ratings Services or Moody's Investors Service is used; otherwise, **Cinergy's** internal rating of the counterparty is used. The remaining eight percent represents credit exposure of $99 million with counterparties rated non–investment grade.

As of September 30, 2005, **CG&E** had a concentration of trading credit exposure of $54 million with one counterparty accounting for greater than ten percent of **CG&E's** total trading credit exposure. This counterparty is rated investment grade.

Energy commodity prices can be extremely volatile and the market can, at times, lack liquidity. Because of these issues, credit risk for energy commodities is generally greater than with other commodity trading.

We continually review and monitor our credit exposure to all counterparties and secondary counterparties. When appropriate, we adjust our credit reserves to attempt to compensate for increased credit risk within the industry. Counterparty credit limits may be adjusted on a daily basis in response to changes in a counterparty's financial status or public debt ratings.

7. Financial Instruments

We enter into financial derivative contracts for the purpose of managing financial instrument risk. Forward starting swaps are a type of financial derivative that mitigates volatility associated with fluctuations in interest rates between the time of execution of the swap and the date of an expected debt issuance.

In June 2005, **PSI** executed two forward starting swaps with a combined notional amount of $325 million. The forward starting swaps effectively fix the benchmark interest rate of an anticipated issuance of fixed–rate debt from June 2005 through June 2006, the expected date of issuance of the debt securities. Both forward starting swaps have been designated as cash flow hedges under the provisions of Statement 133. As the terms of these swap agreements mirror the terms of the forecasted debt issuance, we anticipate they will be highly effective hedges. Changes in the fair value of these swaps are recorded in *Accumulated other comprehensive income (loss).*

8. Pension and Other Postretirement Benefits

As discussed in the 2004 10–K, **Cinergy Corp.** sponsors both pension and other postretirement benefits plans. Our 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 income 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. In addition, we sponsor non–qualified pension plans that cover officers, certain other key employees, and non–employee directors. We 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.

Qualified pension benefit contributions for the first nine months of 2005 were $102 million, which is an increase from the $72 million disclosed in the 2004 10–K. This $30 million increase is primarily the result of a change in the retirement age assumption which increased the near–term funding estimates. No additional contributions are expected for the remainder of 2005.

Our benefit plans' costs for the quarter and year to date ended September 30, 2005 and 2004, included the following components:

	Qualified Pension Benefits		Non–Qualified Pension Benefits		Other Postretirement Benefits	
	2005	2004	2005	2004	2005	2004
	(in millions)					
Quarter Ended September 30						
Service cost	$ **9.6**	$ 8.8	$ **1.4**	$ 1.2	$ **1.6**	$ 1.2
Interest cost	**24.1**	22.1	**1.8**	1.7	**5.7**	5.4
Expected return on plans' assets	**(22.0)**	(20.1)	—	—	—	—
Amortization of transition (asset) obligation	**(0.1)**	(0.1)	—	—	**0.1**	0.1
Amortization of prior service cost	**1.1**	1.1	**0.5**	0.5	**(0.1)**	—
Recognized actuarial (gain) loss	**2.0**	0.5	**0.6**	0.7	**2.7**	1.9
Net periodic benefit cost	$ **14.7**	$ 12.3	$ **4.3**	$ 4.1	$ **10.0**	$ 8.6
Year to Date September 30						
Service cost	$ **28.8**	$ 26.4	$ **4.2**	$ 3.6	$ **4.8**	$ 3.8
Interest cost	**72.2**	66.3	**5.4**	5.1	**17.1**	16.8
Expected return on plans' assets	**(66.1)**	(60.3)	—	—	—	—
Amortization of transition (asset) obligation	**(0.2)**	(0.3)	—	—	**0.3**	1.0
Amortization of prior service cost	**3.4**	3.3	**1.5**	1.5	**(0.5)**	—
Recognized actuarial (gain) loss	**5.9**	1.5	**1.8**	2.1	**8.2**	5.9
Net periodic benefit cost	$ **44.0**	$ 36.9	$ **12.9**	$ 12.3	$ **29.9**	$ 27.5

The net periodic benefit costs by registrant for the quarter and year to date ended September 30, 2005 and 2004, were as follows:

	Qualified Pension Benefits		Non–Qualified Pension Benefits		Other Postretirement Benefits	
	2005	2004	2005	2004	2005	2004
	(in millions)					
Quarter Ended September 30						
Cinergy(1)	$ **14.7**	$ 12.3	$ **4.3**	$ 4.1	$ **10.0**	$ 8.6
CG&E and subsidiaries	**4.4**	3.7	**0.1**	0.2	**2.6**	2.0
PSI	**3.8**	3.2	**0.3**	0.2	**4.8**	4.7
ULH&P	**0.4**	0.4	—	—	**0.3**	0.2
Year to Date September 30						
Cinergy(1)	$ **44.0**	$ 36.9	$ **12.9**	$ 12.3	$ **29.9**	$ 27.5
CG&E and subsidiaries	**13.1**	11.1	**0.5**	0.6	**7.8**	6.6
PSI	**11.3**	9.6	**0.6**	0.6	**14.7**	14.7

ULH&P	**1.2**	1.2	**—**	—	**0.8**	0.6

(1) The results of **Cinergy** also include amounts related to non–registrants.

9. 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. We currently estimate that we will incur capital costs of approximately $4 million in addition to $820 million already incurred to comply with this program.

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. At the same time, the EPA issued the Clean Air Mercury Rule (CAMR) which requires reductions in mercury emissions from coal–fired power plants beginning in 2010. 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 CAIR and CAMR; however, the states have the ability to introduce more stringent requirements if desired. Under both CAIR and 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. In August 2005, the EPA proposed a Federal Implementation Plan (FIP) to act as a backstop to ensure that states implement the CAIR in a timely manner. If a state fails to develop a CAIR SIP, the EPA intends to finalize the FIP in time to implement phase 1 of CAIR for the state by 2009 and 2010 for NO_X and SO_2, respectively. Numerous states, environmental organizations, industry groups, including some of which **Cinergy** is a member, and individual companies have challenged various portions of both rules. Those challenges are currently pending in the Federal Circuit Court for the District of Columbia. On October 21, 2005, the EPA agreed to reconsider certain aspects of the CAMR and 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 2005–2009 time period, we expect to spend approximately $1.8 billion to reduce mercury, SO_2, and NO_X emissions. These estimates 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 60 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. See (b)(*i*) for more details. **CG&E** would receive partial recovery of depreciation and financing costs related to environmental compliance projects for 2005–2008 through its recently approved rate stabilization plan (RSP). See (b)(*ii*) for more details.

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. We expect a final FIP and ruling from the EPA on this matter by March 2006. It is unclear at this time whether any additional reductions would be necessary beyond those required under the CAIR.

(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 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. 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 the discretion to accept or not accept the appeal at this time. There are a number of other legal issues currently before the district court judge, and the case is currently set for trial by jury commencing in February 2006.

In March 2000, the United States also filed in the United States District Court for the Southern District of Ohio an amended complaint in a separate lawsuit alleging violations of the CAA relating to PSD, NSR, and Ohio SIP requirements regarding various generating stations, including a generating station operated by Columbus Southern Power Company (CSP) and jointly–owned by CSP, The Dayton Power and Light Company (DP&L), and **CG&E**. The EPA is seeking injunctive relief and civil penalties of up to $27,500 per day for each violation. This suit is

being defended by CSP. In April 2001, the United States District Court for the Southern District of Ohio in that case ruled that the Government and the intervening plaintiff environmental groups cannot seek monetary damages for alleged violations that occurred prior to November 3, 1994; however, they are entitled to seek injunctive relief for such alleged violations. Neither party appealed that decision. This matter was heard in trial in July 2005. A decision is expected by the end of 2005.

In addition, **Cinergy** and **CG&E** have been informed by DP&L that in June 2000, the EPA issued a Notice of Violation (NOV) to DP&L for alleged violations of PSD, NSR, and Ohio SIP requirements at a station operated by DP&L and jointly-owned by DP&L, CSP, and **CG&E**. The NOV indicated the EPA may (1) issue an order requiring compliance with the requirements of the Ohio SIP, or (2) bring a civil action seeking injunctive relief and civil penalties of up to $27,500 per day for each violation. In September 2004, Marilyn Wall and the Sierra Club brought a lawsuit against **CG&E**, DP&L and CSP for alleged violations of the CAA at this same generating station. This case is currently in discovery.

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. We are not able to predict whether resolution of these matters would have a material effect on our financial position or results of operations.

(v) Selective Catalytic Reduction Units at Gibson Station

In May 2004, SCRs and other pollution control equipment became operational at Units 4 and 5 of **PSI's** Gibson Station in accordance with compliance deadlines under the NO_X SIP Call. In June and July 2004, Gibson Station temporarily shut down the equipment on these units due to a concern that portions of the plume from those units' stacks appeared to break apart and descend to ground level, at certain times, under certain weather conditions. As a result, and, working with the City of Mt. Carmel, Illinois, Illinois EPA, Indiana Department of Environmental Management (IDEM), EPA, and the State of Illinois, we developed a protocol regarding the use of the SCRs while we explored alternatives to address this issue. After the protocol was finalized, the Illinois Attorney General brought an action in Wabash County Circuit Court against **PSI** seeking a preliminary injunction to enforce the protocol. In August 2004, the court granted that preliminary injunction. **PSI** is appealing that decision to the Fifth District Appellate Court, but we cannot predict the ultimate outcome of that appeal or of the underlying action by the Illinois Attorney General.

In April 2005, we completed the installation of a permanent control system to address this issue. The new control system will support all five Gibson generating units. We will seek recovery of any related capital as well as increased emission allowance expenditures through the regulatory process. We do not believe costs related to resolving this matter will have a material impact on our financial position or results of operations.

(vi) *Zimmer Station Lawsuit*

In November 2004, a citizen of the Village of Moscow, Ohio, the town adjacent to **CG&E's** Zimmer Station, brought a purported class action in the United States District Court for the Southern District of Ohio seeking monetary damages and injunctive relief against **CG&E** for alleged violations of the CAA, the Ohio SIP, and Ohio laws against nuisance and common law nuisance. The plaintiffs have filed a number of additional notices of intent to sue and two lawsuits raising claims similar to those in the original claim. One lawsuit was dismissed on procedural grounds and the remaining two have been consolidated. At this time, we cannot predict whether the outcome of this matter will have a material impact on our financial position or results of operations. We intend to defend this lawsuit vigorously in court.

(vii) *Manufactured Gas Plant (MGP) Sites*

Coal tar residues, related hydrocarbons, and various metals have been found in at least 22 sites that **PSI** or its predecessors previously owned and sold in a series of transactions with Northern Indiana Public Service Company (NIPSCO) and Indiana Gas Company, Inc. (IGC). The 22 sites are in the process of being studied and will be remediated, if necessary. In 1998 NIPSCO, IGC, and **PSI** entered into Site Participation and Cost Sharing Agreements to allocate liability and responsibilities between them. Thus far, **PSI** has primary responsibility for investigating, monitoring and, if necessary, remediating nine of these sites. In December 2003, **PSI** entered into a voluntary remediation plan with the state of Indiana, providing a formal framework for the investigation and cleanup of the sites. The IDEM oversees investigation and cleanup of all of these sites.

In April 1998, **PSI** filed suit in Hendricks County in the state of Indiana against its general liability insurance carriers. **PSI** sought a declaratory judgment to obligate its insurance carriers to (1) defend MGP claims against **PSI** and compensate **PSI** for its costs of investigating, preventing, mitigating, and remediating damage to property and paying claims related to MGP sites; or (2) pay **PSI's** cost of defense. **PSI** settled, in principle, its claims with all but one of the insurance carriers in January 2005 prior to commencement of the trial. With respect to the lone insurance carrier, a jury returned a verdict against **PSI** in February 2005. **PSI** has appealed this decision. At the present time, **PSI** cannot predict the outcome of this litigation, including the outcome of the appeal.

PSI has accrued costs related to investigation, remediation, and groundwater monitoring for those sites where such costs are probable and can be reasonably estimated. We will continue to investigate and remediate the sites as outlined in the voluntary remediation plan. As additional facts become known and investigation is completed, we will assess whether the likelihood of incurring additional costs becomes probable. Until all investigation and remediation is complete, we are unable to determine the overall impact on our financial position or results of operations.

CG&E and **ULH&P** have performed site assessments on certain of their sites where we believe MGP activities have occurred at some point in the past and have found no imminent risk to the environment. At the present time, **CG&E** and **ULH&P** cannot predict whether investigation and/or remediation will be required in the future at any of these sites.

(viii) *Asbestos Claims Litigation*

CG&E and **PSI** have been named as defendants or co–defendants in lawsuits related to asbestos at their electric generating stations. Currently, there are approximately 130 pending lawsuits. In these lawsuits, plaintiffs claim to have been exposed to asbestos–containing products in the course of their work at the **CG&E** and **PSI** generating stations. The plaintiffs further claim that as the property owner of the generating stations, **CG&E** and **PSI** should be held liable for their injuries and illnesses based on an alleged duty to warn and protect them from any asbestos exposure. A majority of the lawsuits to date have been brought against **PSI**. The impact on **CG&E's** and **PSI's** financial position or results of operations of these cases to date has not been material.

Of these lawsuits, one case filed against **PSI** has been tried to verdict. The jury returned a verdict against **PSI** in the amount of approximately $500,000 on a negligence claim and a verdict for **PSI** on punitive damages. **PSI** appealed this decision up to the Indiana Supreme Court. In July 2005, the Indiana Supreme Court upheld the jury's verdict. In addition, **PSI** has settled a number of other lawsuits for amounts, which neither individually nor in the aggregate, are material to **PSI's** financial position or results of operations. We are currently evaluating the effect of the Indiana Supreme Court's ruling on our existing docket of cases.

At this time, **CG&E** and **PSI** are not able to predict the ultimate outcome of these lawsuits or the impact on **CG&E's** and **PSI's** financial position or results of operations.

(ix) Dunavan Waste Superfund Site

In July and October 2005, **PSI** received notices from the EPA that it has been identified as a de minimus potentially responsible party under the Comprehensive Environmental Response, Compensation, and Liability Act at the Dunavan Waste Oil Site in Oakwood, Vermilion County, Illinois. At this time, **PSI** does not have any further information regarding the scope of potential liability associated with this matter.

(x) Ontario, Canada Lawsuit

We understand through newspaper reports that a class action lawsuit was filed in Superior Court in Ontario, Canada against us and approximately 20 other utility and power generation companies alleging various claims relating to environmental emissions from coal–fired power generation facilities in the United States and Canada and damages of approximately $50 billion, with continuing damages in the amount of approximately $4 billion annually. We understand that the lawsuit also claims entitlement to punitive and exemplary damages in the amount of $1 billion. We have not yet been served in this lawsuit, however, if served, we intend to defend this lawsuit vigorously in court. We are not able to predict whether resolution of this matter would have a material effect on our financial position or results of operations.

(b) *Regulatory*

(i) PSI Environmental Compliance Case

In November 2004, **PSI** filed a compliance plan case with the Indiana Utility Regulatory Commission (IURC) seeking approval of **PSI's** plan for complying with SO_2, NO_X, and mercury emission reduction requirements discussed previously in (a)(*i*), including approval of cost recovery and an overall rate of return of eight percent related to certain projects. **PSI** requested approval to recover the financing, depreciation, and operation and maintenance costs, among others, related to $1.08 billion in capital projects designed to reduce emissions of SO_2, NO_X, and mercury at **PSI's** coal–burning generating stations. An evidentiary hearing was held in May 2005 and a final IURC Order is expected in the fourth quarter of 2005.

(ii) CG&E Electric Rate Filings

In response to the Public Utilities Commission of Ohio (PUCO's) request that **CG&E** propose a RSP to mitigate the potential for significant rate increases when the market development period comes to an end, **CG&E** filed a proposed RSP which was approved by the PUCO in November 2004. The major features of the RSP are as follows:

- **Provider of Last Resort (POLR) Charge: CG&E** began collecting a POLR charge from non–residential customers effective January 1, 2005, and will begin to collect a POLR charge from residential customers effective January 1, 2006. The POLR charge includes several discrete charges, the most significant being an annually adjusted component (AAC) intended to provide cost recovery primarily for environmental compliance expenditures; an infrastructure maintenance fund charge (IMF) intended to provide compensation to **CG&E** for committing its physical capacity to meet its POLR obligation; and a system reliability tracker (SRT) intended to provide cost recovery for capacity purchases, purchased power, reserve capacity, and related market costs for purchases to meet capacity needs. We anticipate the collection of the AAC and IMF will result in an approximate $36 million increase in revenues in 2005 and an additional $50 million in 2006. The SRT will be billed based on dollar–for–dollar costs incurred. A portion of these charges is avoidable by certain customers who switch to an alternative generation supplier and provide notice to **CG&E** that they will remain switched through December 31, 2008. Therefore, these estimates are subject to change, depending on the level of switching that occurs in future periods. **CG&E** has filed an application for approval of its SRT (2005 actual and 2006 estimated) with the PUCO. In October, a settlement agreement unopposed by any party to the case was filed with the PUCO providing for implementation of the 2006 SRT at a 15 percent reserve margin and approval of the 2005 SRT price. A Commission decision is expected on this matter in the fourth quarter of 2005. In 2007 and 2008, **CG&E** could seek additional increases in the AAC component of the POLR based on **CG&E's** actual net costs for the specified expenditures.

- **Generation Rates and Fuel Recovery:** A new rate has been established for generation service after the market development period ends. In addition, a fuel cost recovery mechanism that is adjusted quarterly has been established to recover costs for fuel, emission allowances, and certain purchased power costs, that exceed the amount originally included in the rates frozen in the **CG&E** transition plan. These new rates were applied to non–residential customers beginning January 1, 2005 and will be applied to residential customers beginning January 1, 2006. The fuel clause recovery mechanism was recently audited by the PUCO's auditor. The audit recommended alternate methodologies for administration of the fuel clause recovery mechanism that vary from **CG&E's** current practice. A hearing before PUCO hearing examiners was held in early November at which the PUCO staff took positions contrary to **CG&E's** current practice. **CG&E** officials also testified at the hearing concerning our current practices. An order from the PUCO on these matters is expected in the fourth quarter of this year. While we cannot predict the outcome of these proceedings, an outcome resulting in administrative methodologies substantially different from those being employed by **CG&E** could have a material impact on **CG&E** and **Cinergy's** results of operations.

- **Generation Rate Reduction:** The existing five percent generation rate reduction required by statute for residential customers implemented under **CG&E's** 2000 plan will end on December 31, 2005.

- **Transmission Cost Recovery:** A transmission cost recovery mechanism was established beginning January 1, 2005 for non–residential customers and will be established beginning January 1, 2006 for residential customers. The transmission cost recovery mechanism is designed to permit **CG&E** to recover Midwest Independent Transmission System Operator, Inc. charges, all Federal Energy Regulatory Commission (FERC) approved transmission costs, and all congestion costs allocable to retail ratepayers that are provided service by **CG&E**.

- **Distribution Cost Recovery:** **CG&E** will have the ability to defer certain capital–related distribution costs from July 1, 2004 through December 31, 2005 with recovery from non–residential customers to be provided through a rider beginning January 1, 2006 through December 31, 2010.

CG&E had also filed an electric distribution base rate case for residential and non–residential customers to be effective January 1, 2005. Under the terms of the RSP described previously, **CG&E** withdrew this base rate case and, in February 2005, **CG&E** filed a new distribution base rate case with rates to become effective January 1, 2006. The originally requested amount of the increase was $78 million, which was subsequently updated to $69.5 million. On September 9, 2005, the PUCO issued its Staff Report recommending a revenue increase range between approximately $43 million and $49 million. The hearing for this case is set to begin December 12, 2005.

In March 2005, the Ohio Consumers' Counsel asked the Ohio Supreme Court to overturn the RSP. We expect the court to decide the case in 2006; however, at this time we cannot predict the outcome of this matter.

(iii) ULH&P Gas Rate Case

In 2002, the Kentucky Public Service Commission (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 up to ten years. The tracking mechanism allows **ULH&P** to recover depreciation costs and rate of return annually over the life of the deferred assets. As of September 30, 2005 we have capitalized $60 million in costs associated with the accelerated gas main replacement program through this tracking mechanism of which **ULH&P** has recovered $8.6 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 the Company and the KPSC filed with the Franklin Circuit Court, requesting dismissal of the case for failure to prosecute by the 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 increase in base rates. The KPSC did not rule on this request by October 1, 2005 causing the initial tracking mechanism to expire. In accordance with Kentucky law, **ULH&P** implemented the full amount of the requested rate increase on October 1, 2005. Any revenue collected pursuant to the rate increase will be subject to refund if the KPSC does not approve the full requested amount. **ULH&P** expects that the KPSC will issue its decision during the fourth quarter of 2005.

(iv) Gas Distribution Plant

In June 2003, the PUCO approved an amended settlement agreement between **CG&E** and the PUCO Staff in a gas distribution safety case arising out of a gas leak at a service head–adapter (SHA) style riser on **CG&E's** distribution system. The amended settlement agreement required **CG&E** to expend a minimum of $700,000 to replace SHA risers by December 31, 2003, and to file a comprehensive plan addressing all SHA risers on its distribution system. **CG&E** filed a comprehensive plan with the PUCO in December 2004 providing for replacement of approximately 5,000 risers in 2005 with continued monitoring thereafter. **CG&E** estimates the replacement cost of these risers will not be material. In April 2005, the PUCO issued an order closing this case. The PUCO issued a separate order opening a statewide investigation into riser leaks in gas pipeline systems throughout Ohio. At this time, **Cinergy** and **CG&E** cannot predict the outcome or the impact of the statewide investigation.

(c) *Other*

(i) Energy Market Investigations

In August 2003, **Cinergy**, along with Cinergy Marketing & Trading, LP (Marketing & Trading) and 37 other companies, were named as defendants in civil litigation filed as a purported class action on behalf of all persons who purchased and/or sold New York Mercantile Exchange natural gas futures and options contracts between January 1, 2000, and December 31, 2002. The complaint alleges that improper price reporting caused damages to the class. Two similar lawsuits have subsequently been filed, and these three lawsuits have been consolidated for pretrial purposes. The plaintiffs filed a consolidated class action complaint in January 2004. **Cinergy's** motion to dismiss was granted in September 2004 leaving only Marketing & Trading in the lawsuit. We intend to defend this lawsuit vigorously in court.

Cinergy continues to provide various Assistant United States Attorneys with information with respect to their investigations into energy market practices.

At this time, we do not believe the outcome of these investigations and litigation will have a material impact on **Cinergy's** financial position or results of operations.

(ii) Synthetic Fuel Production

Cinergy produces from two facilities synthetic fuel that qualifies for tax credits (through 2007) in accordance with Section 29 of the Internal Revenue Code (IRC) if certain requirements are satisfied.

Cinergy's sale of synthetic fuel has generated $306 million in tax credits through September 30, 2005 of which $27 million related to the new facility purchased in the second quarter of 2005. The Internal Revenue Service (IRS) is currently auditing **Cinergy** for the 2002 and 2003 tax years and has recently challenged certain other taxpayers' Section 29 tax credits. We expect the IRS will evaluate the various key requirements for claiming our Section 29 credits related to synthetic fuel. If the IRS challenges our Section 29 tax credits related to synthetic fuel, and such challenges were successful, this could result in the disallowance of up to all $306 million in previously claimed Section 29 tax credits for synthetic fuel produced by the applicable **Cinergy** facilities and a loss of our ability to claim future Section 29 tax credits for synthetic fuel produced by such facilities. We believe that we operate in conformity with all the necessary requirements to be allowed such tax credits under Section 29. Upon consummation of the pending merger of Duke and **Cinergy**, the synthetic fuel produced by **Cinergy's** new facility pursuant to the existing commercial arrangement would cease to qualify for the Section 29 credit. **Cinergy** is evaluating transactions for the disposition of a portion of the affected facility that **Cinergy** believes would enable the fuel produced by the facility to continue to qualify for credit under IRC Section 29. In the event a suitable transaction is not achieved, **Cinergy** anticipates that its production of synthetic fuel at the affected facility would be suspended upon consummation of the pending merger with Duke.

Section 29 also provides for a phase–out of the credit based on the average price of crude oil during a calendar year. The phase–out is based on a prescribed calculation and definition of crude oil prices. Based on current crude oil prices and the recent volatility of such prices, we believe it is possible that for 2006 and 2007, the amount of the tax credits could be reduced. If oil prices are high enough, we may idle the plants, as the value of the credits would not exceed the net costs to produce the synthetic fuel. Net income related to these facilities for the nine months ended September 30, 2005 was approximately $30 million. The net book value of our plants at September 30, 2005 was approximately $50 million.

(iii) FirstEnergy Lawsuit

FirstEnergy has filed a lawsuit in the Court of Common Pleas in Summit County, Ohio against **Cinergy** with respect to a transaction between **Cinergy** and a subsidiary of FirstEnergy, relating to a joint venture company, Avon Energy Partners Holdings (Avon). In 1999, the FirstEnergy subsidiary acquired **Cinergy's** share of Avon which it subsequently sold to a third party. The original transaction documents included an indemnity by **Cinergy** with respect to a certain investment owned by Avon. FirstEnergy claims that this indemnity was triggered by its sale of Avon to a third party, and is seeking to recover $15 million from **Cinergy**. Both parties have filed motions for summary judgment. **Cinergy** intends to defend this lawsuit vigorously in court. At this time, we cannot predict the outcome of this matter.

(iv) Guarantees

In the ordinary course of business, **Cinergy** enters into various agreements providing financial or performance assurances to third parties on behalf of certain unconsolidated subsidiaries and joint ventures. These agreements are entered into primarily to support or enhance the creditworthiness otherwise attributed to these entities on a stand–alone basis, thereby facilitating the extension of sufficient credit to accomplish their intended commercial purposes. The guarantees have various termination dates, from short–term (less than one year) to open–ended.

In many cases, the maximum potential amount of an outstanding guarantee is an express term, set forth in the guarantee agreement, representing the maximum potential obligation of **Cinergy** under that guarantee (excluding, at times, certain legal fees to which a guaranty beneficiary may be entitled). In those cases where there is no maximum potential amount expressly set forth in the guarantee agreement, we calculate the maximum potential amount by considering the terms of the guaranteed transactions, to the extent such amount is estimable.

Cinergy had guaranteed borrowings by individuals under the Director, Officer, and Key Employee Stock Purchase Program. Under these guarantees, **Cinergy** would have been obligated to pay the debt's principal and any related interest in the event of an unexcused breach of a guaranteed payment obligation by certain directors, officers, and key employees. This program terminated pursuant to its terms during the first quarter of 2005 and as of March 31, 2005, all borrowings had been repaid by the participants.

Cinergy Corp. has also provided performance guarantees on behalf of certain unconsolidated subsidiaries and joint ventures. These guarantees support performance under various agreements and instruments (such as construction contracts, operation and maintenance agreements, and energy service agreements). **Cinergy Corp.** may be liable in the event of an unexcused breach of a guaranteed performance obligation by an unconsolidated subsidiary. **Cinergy Corp.** has estimated its maximum potential liability to be $52 million under these guarantees as of September 30, 2005. **Cinergy Corp.** may also have recourse to third parties for claims required to be paid under certain of these guarantees. The majority of these guarantees expire at the completion of the underlying performance agreement, the majority of which expire from 2016 to 2019.

Cinergy has entered into contracts that include indemnification provisions as a routine part of its business activities. Examples of these contracts include purchase and sale agreements and operating agreements. In general, these provisions indemnify the counterparty for matters such as breaches of representations and warranties and covenants contained in the contract. In some cases, particularly with respect to purchase and sale agreements, the potential liability for certain indemnification obligations is capped, in whole or in part (generally at an aggregate amount not exceeding the sale price), and subject to a deductible amount before any payments would become due. In other cases (such as indemnifications for willful misconduct of employees in a joint venture), the maximum potential liability is not estimable given that the magnitude of any claims under those indemnifications would be a function of the extent of damages actually incurred. **Cinergy** has estimated the maximum potential liability, where estimable, to

be $103 million under these indemnification provisions. The termination period for the majority of matters provided by indemnification provisions in these types of agreements generally ranges from 2005 to 2009.

We believe the likelihood that **Cinergy** would be required to perform or otherwise incur any significant losses associated with any or all of the guarantees described in the preceding paragraphs is remote.

10. Financial Information by Business Segment

As discussed in the 2004 10–K, we conduct operations through our subsidiaries, and manage through the following three reportable segments:

- Regulated Business Unit (Regulated);
- Commercial Business Unit (Commercial); and
- Power Technology and Infrastructure Services Business Unit (Power Technology and Infrastructure).

Regulated consists of **PSI's** regulated generation and transmission and distribution operations, and **CG&E** and its subsidiaries' regulated electric and gas transmission and distribution systems. Regulated plans, constructs, operates, and maintains **Cinergy's** transmission and distribution systems and delivers gas and electric energy to consumers. Regulated also earns revenues from wholesale customers primarily by these customers transmitting electric power through **Cinergy's** transmission system. These businesses are subject to cost of service rate making where rates to be charged to customers are based on prudently incurred costs over a test period plus a reasonable rate of return.

Commercial manages our wholesale generation and energy marketing and trading activities. Commercial also performs energy risk management activities, provides customized energy solutions and is responsible for all of our international operations.

Power Technology and Infrastructure primarily manages Cinergy Ventures, LLC (Ventures), **Cinergy's** venture capital subsidiary. Ventures identifies, invests in, and integrates new energy technologies into **Cinergy's** existing businesses, focused primarily on operational efficiencies and clean energy technologies. In addition, Power Technology and Infrastructure manages our investments in other energy infrastructure and telecommunication service providers.

Following are the financial results by business unit. Certain prior year amounts have been reclassified to conform to the current presentation.

Financial results by business unit for the quarters ended September 30, 2005, and September 30, 2004, are as indicated below.

	Cinergy Business Units					
	Regulated	Commercial	Power Technology and Infrastructure	Total	Reconciling Eliminations(1)	Consolidated
	(in millions)					
Quarter ended September 30, 2005						
Operating revenues						
External customers	**$ 853**	**$ 512**	**$ —**	**$ 1,365**	**$ —**	**$ 1,365**
Intersegment revenues	**10**	**54**	**—**	**64**	**(64)**	**—**
Gross margins						
Electric	**512**	**163**	**—**	**675**	**—**	**675(2)**
Gas	**37**	**17**	**—**	**54**	**—**	**54(3)**
Segment profit (loss)	**92**	**41**	**(1)**	**132**	**—**	**132**
Quarter ended September 30, 2004						
Operating revenues						
External customers	$ 727	$ 402	$ —	$ 1,129	$ —	$ 1,129
Intersegment revenues	18	63	—	81	(81)	—
Gross margins						
Electric	441	170	—	611	—	611(2)
Gas	40	6	—	46	—	46(3)
Segment profit (loss)	59	45	(11)	93	—	93

(1) The Reconciling Eliminations category eliminates the intersegment revenues of Commercial and Regulated.

(2) Electric gross margin is calculated as *Electric operating revenues* less *Fuel, emission allowances, and purchased power* expense from the Condensed Consolidated Statements of Income.

(3) Gas gross margin is calculated as *Gas operating revenues* less *Gas purchased* expense from the Condensed Consolidated Statements of Income.

Financial results by business unit for year to date September 30, 2005, and September 30, 2004, are as indicated below.

	Cinergy Business Units					
	Regulated	Commercial	Power Technology and Infrastructure	Total	Reconciling Eliminations(1)	Consolidated
			(in millions)			
Year to Date September 30, 2005						
Operating revenues						
External customers	**$ 2,471**	**$ 1,353**	**$ —**	**$ 3,824**	**$ —**	**$ 3,824**
Intersegment revenues	**24**	**137**	**—**	**161**	**(161)**	**—**
Gross margins						
Electric	**1,388**	**509**	**—**	**1,897**	**—**	**1,897(2)**
Gas	**179**	**3**	**—**	**182**	**—**	**182(3)**
Segment profit (loss)	**217**	**90**	**(7)**	**300**	**—**	**300**
Year to Date September 30, 2004						
Operating revenues						
External customers	$ 2,327	$ 1,144	$ —	$ 3,471	$ —	$ 3,471
Intersegment revenues	49	165	—	214	(214)	—
Gross margins						
Electric	1,243	504	—	1,747	—	1,747(2)
Gas	188	45	—	233	—	233(3)
Segment profit (loss)	173	121	(40)	254	—	254

(1) The Reconciling Eliminations category eliminates the intersegment revenues of Commercial and Regulated.

(2) Electric gross margin is calculated as *Electric operating revenues* less *Fuel, emission allowances, and purchased power* expense from the Condensed Consolidated Statements of Income.

(3) Gas gross margin is calculated as *Gas operating revenues* less *Gas purchased* expense from the Condensed Consolidated Statements of Income.

Total segment assets at September 30, 2005, and December 31, 2004, are as indicated below:

	Cinergy Business Units				
	Regulated	Commercial	Power Technology and Infrastructure	Total	Consolidated
	(in millions)				
Total segment assets at September 30, 2005	**$ 9,503**	**$ 7,830**	**$ 133**	**$ 17,466**	**$ 17,466**
Total segment assets at December 31, 2004	$ 9,097	$ 5,746	$ 139	$ 14,982	$ 14,982

11. Earnings Per Common Share (EPS)

A reconciliation of EPS – basic to EPS – diluted is presented below for the quarters ended September 30, 2005 and 2004:

		Income	Shares		EPS
		(in thousands, except per share amounts)			
Quarter Ended September 30, 2005					
EPS – basic:	**$**	**131,937**	**199,069**	**$**	**0.67**
Effect of dilutive securities:					
Common stock options			**828**		
Directors' compensation plans			**150**		
Contingently issuable common stock			**120**		
EPS – diluted:	**$**	**131,937**	**200,167**	**$**	**0.66**
Quarter Ended September 30, 2004					
EPS – basic:	$	92,923	180,881	$	0.51
Effect of dilutive securities:					
Common stock options			616		
Directors' compensation plans			148		
Contingently issuable common stock			710		
Stock purchase contracts			1,123		
EPS – diluted:	$	92,923	183,478	$	0.50

Options to purchase shares of common stock are excluded from the calculation of EPS – diluted, if they are considered to be anti–dilutive. Share amounts of 0.7 million and 0.9 million were excluded from the EPS – diluted calculation for the quarters ended September 30, 2005 and 2004, respectively.

Also excluded from the EPS – diluted calculation for the quarter ended September 30, 2004 are 9.7 million shares, issuable pursuant to the stock purchase contracts issued by **Cinergy Corp.** in December 2001 associated with the preferred trust securities transaction. As discussed in the 2004 10–K, in January and February 2005, **Cinergy Corp.** issued a total of 9.2 million shares of common stock associated with these preferred stock securities.

A reconciliation of EPS – basic to EPS – diluted is presented below for the year to date September 30, 2005 and 2004:

		Income	Shares		EPS
		(in thousands, except per share amounts)			
Year to Date September 30, 2005					
EPS – basic:	**$**	**300,001**	**197,741**	**$**	**1.52**
Effect of dilutive securities:					
Common stock options			**706**		
Directors' compensation plans			**149**		
Contingently issuable common stock			**84**		
Stock purchase contracts			**97**		
EPS – diluted:	**$**	**300,001**	**198,777**	**$**	**1.51**
Year to Date September 30, 2004					
EPS – basic:	$	254,442	180,129	$	1.41

Effect of dilutive securities:					
Common stock options			675		
Directors' compensation plans			148		
Contingently issuable common stock			585		
Stock purchase contracts			1,027		
EPS – diluted:	$	254,442	182,564	$	1.39

Options to purchase shares of common stock are excluded from the calculation of EPS – diluted, if they are considered to be anti–dilutive. Share amounts of 0.8 million and 0.9 million were excluded from the EPS – diluted calculation for the year to date September 30, 2005 and 2004, respectively.

Also excluded from the EPS – diluted calculation for the year to date September 30, 2004 are 9.8 million shares issuable pursuant to the stock purchase contracts issued by **Cinergy Corp.** in December 2001 associated with the preferred trust securities transaction. As discussed in the 2004 10–K, in January and February 2005, **Cinergy Corp.** issued a total of 9.2 million shares of common stock associated with these preferred stock securities.

12. Transfer and Acquisition of Generating Assets

(a) Transfer of Generating Assets to ULH&P

The KPSC and the FERC have approved **ULH&P's** planned 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, and associated transactions. **ULH&P** is currently seeking approval of the transaction in a proceeding before the Securities and Exchange Commission (SEC), wherein the Ohio Consumers' Counsel has intervened in opposition. The transfer, which will be at net book value, will not affect current electric rates for **ULH&P's** customers, as power will be provided under the same terms as under the current wholesale power contract with **CG&E** through December 31, 2006. Assuming receipt of SEC approval, we would anticipate the transfer to take place in the first quarter of 2006.

(b) Wheatland Generating Facility Acquisition

On May 6, 2005, we signed a definitive agreement with subsidiaries of Allegheny Energy, Inc. whereby, subject to the terms and upon satisfaction of the conditions to closing provided in the purchase agreement, **PSI** and/or **CG&E** had the right to acquire the 512–megawatt Wheatland generating facility for approximately $100 million. The Wheatland facility, located in Knox County, Indiana, has four natural gas–fired simple cycle combustion turbines and is directly connected to the **Cinergy** transmission system. In June and August 2005, respectively, the FERC and IURC approved the acquisition and the Department of Justice and Federal Trade Commission completed their review of the transaction pursuant to the notification requirements of the Hart–Scott–Rodino Antitrust Improvements Act. In August 2005, **PSI** acquired 100 percent of the Wheatland facility. Its output will be used to bolster the reserve margins on the **PSI** system.

13. Pending Merger

On May 8, 2005, **Cinergy Corp.** entered into an agreement and plan of merger with Duke, a North Carolina corporation, whereby **Cinergy Corp.** will be merged with Duke. Under the merger agreement, each share of **Cinergy Corp.** common stock will be converted into 1.56 shares of the newly formed company, Duke Energy Holding Corp (Duke Energy Holding).

The merger agreement has been approved by both companies' Boards of Directors. Consummation of the merger is subject to customary conditions, including, among others, the approval of the shareholders of both companies and the approvals of various regulatory authorities.

Immediately following consummation of the merger, former **Cinergy** shareholders will own approximately 24 percent of Duke Energy Holding's common stock. Paul Anderson, Duke's CEO and Chairman of the Board will remain Chairman of the combined company and Jim Rogers, **Cinergy's** CEO and Chairman of the Board, will become the President and CEO of the combined company. The new Duke Energy Holding board will be comprised of 10 members appointed by Duke and five members appointed by **Cinergy**.

The merger will be recorded using the purchase method of accounting whereby the total purchase price of approximately $9 billion will be allocated to **Cinergy's** identifiable tangible and intangible assets acquired and liabilities assumed based on their fair values as of the closing of the merger.

The merger is expected to close in the first half of 2006. However, the actual timing is contingent on the receipt of several approvals including: FERC, Federal Communications Commission (FCC), Nuclear Regulatory Commission (NRC), state regulatory commissions of Ohio, Indiana, Kentucky, North Carolina, and South Carolina, and shareholders of each company. The status of these matters is as follows:

- In June 2005, Duke and **Cinergy** filed an application with the PUCO for approval of a change in control with respect to **CG&E** and to modify certain accounting procedures to defer certain merger–related costs. We expect that the PUCO will set a procedural schedule in the fourth quarter of 2005. The PUCO issued a procedural order on October 26, 2005 ordering the Staff to issue recommendations no later than November 14, 2005. A final order is expected in January 2006.

- In June 2005, **PSI** filed a petition with the IURC concerning, among other things, certain merger–related affiliate agreements, the sharing of merger–related benefits with customers, and deferred accounting of certain merger–related costs. An evidentiary hearing is scheduled for December 2005.

- In August 2005, Duke and **Cinergy** filed an application with the KPSC seeking approval of a transfer and acquisition of control of **ULH&P**. In October 2005, Duke and **Cinergy** reached a settlement with the parties to the case, the Kentucky Attorney General and The Kroger Company. The settlement was filed with the KPSC and a hearing was held before the KPSC in October 2005. A final order is expected by December 2005.

- In July 2005, Duke and **Cinergy** filed an application with the FERC requesting approval of the merger and the subsequent internal restructuring and consolidation of the merged company to establish a more efficient corporate structure. A final order is expected in January 2006.

- In July 2005, Duke filed an application with the state utility regulatory agency in North Carolina. The application requests both the authorization to enter into a business combination transaction and the approval of various affiliate agreements. A hearing is scheduled for December 2005.

- In July 2005, Duke filed an application with the state utility regulatory agency in South Carolina. The application requested authorization to enter into a business combination. In November 2005, the Public Servie Commission of South Carolina approved the application.

- On August 11, 2005, the United States Department of Justice and the Federal Trade Commission granted early termination of the waiting period imposed by the Hart–Scott–Rodino Antitrust Improvements Act of 1976.

- In light of the repeal of the Public Utility Holding Company Act, as amended (PUHCA), effective February 2006, the merger will no longer require SEC authorization under PUHCA.

- The FCC merger filings were filed in October 2005 and a decision by the FCC is expected by December 2005.

- Duke filed for NRC merger approval in the third quarter of 2005 and a final order is expected in January 2006.

- A special meeting of shareholders for the purpose of voting on the merger is expected to be held in the first quarter of 2006.

The merger agreement also provides that Duke and **Cinergy** will use their reasonable best efforts to transfer five generating stations located in the Midwest from Duke to **CG&E**. This transfer will require regulatory approval by the FERC and the IURC. There can be no guarantee that such approvals will be obtained or will be obtained on terms or with conditions acceptable to Duke, **Cinergy**, and Duke Energy Holding. Duke intends to effectuate the transfer as an equity infusion into **CG&E** at book value. In conjunction with the transfer, Duke and **CG&E** intend to enter into a financial arrangement over a multi–year period, to eliminate any potential cash shortfalls that may result from **CG&E** owning and operating the assets. At this time, we cannot predict the outcome of this matter.

The merger agreement contains certain termination rights for both Duke and **Cinergy**, and further provides that, upon termination of the merger agreement under specified circumstances, a party would be required to pay the other party's fees and expenses in an amount not to exceed $35 million and/or a termination fee of $300 million in the case of a fee payable by **Cinergy** to Duke or a termination fee of $500 million in the case of a fee payable by Duke to **Cinergy**. Any termination fee would be reduced by the amount of any fees and expenses previously reimbursed by the party required to pay the termination fee.

In May, a purported shareholder class action was filed in the Court of Common Pleas in Hamilton County, Ohio against **Cinergy** and each of the members of the Board of Directors. The lawsuit alleges that the defendants breached their duties of due care and loyalty to shareholders by agreeing to the merger agreement between Duke and **Cinergy** and is seeking to either enjoin or amend the terms of the merger. **Cinergy** and the individual defendants filed a motion to dismiss this lawsuit in July. We believe this lawsuit is without merit and **Cinergy** intends to defend this lawsuit vigorously in court. We are unable to predict the outcome of this matter, including whether resolution of this matter will impact our pending merger.

Although Management believes that the merger should close in the first half of 2006, the actual timing of the transaction could be delayed or the merger could be abandoned by the parties in the event of the inability to obtain one or more of the required regulatory approvals on acceptable terms.

14. Subsequent Event

In October 2005, **Cinergy** entered into a definitive agreement to sell a wholly-owned subsidiary in Europe engaged in the generation and sale of heat and electricity. We anticipate recognizing a gain on sale of approximately $15 million and expect the sale to close in December 2005, subject to certain regulatory approvals. As of September 30, 2005, this subsidiary had approximately $5 million of current assets and $105 million of plant, property, and equipment.

In this report **Cinergy** (which includes **Cinergy Corp.** and all of our regulated and non–regulated subsidiaries) is, at times, referred to in the first person as "we," "our," or "us."

CAUTIONARY STATEMENTS REGARDING FORWARD–LOOKING INFORMATION

This document includes forward–looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward–looking statements are based on management's beliefs and assumptions. These forward–looking statements are identified by terms and phrases such as "anticipate", "believe", "intend", "estimate", "expect", "continue", "should", "could", "may", "plan", "project", "predict", "will", and similar expressions.

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 materially from those indicated in any forward–looking statement include, but are not limited to:

- Factors affecting operations, such as:

  (1) unanticipated weather conditions;

  (2) unscheduled generation outages;

  (3) unusual maintenance or repairs;

  (4) unanticipated changes in costs, including costs of coal and emission allowances;

  (5) environmental incidents; and

  (6) electric transmission or gas pipeline system constraints.

- Legislative and regulatory initiatives and legal developments.

- Additional competition in electric or gas markets and continued industry consolidation.

- Financial or regulatory accounting principles including costs of compliance with existing and future environmental requirements.

- Changing market conditions and other factors related to physical energy and financial trading activities.

- The performance of projects undertaken by our non–regulated businesses 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.
- The Regulatory approval process for the Duke Energy Corporation and **Cinergy** pending merger could delay the consummation of the pending merger or impose conditions that could materially impact the combined company.
- Business uncertainties, contractual restrictions, and the potential inability to attract and retain key personnel due to the pending merger.

We undertake no obligation to update the information contained herein.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (MD&A)

In this report, **Cinergy** (which includes **Cinergy Corp.** and all of its regulated and non–regulated subsidiaries) is, at times, referred to in the first person as "we," "our," or "us."

The following discussion should be read in conjunction with the accompanying financial statements and related notes included elsewhere in this report and the combined Form 10–K for the year ended December 31, 2004 (2004 10–K). We have reclassified certain prior–year amounts in the financial statements of **Cinergy**, The Cincinnati Gas & Electric Company (**CG&E**), PSI Energy, Inc. (**PSI**), and The Union Light, Heat and Power Company (**ULH&P**) to conform to current presentation. The following discussions of results are not necessarily indicative of the results to be expected in any future period.

PENDING MERGER

On May 8, 2005, **Cinergy Corp.** entered into an agreement and plan of merger with Duke Energy Corporation (Duke), a North Carolina corporation, whereby **Cinergy Corp.** will be merged with Duke. Under the merger agreement, each share of **Cinergy Corp.** common stock will be converted into 1.56 shares of the newly formed company, Duke Energy Holding Corp (Duke Energy Holding).

The merger agreement has been approved by both companies' Boards of Directors. Consummation of the merger is subject to customary conditions, including, among others, the approval of the shareholders of both companies and the approvals of various regulatory authorities.

Immediately following consummation of the merger, former **Cinergy** shareholders will own approximately 24 percent of Duke Energy Holding's common stock. Paul Anderson, Duke's CEO and Chairman of the Board will remain Chairman of the combined company and Jim Rogers, **Cinergy's** CEO and Chairman of the Board, will become the President and CEO of the combined company. The new Duke Energy Holding board will be comprised of 10 members appointed by Duke and five members appointed by **Cinergy**.

The merger will be recorded using the purchase method of accounting whereby the total purchase price of approximately $9 billion will be allocated to **Cinergy's** identifiable tangible and intangible assets acquired and liabilities assumed based on their fair values as of the closing of the merger.

The merger is expected to close in the first half of 2006. However, the actual timing is contingent on the receipt of several approvals including: Federal Energy Regulatory Commission (FERC), Federal Communications Commission (FCC), Nuclear Regulatory Commission (NRC), state regulatory commissions of Ohio, Indiana, Kentucky, North Carolina, and South Carolina, and shareholders of each company. The status of these matters is as follows:

- In June 2005, Duke and **Cinergy** filed an application with the Public Utilities Commission of Ohio (PUCO) for approval of a change in control with respect to **CG&E** and to modify certain accounting procedures to defer certain merger–related costs. We expect that the PUCO will set a procedural schedule in the fourth quarter of 2005. The PUCO issued a procedural order on October 26, 2005 ordering the Staff to issue recommendations no later than November 14, 2005. A final order is expected in January 2006.

- In June 2005, **PSI** filed a petition with the Indiana Utility Regulatory Commission (IURC) concerning, among other things, certain merger–related affiliate agreements, the sharing of merger–related benefits with customers, and deferred accounting of certain merger–related costs. An evidentiary hearing is scheduled for December 2005.

- In August 2005, Duke and **Cinergy** filed an application with the Kentucky Public Service Commission (KPSC) seeking approval of a transfer and acquisition of control of **ULH&P**. In October 2005, Duke and **Cinergy** reached a settlement with the parties to the case, the Kentucky Attorney General and The

Kroger Company. The settlement was filed with the KPSC and a hearing was held before the KPSC in October 2005. A final order is expected by December 2005.

- In July 2005, Duke and **Cinergy** filed an application with the FERC requesting approval of the merger and the subsequent internal restructuring and consolidation of the merged company to establish a more efficient corporate structure. A final order is expected in January 2006.

- In July 2005, Duke filed an application with the state utility regulatory agency in North Carolina. The application requests both the authorization to enter into a business combination transaction and the approval of various affiliate agreements. A hearing is scheduled for December 2005.

- In July 2005, Duke filed an application with the state utility regulatory agency in South Carolina. The application requested authorization to enter into a business combination. In November 2005, the Public Servie Commission of South Carolina approved the application.

- On August 11, 2005, the United States Department of Justice and the Federal Trade Commission granted early termination of the waiting period imposed by the Hart–Scott–Rodino Antitrust Improvements Act of 1976.

- In light of the repeal of the Public Utility Holding Company Act, as amended (PUHCA), effective February 2006, the merger will no longer require Securities and Exchange Commission (SEC) authorization under PUHCA. For further details, see "Energy Bill" in "Liquidity and Capital Resources."

- The FCC merger filings were filed in October 2005 and a decision by the FCC is expected by December 2005.

- Duke filed for NRC merger approval in the third quarter of 2005 and a final order is expected in January 2006.

- A special meeting of shareholders for the purpose of voting on the merger is expected to be held in the first quarter of 2006.

The merger agreement also provides that Duke and **Cinergy** will use their reasonable best efforts to transfer five generating stations located in the Midwest from Duke to **CG&E**. This transfer will require regulatory approval by the FERC and the IURC. There can be no guarantee that such approvals will be obtained or will be obtained on terms or with conditions acceptable to Duke, **Cinergy**, and Duke Energy Holding. Duke intends to effectuate the transfer as an equity infusion into **CG&E** at book value. In conjunction with the transfer, Duke and **CG&E** intend to enter into a financial arrangement over a multi–year period, to eliminate any potential cash shortfalls that may result from **CG&E** owning and operating the assets. At this time, we cannot predict the outcome of this matter.

The merger agreement contains certain termination rights for both Duke and **Cinergy**, and further provides that, upon termination of the merger agreement under specified circumstances, a party would be required to pay the other party's fees and expenses in an amount not to exceed $35 million and/or a termination fee of $300 million in the case of a fee payable by **Cinergy** to Duke or a termination fee of $500 million in the case of a fee payable by Duke to **Cinergy**. Any termination fee would be reduced by the amount of any fees and expenses previously reimbursed by the party required to pay the termination fee.

Although Management believes that the merger should close in the first half of 2006, the actual timing of the transaction could be delayed or the merger could be abandoned by the parties in the event of the inability to obtain one or more of the required regulatory approvals on acceptable terms.

EXECUTIVE SUMMARY

In MD&A, we explain our general operating environment, as well as our results of operations, liquidity, capital resources, future expectations/trends, market risk sensitive instruments, and accounting matters. Specifically, we discuss the following:

- factors affecting current and future operations;
- why results changed from period to period;
- potential sources of cash for future capital expenditures; and
- how these items affect our overall financial condition.

Organization

Cinergy Corp., a Delaware corporation organized in 1993, owns all outstanding common stock of **CG&E** and **PSI**, both of which are public utilities. As a result of this ownership, we are considered a utility holding company. Because we are a holding company with material utility subsidiaries operating in multiple states, we are registered with and are subject to regulation by the SEC under the PUHCA. For a discussion of the PUHCA Repeal, see "Energy Bill" in "Liquidity and Capital Resources." Our other principal subsidiaries are Cinergy Services, Inc. (Services) and Cinergy Investments, Inc. (Investments).

CG&E, an Ohio corporation organized in 1837, is a combination electric and gas public utility company that provides service in the southwestern portion of Ohio and, through **ULH&P**, in nearby areas of Kentucky. **CG&E** is responsible for the majority of our power marketing and trading activity. **CG&E's** principal subsidiary, **ULH&P**, a Kentucky corporation organized in 1901, provides electric and gas service in northern Kentucky.

PSI, an Indiana corporation organized in 1942, is a vertically integrated and regulated electric utility that provides service in north central, central, and southern Indiana.

The following table presents further information related to the operations of our domestic utility companies **CG&E**, **PSI**, and **ULH&P** (our utility operating companies):

	Principal Line(s) of Business
CG&E and subsidiaries	• Generation, transmission, distribution, and sale of electricity • Sale and/or transportation of natural gas • Electric commodity marketing and trading operations
PSI	• Generation, transmission, distribution, and sale of electricity
ULH&P(1)	• Transmission, distribution, and sale of electricity • Sale and transportation of natural gas

(1) See "Kentucky" in "Future Expectations/Trends" for further discussion of the possible transfer of generation assets.

Services is a service company that provides our subsidiaries with a variety of centralized administrative, management, and support services. Investments holds most of our non–regulated, energy–related businesses and investments, including natural gas marketing and trading operations (which are primarily conducted through Cinergy Marketing & Trading, LP (Marketing & Trading), one of its subsidiaries).

Financial Highlights

Net income for **Cinergy** for the quarter and nine months ended September 30, 2005, and 2004 was as follows:

	Cinergy						
	2005		2004		Change		% Change
	(in millions)						
Quarter ended September 30	**$**	**132**	$	93	$	39	42 %
Nine months ended September 30	**$**	**300**	$	254	$	46	18 %

Quarterly Highlights

The increase in net income was primarily due to an increase in electric gross margins as a result of warmer weather in the third quarter of 2005, as compared to 2004.

These increases were partially offset by the following factors:

- A decrease in Commercial Business Unit (Commercial) electric gross margins due to timing differences in revenue recognition between certain components of our generation portfolio partially offset by sales of emission allowances; and
- Increased fuel, emission allowances, and purchased power costs attributable to **CG&E's** fixed price residential customers.

For further information, see "2005 Quarterly Results of Operations – **Cinergy**".

Year to Date Highlights

The increase in net income was primarily due to the following factors:

- Increased gross margins resulting from **PSI's** 2004 base retail electric rate increase and the implementation of **CG&E's** rate stabilization plan (RSP) in January 2005; and
- Increased gross margins due to warmer weather in the third quarter of 2005, as compared to 2004.

These increases were partially offset by the following factors:

- Increased fuel, emission allowances, and purchased power costs attributable to **CG&E's** fixed price residential customers;

- Decreases in Commercial gas gross margins from trading results in the second quarter of 2005;
- Increased *Operation and maintenance* expense primarily due to regulatory asset amortization, synthetic fuel costs, and expenses associated with the pending Duke–**Cinergy** merger; and
- Increased *Depreciation* expense due to increased depreciation rates and the addition of depreciable plant.

For further information, see “2005 Year to Date Results of Operations – **Cinergy**”.

Forward–looking Challenges and Risks

Merger Challenges and Risks

The pending merger between Duke and **Cinergy** presents significant challenges. The integration of the two companies will be complex and time–consuming, due to the size and complexity of each organization. The principal challenges will be integrating the combined regulated electric utility operations and combining each of the unregulated wholesale power generation businesses. All of these businesses are complex, and some of the business units are dispersed. Such efforts could also divert management's focus and resources from other strategic opportunities during the integration process. The pending merger is subject to approvals of numerous governmental agencies and approval of the shareholders of both companies, all of which are discussed in more detail in "Pending Merger." The approval process could delay consummation of the pending merger, impose conditions that could materially impact the combined company, or cause the merger to be abandoned. Both companies will incur significant transaction and merger–related integration costs. Additionally, we will be subject to business uncertainties and contractual restrictions while the merger is pending which could adversely affect our businesses. Although both companies are taking steps to reduce any adverse effects, these uncertainties may impair our ability to attract and retain key personnel until the merger is consummated and for a period of time thereafter, and could cause customers, suppliers, and others to seek to change their existing business relationships with us.

Environmental Challenges

Cinergy faces many uncertainties with regard to future environmental legislation and the impact of this legislation on our generating assets and our decisions to construct new assets. In March 2005, the Environmental Protection Agency (EPA) finalized two rulemakings that will require significant reductions in sulfur dioxide (SO_2), nitrogen oxides (NO_X), and mercury emissions from power plants. Numerous states, environmental organizations, industry groups, including some of which **Cinergy** is a member, and individual companies have challenged various portions of both rules. Additionally, multi–emissions reductions legislation is still being discussed in the Senate, although the outcome of these discussions is still highly uncertain at this time. Presently, greenhouse gas (GHG) emissions, which principally consist of carbon dioxide (CO_2), are not regulated, and while several legislative proposals have been introduced in Congress to reduce utility GHG emissions, none have been passed. Nevertheless, we anticipate a mandatory program to reduce GHG emissions will exist in the future. In 2004, **Cinergy's** utility operating companies began an environmental construction program to reduce overall plant emissions that is estimated to cost approximately $1.8 billion over the next five years. We believe that our construction program optimally balances these uncertainties and provides a level of emission reduction that will be required and/or economical to **Cinergy** under a variety of possible regulatory outcomes. See "Environmental Issues" in "Liquidity and Capital Resources" for further information.

Rising Coal and Emission Allowance Prices

The prices of coal and SO_2 emission allowances increased dramatically in 2004, as compared to 2003, and have continued to increase in 2005. Contributing to the increases in coal and SO_2 prices have been (1) increases in demand for electricity, (2) environmental regulation, and (3) decreases in the number of suppliers of coal from prior years. **CG&E's** RSP allows for recovery of fuel and emission allowance expenses effective January 1, 2005 for retail non–residential customers in Ohio. As part of the RSP, we will begin recovering these costs from residential customers in Ohio effective January 1, 2006. We continue to recover these costs from **PSI** retail customers through previously established rate recovery mechanisms. To the extent that these increased fuel and SO_2 prices are not offset by regulatory recovery or increases in the market price of power for wholesale transactions, they will negatively impact ongoing earnings. The impact of these price increases on earnings in 2005 is discussed in more detail in "2005 Quarterly Results of Operations" and "2005 Year to Date Results of Operations".

Synthetic Fuel

Cinergy produces synthetic fuel that qualifies for tax credits (through 2007) in accordance with Section 29 of the Internal Revenue Code (IRC) if certain requirements are satisfied. **Cinergy** currently faces two major uncertainties that could impact our ability to continue to recognize the previous and/or future credits. The Internal Revenue Service (IRS) has recently challenged certain other taxpayers' Section 29 tax credits and could challenge **Cinergy's**. If the IRS were to successfully challenge our credits, this could result in the disallowance of up to all previously claimed and future Section 29 tax credits for **Cinergy's** facilities. We believe that we operate in conformity with all the necessary requirements to qualify for tax credits under Section 29.

Section 29 also provides for a phase–out of the tax credits based on the average price of crude oil during a calendar year. The phase–out is based on a prescribed calculation and definition of crude oil prices. Based on current crude oil prices and the recent volatility of such prices, we believe it is possible that for 2006 and 2007, the amount of the

tax credits could be reduced. If oil prices are high enough, we may idle the plants, as the value of the credits would not exceed the net costs to produce the synthetic fuel. Net income related to these facilities for the nine months ended September 30, 2005 was approximately $30 million. The net book value of our plants at September 30, 2005 was approximately $50 million. See "Synthetic Fuel Production" in "Future Expectations/Trends" for further information.

2005 QUARTERLY RESULTS OF OPERATIONS – CINERGY

Given the dynamics of our business, which include regulatory revenues with directly offsetting expenses and commodity trading operations for which results are primarily reported on a net basis, we have concluded that a discussion of our results on a gross margin basis is most appropriate. Electric gross margins represent electric operating revenues less the related direct costs of fuel, emission allowances, and purchased power. Gas gross margins represent gas operating revenues less the related direct cost of gas purchased. Within each of these areas, we will discuss the key drivers of our results. Gross margins for **Cinergy** for the Regulated Business Unit (Regulated) and Commercial for the quarters ended September 30, 2005, and 2004 were as follows:

	Cinergy							
	Regulated				Commercial			
	2005	2004	Change	% Change	2005	2004	Change	% Change
	(in millions)							
Electric gross margin(1)	**$ 512**	$ 441	$ 71	16 %	**$ 163**	$ 170	$ (7)	(4)%
Gas gross margin(2)	**37**	40	(3)	(8)	**17**	6	11	N/M

(1) Electric gross margin is calculated as *Electric operating revenues* less *Fuel, emission allowances, and purchased power* expense from the Condensed Consolidated Statements of Income.

(2) Gas gross margin is calculated as *Gas operating revenues* less *Gas purchased* expense from the Condensed Consolidated Statements of Income.

N/M Not meaningful to an understanding of the change.

Cooling degree days and heating degree days are metrics commonly used in the utility industry as a measure of the impact weather has on results of operations. Cooling degree days and heating degree days in **Cinergy's** service territory for the quarters ended September 30, 2005, and 2004 were as follows:

	Cinergy			
	2005	2004	Change	% Change
Cooling degree days(1)	**916**	544	372	68 %
Heating degree days(2)(3)	**6**	5	1	20

(1) Cooling degree days are the differences between the average temperature for each day and 65 degrees, assuming the average temperature is greater than 65 degrees.

(2) Heating degree days are the differences between the average temperature for each day and 59 degrees, assuming the average temperature is less than 59 degrees.

(3) Beginning in January 2005, we modified our heating degree days base temperature from 65 degrees to 59 degrees to more accurately reflect current consumer behavior. Prior year amounts have been updated to reflect this change.

Regulated

Gross Margins

The 16 percent increase in Regulated's electric gross margins was primarily due to the following factors:

- A $45 million increase resulting from warmer weather in the third quarter of 2005, as compared to 2004;
- A $6 million increase resulting from growth in non–weather related demand; and
- A $5 million increase in **PSI's** non–retail margins, primarily attributable to margins realized from wholesale sales from generation available after serving regulated retail customers.

Commercial

Gross Margins

The four percent decrease in Commercial's electric gross margins was primarily due to:

- A $32 million decline in non–retail margins. We actively manage our non–regulated generation portfolio through a mix of real–time and forward sales of power and the corresponding purchase of fuel (primarily coal) and emission allowances. When power is sold forward, we typically purchase the fuel and emission allowances required to produce the power, thereby locking in our eventual margin at the time of delivery. The market values of these commodities change independently over time. At times, the value of the fuel and emission allowances becomes greater than that of the output of electricity. In these instances, we will purchase forward power to be used to deliver against forward power sales, and in turn sell the fuel and/or emission allowances. Margins declined due to:

    - During the third quarter of 2005, we recognized margins of $69 million less than the comparable period in 2004 due to timing differences in revenue recognition between certain components of our generation portfolio. Emission allowances and the majority of fuel contracts typically follow the accrual method of accounting. However, generally accepted accounting principles (GAAP) requires that certain forward purchases of coal and forward sales of power (those classified as derivatives) use the mark–to–market (MTM) method of accounting. This differing accounting treatment for the various components of the generation portfolio can lead to volatility in reported results. Our gross margins reflect $72 million of unrealized losses in 2005 and $3 million of unrealized losses in 2004 (representing a $69 million change period to period) as a result of forward purchases of coal and forward sales of power and the use of MTM accounting. A substantial portion of these unrealized losses are expected to reverse in the fourth quarter of 2005 and the first quarter of 2006.

    - Higher fuel costs during the quarter.

  Partially offsetting these declines were margins of $37 million more than the comparable period in 2004 as a result of selling emission allowances which were no longer needed to meet our non–retail forward power sales commitments. This gain reflects significant increases in prices of SO_2 emission allowances throughout much of 2004 and 2005. Based on projected generation, we have sufficient fuel and emission allowances to meet our non–retail forward power sales commitments over the next several years, and we will continue to evaluate and optimize our generation resources to produce the best economic returns for these assets.

- A $22 million increase in margins from power marketing and trading contracts.

- Higher retail margins of $3 million reflecting:

    - A $14 million increase resulting from implementation of **CG&E's** RSP in January 2005; and

    - A $12 million increase resulting from warmer weather in the third quarter of 2005, as compared to 2004.

  Partially offsetting these increases was a $23 million increase in fuel, emission allowance, and purchased power costs attributable to **CG&E's** fixed price residential customers.

The increase in Commercial's gas gross margins was primarily due to the following factors:

- A $14 million increase in physical trading margins resulting from favorable price movements in the third quarter of 2005; and

- A $7 million increase due to timing differences in revenue recognition between physical storage activities and the associated derivative contracts that hedge the physical storage. These agreements with pipelines to store natural gas and deliver in a future period with higher prices (typically winter) follow the accrual method of accounting. However, the derivative contracts hedging the gas are required under GAAP to be accounted for under the MTM method of accounting. The differing accounting treatments can lead to volatility in reported results. Our quarter–to–date gross margins reflect $8 million of unrealized losses in 2005 and $15 million of unrealized losses in 2004 (representing a $7 million change quarter on quarter) as a result of derivative contracts and the use of MTM accounting.

Partially offsetting these increases was an $8 million decline in financial trading margins.

Other Operating Revenues and Costs of Fuel Resold

The 32 percent increase in *Other Operating Revenues* was primarily due to the following factors:

- A $21 million increase in Commercial's revenues from coal origination resulting from increases in coal prices and tons of coal sold; and
- A $16 million increase in Commercial's revenues from the sale of synthetic fuel, due in part to revenues from a new facility purchased in the second quarter of 2005.

Costs of fuel resold include Commercial's costs of coal origination activities and the production of synthetic fuel. These costs have increased in 2005, which is consistent with the increases in the associated revenues as previously discussed.

The following explanations correspond with the line items on the Condensed Consolidated Statements of Income for **Cinergy**. However, only the line items that varied significantly from prior periods are discussed.

Other Operating Expenses

	Cinergy			
	2005	2004	Change	% Change
	(in millions)			
Operation and maintenance	$ **342**	$ 326	$ 16	5 %
Depreciation	**130**	115	15	13
Taxes other than income taxes	**65**	57	8	14

Operation and Maintenance

The five percent increase in *Operation and maintenance* expense was primarily due to the following factors:

- Increased regulatory asset amortization of $15 million related to **CG&E's** Regulatory Transition Charge (RTC). This increase reflects accelerated recovery of the regulatory asset due to both (a) the cessation of deferrals for non-residential customers due to the end of the market development period for those customers at the end of 2004 and (b) a reduction in revenues lost from switched customers, which is also recovered through the RTC;

- An increase of $11 million in costs at our synthetic fuel facilities primarily related to production costs at a new facility purchased in the second quarter of 2005; and

- Increased costs of $5 million associated with the sales of accounts receivable to an unconsolidated affiliate, primarily due to increased fees charged by the buyer of the receivables and an increase in the volume of receivables sold.

These increases were partially offset by the following factors:

- A decrease of $6 million in power supply expense primarily related to decreases in brokerage and Midwest Independent System Operator, Inc. (Midwest ISO) administrative fees; and

- Costs relating to an information technology system replacement project that occurred in 2004.

Depreciation

The 13 percent increase in *Depreciation* expense was primarily due to the addition of depreciable plant for pollution control equipment which is recovered from ratepayers.

Taxes other than Income Taxes

The 14 percent increase in *Taxes other than income taxes* was primarily due to an increase in real estate and personal property taxes.

Miscellaneous Income (Expense) – Net

The increase in *Miscellaneous Income (Expense) – Net* was primarily due to $15 million in impairment and disposal charges recognized in the third quarter of 2004 on certain investments in the Power Technology and Infrastructure Services Business Unit (Power Technology and Infrastructure).

Interest Expense

The seven percent increase in *Interest Expense* was primarily due to an increase in amount and in interest rates for our variable rate debt. This expense was partially offset by interest income received on restricted deposits obtained through these incremental borrowings, which was recorded in *Miscellaneous Income (Expense) – Net* associated with the additional debt outstanding.

2005 QUARTERLY RESULTS OF OPERATIONS – CG&E

Summary of Results

Net income for **CG&E** for the quarters ended September 30, 2005, and 2004 was as follows:

	CG&E and subsidiaries			
	2005	2004	Change	% Change
	(in millions)			
Net income	$ **63**	$ 64	$ (1)	(2)%

Net income for **CG&E** was relatively flat for the third quarter of 2005, as compared to 2004. The increased electric gross margins due to warmer weather in the third quarter of 2005, as compared to 2004, and rate tariff adjustments resulting from the implementation of the RSP in January 2005 were offset by decreased non-retail margins and increased *Operation and maintenance* expenses.

Gross Margins

Gross margins for **CG&E** for the quarters ended September 30, 2005, and 2004 were as follows:

	CG&E and subsidiaries			
	2005	2004	Change	% Change
	(in millions)			
Electric gross margin(1)	$ **336**	$ 312	$ 24	8%
Gas gross margin(2)	**38**	40	(2)	(5)

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(1) Electric gross margin is calculated as *Electric operating revenues* less *Fuel, emission allowances, and purchased power* expense from the Condensed Consolidated Statements of Income.

(2) Gas gross margin is calculated as *Gas operating revenues* less *Gas purchased* expense from the Condensed Consolidated Statements of Income.

Cooling degree days and heating degree days in **CG&E's** service territory for the quarters ended September 30, 2005, and 2004 were as follows:

	CG&E and subsidiaries			
	2005	2004	Change	% Change
Cooling degree days(1)	**954**	552	402	73 %

Heating degree days(2)(3)	**5**	5	—	—

(1) Cooling degree days are the differences between the average temperature for each day and 65 degrees, assuming the average temperature is greater than 65 degrees.

(2) Heating degree days are the differences between the average temperature for each day and 59 degrees, assuming the average temperature is less than 59 degrees.

(3) Beginning in January 2005, we modified our heating degree days base temperature from 65 degrees to 59 degrees to more accurately reflect current consumer behavior. Prior year amounts have been updated to reflect this change.

Electric Gross Margins

The eight percent increase in **CG&E's** electric gross margins was primarily due to:

- Higher retail margins of $36 million reflecting:
  - A $33 million increase resulting from warmer weather in the third quarter of 2005, as compared to 2004; and
  - A $19 million increase in rate tariff adjustments resulting from implementation of the RSP in January 2005.

  Partially offsetting these increases was a $23 million increase in fuel, emission allowance, and purchased power costs attributable to fixed price residential customers.
- A $22 million increase in margins from power marketing and trading contracts.

- A decline of $34 million in non–retail margins. We actively manage our non–regulated generation portfolio through a mix of real–time and forward sales of power and the corresponding purchase of fuel (primarily coal) and emission allowances. When power is sold forward, we typically purchase the fuel and emission allowances required to produce the power, thereby locking in our eventual margin at the time of delivery. The market values of these commodities change independently over time. At times, the value of the fuel and emission allowances becomes greater than that of the output of electricity. In these instances, we will purchase forward power to be used to deliver against forward power sales, and in turn sell the fuel and/or emission allowances. Margins declined due to:

  - During the third quarter of 2005, we recognized margins of $69 million less than the comparable period in 2004 due to timing differences in revenue recognition between certain components of our generation portfolio. Emission allowances and the majority of fuel contracts typically follow the accrual method of accounting. However, GAAP requires that certain forward purchases of coal and forward sales of power (those classified as derivatives) use the MTM method of accounting. This differing accounting treatment for the various components of the generation portfolio can lead to volatility in reported results. Our gross margins reflect $72 million of unrealized losses in 2005 and $3 million of unrealized losses in 2004 (representing a $69 million change period to period) as a result of forward purchases of coal and forward sales of power and the use of MTM accounting. A substantial portion of these unrealized losses are expected to reverse in the fourth quarter of 2005 and the first quarter of 2006.

  - Higher fuel costs during the quarter.

Partially offsetting these declines were margins of $37 million more than the comparable period in 2004 as a result of selling emission allowances which were no longer needed to meet our non–retail forward power sales commitments. This gain reflects significant increases in prices of SO_2 emission allowances throughout much of 2004 and 2005. Based on projected generation, we have sufficient fuel and emission allowances to meet our non–retail forward power sales commitments over the next several years, and we will continue to evaluate and optimize our generation resources to produce the best economic returns for these assets.

Other Operating Revenues and Costs of Fuel Resold

The 48 percent increase in *Other Operating Revenues* was due to a $20 million increase in revenues from coal origination resulting from increases in coal prices and tons of coal sold.

Costs of fuel resold represents the costs of coal origination activities. These costs have increased in 2005, which is consistent with the increase in the associated revenues as previously discussed.

The following explanations correspond with the line items on the Condensed Consolidated Statements of Income for **CG&E**. However, only the line items that varied significantly from prior periods are discussed.

Other Operating Expenses

	CG&E and subsidiaries			
	2005	**2004**	**Change**	**% Change**
		(in millions)		
Operation and maintenance	$ **176**	$ 153	$ 23	15 %
Depreciation	**46**	46	—	—

Taxes other than income taxes	**52**	45	7	16

Operation and Maintenance

The 15 percent increase in *Operation and maintenance* expense was primarily due to the following factors:

- Increased regulatory asset amortization of $15 million related to **CG&E's** RTC. This increase reflects accelerated recovery of the regulatory asset due to both (a) the cessation of deferrals for non–residential customers due to the end of the market development period for those customers at the end of 2004 and (b) a reduction in revenues lost from switched customers, which is also recovered through the RTC;
- Increased costs of $4 million primarily associated with the sales of accounts receivable to an unconsolidated affiliate due to increased fees charged by the buyer of the receivables and an increase in the volume in receivables sold; and
- An increase of $4 million of labor expenses primarily resulting from employee incentives was partially offset by a decrease in severance payments.

Taxes other than Income Taxes

The 16 percent increase in *Taxes other than income taxes* was primarily due to increases in property taxes and increases in gross receipts taxes.

Income Taxes

The effective income tax rate decreased for the quarter ended September 30, 2005, as compared to 2004. The decrease was primarily a result of finalizing the 2004 tax return and other reconciliation adjustments.

2005 QUARTERLY RESULTS OF OPERATIONS – PSI

Summary of Results

Net income for **PSI** for the quarters ended September 30, 2005, and 2004 was as follows:

	PSI			
	2005	2004	Change	% Change
	(in millions)			
Net income	**$ 66**	$ 48	$ 18	38 %

The increase in net income was primarily due to warmer weather in the third quarter of 2005, as compared to 2004. This increase was partially offset by an increase in depreciation primarily due to the addition of pollution control equipment.

Electric Gross Margins

Gross margins for **PSI** for the quarters ended September 30, 2005, and 2004 were as follows:

	PSI			
	2005	2004	Change	% Change
	(in millions)			
Electric gross margin(1)	**$ 338**	$ 296	$ 42	14%

(1) Electric gross margin is calculated as *Electric operating revenues* less *Fuel, emission allowances, and purchased power* expense from the Condensed Consolidated Statements of Income.

Cooling degree days and heating degree days in **PSI's** service territory for the quarters ended September 30, 2005, and 2004 were as follows:

	PSI			
	2005	2004	Change	% Change
Cooling degree days(1)	**877**	536	341	64%
Heating degree days(2)(3)	**6**	4	2	50

(1) Cooling degree days are the differences between the average temperature for each day and 65 degrees, assuming the average temperature is greater than 65 degrees.

(2) Heating degree days are the differences between the average temperature for each day and 59 degrees, assuming the average temperature is less than 59 degrees.

(3) Beginning in January 2005, we modified our heating degree days base temperature from 65 degrees to 59 degrees to more accurately reflect current consumer behavior. Prior year amounts have been updated to reflect this change.

The 14 percent increase in **PSI's** electric gross margins was primarily due to the following factors:

- A $24 million increase resulting from warmer weather in the third quarter of 2005, as compared to 2004;
- A $6 million increase resulting from growth in non–weather related demand; and
- A $5 million increase in non–retail margins, primarily attributable to margins realized from wholesale sales from generation available after serving regulated retail customers.

The following explanations correspond with the line items on the Condensed Consolidated Statements of Income for **PSI**. However, only the line items that varied significantly from prior periods are discussed.

Other Operating Expenses

	PSI			
	2005	2004	Change	% Change
	(in millions)			
Operation and maintenance	$ **113**	$ 119	$ (6)	(5)%
Depreciation	**66**	55	11	20
Taxes other than income taxes	**12**	10	2	20

Operation and Maintenance

The five percent decrease in *Operation and maintenance* expense was primarily due to the following factors:

- Decreased labor expenses of $5 million related to decreased severance payments and employee incentive costs; and
- A decrease of outside services costs of $4 million primarily related to decreased litigation and other consulting costs.

These decreases are partially offset by increased costs associated with the sales of accounts receivable to an unconsolidated affiliate primarily related to increased fees charged by the buyer of the receivables and an increase in the volume of receivables sold.

Depreciation

The 20 percent increase in *Depreciation* expense was primarily due to the addition of depreciable plant for pollution control equipment which is recovered from ratepayers.

Interest Expense

The 18 percent increase in *Interest Expense* was primarily due to an increase in average long–term debt outstanding and an increase in interest rates for our variable rate debt. This expense was partially offset by interest income received on restricted deposits obtained through these incremental borrowings, which was recorded in *Miscellaneous Income – Net* associated with the additional debt outstanding.

2005 YEAR TO DATE RESULTS OF OPERATIONS – CINERGY

Given the dynamics of our business, which include regulatory revenues with directly offsetting expenses and commodity trading operations for which results are primarily reported on a net basis, we have concluded that a discussion of our results on a gross margin basis is most appropriate. Electric gross margins represent electric operating revenues less the related direct costs of fuel, emission allowances, and purchased power. Gas gross margins represent gas operating revenues less the related direct cost of gas purchased. Within each of these areas, we will discuss the key drivers of our results. Gross margins for **Cinergy** for Regulated and Commercial for the nine months ended September 30, 2005, and 2004 were as follows:

	Cinergy							
	Regulated				Commercial			
	2005	2004	Change	% Change	2005	2004	Change	% Change
	(in millions)							
Electric gross margin(1)	$ **1,388**	$ 1,243	$ 145	12%	$ **509**	$ 504	$ 5	1%
Gas gross margin(2)	**179**	188	(9)	(5)	**3**	45	(42)	(93)

(1) Electric gross margin is calculated as *Electric operating revenues* less *Fuel, emission allowances, and purchased power* expense from the Condensed Consolidated Statements of Income.

(2) Gas gross margin is calculated as *Gas operating revenues* less *Gas purchased* expense from the Condensed Consolidated Statements of Income.

Cooling degree days and heating degree days are metrics commonly used in the utility industry as a measure of the impact weather has on results of operations. Cooling degree days and heating degree days in **Cinergy's** service territory for the nine months ended September 30, 2005, and 2004 were as follows:

	Cinergy			
	2005	2004	Change	% Change
Cooling degree days(1)	**1,252**	880	372	42 %
Heating degree days(2)(3)	**2,325**	2,450	(125)	(5)

(1) Cooling degree days are the differences between the average temperature for each day and 65 degrees, assuming the average temperature is greater than 65 degrees.

(2) Heating degree days are the differences between the average temperature for each day and 59 degrees, assuming the average temperature is less than 59 degrees.

(3) Beginning in January 2005, we modified our heating degree days base temperature from 65 degrees to 59 degrees to more accurately reflect current consumer behavior. Prior year amounts have been updated to reflect this change.

Regulated

Gross Margins

The 12 percent increase in Regulated's electric gross margins was primarily due to the following factors:

- A $68 million increase resulting from a higher price received per megawatt hour (MWh) in the first half of 2005 due primarily to **PSI's** 2004 base retail electric rate increase;
- A $42 million increase resulting primarily from warmer weather in the third quarter of 2005, as compared to 2004;
- A $16 million increase in **PSI's** non–retail margins, primarily resulting from reduced fuel expense reflecting adjustments to **PSI's** cost of synthetic fuel; and
- A $9 million increase due to growth in non–weather related demand.

These increases were partially offset by a decline of $15 million reflecting rate reductions associated with a property tax adjustment for **PSI**.

The five percent decrease in Regulated's gas gross margins was due, in part, to a decline in non–weather related demand.

Commercial

Gross Margins

The one percent increase in Commercial's electric gross margins was primarily due to:

- A $29 million increase in margins from power marketing and trading contracts.
- Higher retail margins of $7 million reflecting:
    - A $31 million increase resulting from implementation of **CG&E's** RSP in January 2005; and
    - A $9 million increase resulting primarily from warmer weather in the third quarter of 2005, as compared to 2004.

  Also contributing to retail margins were increased volumes, due in part to the return of certain **CG&E** retail customers to full electric service. Partially offsetting these increases was a $40 million increase in fuel, emission allowance, and purchased power costs attributable to **CG&E's** fixed price residential customers.

- A $31 million decline in non–retail margins, caused primarily by higher fuel costs. We actively manage our non–regulated generation portfolio through a mix of real–time and forward sales of power and the corresponding purchase of fuel (primarily coal) and emission allowances. When power is sold forward, we typically purchase the fuel and emission allowances required to produce the power, thereby locking in our eventual margin at the time of delivery. The market values of these commodities change independently over time. At times, the value of the fuel and emission allowances becomes greater than that of the output of electricity. In these instances, we will purchase forward power to be used to deliver against forward power sales, and in turn sell the fuel and/or emission allowances.

  During 2005, we recognized margins of $107 million less than the comparable period in 2004 due to timing differences in revenue recognition between certain components of our generation portfolio. Emission allowances and the majority of fuel contracts typically follow the accrual method of accounting. However, GAAP requires that certain forward purchases of coal and forward sales of power (those classified as derivatives) use the MTM method of accounting. This differing accounting treatment for the various components of the generation portfolio can lead to volatility in reported results. Our gross margins reflect $104 million of unrealized losses in 2005 and $3 million of unrealized gains in 2004 (representing a $107 million change period to period) as a result of forward purchases of coal and forward sales of power and the use of MTM accounting. A substantial portion of these unrealized losses are expected to reverse in the fourth quarter of 2005 and the first quarter of 2006.

  Largely offsetting these declines were margins of $103 million more than the comparable period in 2004 as a result of selling emission allowances which were no longer needed to meet our non–retail forward power sales commitments. This gain reflects significant increases in prices of SO_2 emission allowances throughout much of 2004 and 2005. Based on projected generation, we have sufficient fuel and emission allowances to meet our non–retail forward power sales commitments over the next several years, and we will continue to evaluate and optimize our generation resources to produce the best economic returns for these assets.

The 93 percent decrease in Commercial's gas gross margins was primarily due to the following factors:

- A $35 million decrease in financial trading margins primarily from trading results in the second quarter of 2005; and

- An $11 million decrease due to timing differences in revenue recognition between physical storage activities and the associated derivative contracts that hedge the physical storage. These agreements with pipelines to store natural gas and deliver in a future period with higher prices (typically winter) follow the accrual method of accounting. However, the derivative contracts hedging the gas are required under GAAP to be accounted for under the MTM method of accounting. The differing accounting treatments can lead to volatility in reported results. Our year–to–date gross margins reflect $25 million of unrealized losses in 2005 and $14 million of unrealized losses in 2004 (representing an $11 million change period to period) as a result of derivative contracts and the use of MTM accounting..

Partially offsetting these decreases was a $13 million increase in physical trading margins primarily resulting from favorable price movements in the third quarter of 2005.

Other Operating Revenues and Costs of Fuel Resold

The 40 percent increase in *Other Operating Revenues* was primarily due to the following factors:

- A $79 million increase in Commercial's revenues from coal origination resulting from increases in coal prices and tons of coal sold; and
- A $42 million increase in Commercial's revenues from the sale of synthetic fuel primarily reflecting revenues from a new facility purchased in the second quarter of 2005.

Partially offsetting these increases was a $15 million decrease in revenues from non–regulated energy service subsidiaries.

Costs of fuel resold include Commercial's costs of coal origination activities and the production of synthetic fuel. These costs have increased in 2005, which is consistent with the increases in the associated revenues as previously discussed.

The following explanations correspond with the line items on the Condensed Consolidated Statements of Income for **Cinergy**. However, only the line items that varied significantly from prior periods are discussed.

Other Operating Expenses

	Cinergy			
	2005	**2004**	**Change**	**% Change**
		(in millions)		
Operation and maintenance	$ **1,025**	$ 969	$ 56	6 %
Depreciation	**387**	334	53	16
Taxes other than income taxes	**209**	204	5	2

Operation and Maintenance

The six percent increase in *Operation and maintenance* expense was primarily due to the following factors:

- Increased regulatory asset amortization of $27 million related to **CG&E's** RTC. This increase reflects accelerated recovery of the regulatory asset due to both (a) the cessation of deferrals for non–residential customers due to the end of the market development period for those customers at the end of 2004 and (b) a reduction in revenues lost from switched customers, which is also recovered through the RTC;
- An increase of $13 million in costs at our synthetic fuel facilities primarily related to production costs at a new facility purchased in the second quarter of 2005;

- Expenses of $13 million related to outside services costs for the pending Duke–**Cinergy** merger;

- Increased costs of $10 million associated with the sales of accounts receivable to an unconsolidated affiliate primarily due to increased fees charged by the buyer of the receivables and an increase in the volume of receivables sold; and

- Increased labor costs due to severance payments of $9 million.

These increases were partially offset by decreased employee incentive costs of $12 million and a decrease in outside service costs of $10 million related to our continuous improvement initiative in 2004.

Depreciation

The 16 percent increase in *Depreciation* expense was primarily due to (a) higher depreciation rates, as a result of changes in useful lives of production assets and an increased rate for cost of removal, (b) recovery of deferred depreciation costs, and (c) the addition of depreciable plant for pollution control equipment, all of which are recovered from ratepayers.

Equity in Earnings of Unconsolidated Subsidiaries

The 39 percent increase in *Equity in Earnings of Unconsolidated Subsidiaries* is primarily due to $5 million in equity in earnings of a cogeneration project that became fully operational in April of 2004.

Miscellaneous Income (Expense) – Net

The increase in *Miscellaneous Income (Expense) – Net* was due to $49 million in impairment and disposal charges recognized in the first nine months of 2004 on certain investments in Power Technology and Infrastructure. The increase was partially offset by $8 million in gains on the sale of other investments during 2004.

Income Taxes

The effective income tax rate decreased for the nine months ended September 30, 2005, as compared to 2004. The decrease was primarily a result of an increase in the amount of estimated annual tax credits associated with the production and sale of synthetic fuel. **Cinergy's** 2005 effective tax rate is expected to be approximately 22 percent.

2005 YEAR TO DATE RESULTS OF OPERATIONS – CG&E

Summary of Results

Net income for **CG&E** for the nine months ended September 30, 2005, and 2004 was as follows:

	CG&E and subsidiaries			
	2005	2004	Change	% Change
	(in millions)			
Net income	$ **201**	$ 197	$ 4	2 %

Net income for **CG&E** was relatively flat for the first nine months of 2005, as compared to 2004. Net income increased due to increased rate tariff adjustments resulting from implementation of the RSP in January 2005 and increased margins due to warmer weather in the third quarter of 2005, as compared to 2004.

These increases were partially offset by increased fuel, emission allowances, and purchased power costs attributable to fixed price residential customers and increased *Operation and maintenance* expense due primarily to increased regulatory asset amortization and increased expenses related to the pending Duke–**Cinergy** merger.

Gross Margins

Gross margins for **CG&E** for the nine months ended September 30, 2005, and 2004 were as follows:

	CG&E and subsidiaries			
	2005	2004	Change	% Change
	(in millions)			
Electric gross margin(1)	$ **960**	$ 914	$ 46	5%
Gas gross margin(2)	**181**	188	(7)	(4)

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(1) Electric gross margin is calculated as *Electric operating revenues* less *Fuel, emission allowances, and purchased power* expense from the Condensed Consolidated Statements of Income.

(2) Gas gross margin is calculated as *Gas operating revenues* less *Gas purchased* expense from the Condensed Consolidated Statements of Income.

Cooling degree days and heating degree days in **CG&E's** service territory for the nine months ended September 30, 2005, and 2004 were as follows:

	CG&E and subsidiaries			
	2005	**2004**	**Change**	**% Change**
Cooling degree days(1)	**1,294**	879	415	47%
Heating degree days(2)(3)	**2,218**	2,391	(173)	(7)

(1) Cooling degree days are the differences between the average temperature for each day and 65 degrees, assuming the average temperature is greater than 65 degrees.

(2) Heating degree days are the differences between the average temperature for each day and 59 degrees, assuming the average temperature is less than 59 degrees.

(3) Beginning in January 2005, we modified our heating degree days base temperature from 65 degrees to 59 degrees to more accurately reflect current consumer behavior. Prior year amounts have been updated to reflect this change.

Electric Gross Margins

The five percent increase in **CG&E's** electric gross margins was primarily due to:

- Higher retail margins of $48 million reflecting:

    - A $39 million increase in rate tariff adjustments resulting from implementation of the RSP in January 2005; and

    - A $30 million increase resulting primarily from warmer weather in the third quarter of 2005, as compared to 2004.

  Also contributing to retail margins were increased volumes, due in part to the return of certain retail customers to full electric service. Partially offsetting these increases was a $40 million increase in fuel, emission allowance, and purchased power costs attributable to fixed price residential customers.

- A $29 million increase in margins from power marketing and trading contracts.

- A $31 million decline in non–retail margins, caused primarily by higher fuel costs. We actively manage our non–regulated generation portfolio through a mix of real–time and forward sales of power and the corresponding purchase of fuel (primarily coal) and emission allowances. When power is sold forward, we typically purchase the fuel and emission allowances required to produce the power, thereby locking in our eventual margin at the time of delivery. The market values of these commodities change independently over time. At times, the value of the fuel and emission allowances becomes greater than that of the output of electricity. In these instances, we will purchase forward power to be used to deliver against forward power sales, and in turn sell the fuel and/or emission allowances.

  During 2005, we recognized margins of $107 million less than the comparable period in 2004 due to timing differences in revenue recognition between certain components of our generation portfolio. Emission allowances and the majority of fuel contracts typically follow the accrual method of accounting. However, GAAP requires that certain forward purchases of coal and forward sales of power (those classified as derivatives) use the MTM method of accounting. This differing accounting treatment for the various components of the generation portfolio can lead to volatility in reported results. Our gross margins reflect $104 million of unrealized losses in 2005 and $3 million of unrealized gains in 2004 (representing a $107 million change period to period) as a result of forward purchases of coal and forward sales of power and the use of MTM accounting. A substantial portion of these unrealized losses are expected to reverse in the fourth quarter of 2005 and the first quarter of 2006.

  Largely offsetting these declines were margins of $103 million more than the comparable period in 2004 as a result of selling emission allowances which were no longer needed to meet our non–retail forward power sales commitments. This gain reflects significant increases in prices of SO_2 emission allowances throughout much of 2004 and 2005. Based on projected generation, we have sufficient fuel and emission allowances to meet our non–retail forward power sales commitments over the next several years, and we will continue to evaluate and optimize our generation resources to produce the best economic returns for these assets.

Gas Gross Margins

The four percent decrease in **CG&E's** gas gross margins was due, in part, to a decline in non–weather related demand.

Other Operating Revenues and Costs of Fuel Resold

The increase in *Other Operating Revenues* was due to a $91 million increase in revenues from coal origination resulting from increases in coal prices and tons of coal sold.

Costs of fuel resold represents the costs of coal origination activities. These costs have increased in 2005, which is consistent with the increase in the associated revenues as previously discussed.

The following explanations correspond with the line items on the Condensed Consolidated Statements of Income for **CG&E**. However, only the line items that varied significantly from prior periods are discussed.

Other Operating Expenses

	CG&E and subsidiaries			
	2005	2004	Change	% Change
	(in millions)			
Operation and maintenance	$ **510**	$ 453	$ 57	13 %
Depreciation	**136**	136	—	—
Taxes other than income taxes	**163**	159	4	3

Operation and Maintenance

The 13 percent increase in *Operation and maintenance* expense was primarily due to the following factors:

- Increased regulatory asset amortization of $27 million related to **CG&E's** RTC. This increase reflects accelerated recovery of the regulatory asset due to both (a) the cessation of deferrals for non–residential customers due to the end of the market development period for those customers at the end of 2004 and (b) a reduction in revenues lost from switched customers, which is also recovered through the RTC;
- Expenses of $11 million related to outside service costs for the pending Duke–**Cinergy** merger;
- Increased labor expenses of $7 million primarily resulting from employee incentive costs and severance payments; and
- Increased costs of $7 million primarily associated with the sales of accounts receivable to an unconsolidated affiliate primarily related to increased fees charged by the buyer of the receivables and an increase in the volume of receivables sold.

These increases were partially offset by a decrease in outside service costs of $5 million related to our continuous improvement initiative in 2004.

Taxes other than Income Taxes

The three percent increase in *Taxes other than income taxes* was primarily due to increases in gross receipts taxes.

Interest Expense

The seven percent increase in *Interest Expense* was primarily due to an increase in average long–term debt outstanding and an increase in interest rates for our variable rate debt.

Income Taxes

The effective income tax rate decreased for the nine months ended September 30, 2005, as compared to 2004. The decrease was primarily a result of a change in Ohio law to phase–out the Ohio franchise tax and finalizing the 2004 tax return. The phase–out of the Ohio franchise tax resulted in the elimination of state income tax deferrals under GAAP thus reducing the effective income tax rate during the period. See "Ohio Taxes" in "Future Expectation/Trends" for additional information.

2005 YEAR TO DATE RESULTS OF OPERATIONS – PSI

Summary of Results

Net income for **PSI** for the nine months ended September 30, 2005, and 2004 was as follows:

	PSI						
	2005		2004		Change		% Change
	(in millions)						
Net income	$	**151**	$	115	$	36	31%

The increase in net income was primarily due to the impact of **PSI's** 2004 base retail electric rate increase and warmer weather in the third quarter of 2005, as compared to 2004.

These increases were partially offset by an increase in depreciation due to increased depreciation rates and the addition of depreciable plant.

Electric Gross Margins

Gross margins for **PSI** for the nine months ended September 30, 2005, and 2004 were as follows:

	PSI						
	2005		2004		Change		% Change
	(in millions)						
Electric gross margin(1)	$	**926**	$	817	$	109	13%

(1) Electric gross margin is calculated as *Electric operating revenues* less *Fuel, emission allowances, and purchased power* expense from the Condensed Consolidated Statements of Income.

Cooling degree days and heating degree days in **PSI's** service territory for the nine months ended September 30, 2005, and 2004 were as follows:

	PSI			
	2005	2004	Change	% Change
Cooling degree days(1)	**1,210**	880	330	38%
Heating degree days(2)(3)	**2,432**	2,509	(77)	(3)

(1) Cooling degree days are the differences between the average temperature for each day and 65 degrees, assuming the average temperature is greater than 65 degrees.

(2) Heating degree days are the differences between the average temperature for each day and 59 degrees, assumi the average temperature is less than 59 degrees.

(3) Beginning in January 2005, we modified our heating degree days base temperature from 65 degrees to 59 degrees to more accurately reflect current consumer behavior. Prior year amounts have been updated to reflect this change.

The 13 percent increase in **PSI's** electric gross margins was primarily due to the following factors:

- A $68 million increase resulting from a higher price received per MWh in the first half of 2005 due primarily to **PSI's** 2004 base retail electric rate increase;
- A $21 million increase resulting primarily from warmer weather in the third quarter of 2005, as compared to 2004;
- A $16 million increase in non–retail margins, primarily resulting from reduced fuel expense reflecting adjustments to **PSI's** cost of synthetic fuel; and
- A $9 million increase due to growth in non–weather related demand.

These increases were partially offset by a decline of $15 million reflecting rate reductions associated with a property tax adjustment.

The following explanations correspond with the line items on the Condensed Consolidated Statements of Income for **PSI**. However, only the line items that varied significantly from prior periods are discussed.

Other Operating Expenses

	PSI			
	2005	2004	Change	% Change
	(in millions)			
Operation and maintenance	$ **356**	$ 350	$ 6	2 %
Depreciation	**199**	159	40	25
Taxes other than income taxes	**38**	41	(3)	(7)

Operation and Maintenance

The two percent increase in *Operation and maintenance* expense was primarily due to various increases in operating costs and increased distribution system maintenance cost. These increases were partially offset by decreased regulatory commission expenses and decreased labor costs primarily related to employee incentives.

Depreciation

The 25 percent increase in *Depreciation* expense was primarily due to (a) higher depreciation rates, as a result of changes in useful lives of production assets and an increased rate for cost of removal, (b) recovery of deferred depreciation costs, and (c) the addition of depreciable plant for pollution control equipment, all of which are recovered from ratepayers.

Miscellaneous Income – Net

The increase in *Miscellaneous Income – Net* was primarily due to an increase in the rate for allowance for funds used during construction and interest income on restricted deposits.

Interest Expense

The 22 percent increase in *Interest Expense* was primarily due to an increase in average long–term debt outstanding and an increase in interest rates for our variable rate debt. This expense was partially offset by interest income received on restricted deposits obtained through these incremental borrowings, which was recorded in *Miscellaneous Income – Net* associated with the additional debt outstanding.

2005 YEAR TO DATE RESULTS OF OPERATIONS - ULH&P

Summary of Results

The Results of Operations discussion for **ULH&P** is presented only for the nine months ended September 30, 2005, in accordance with General Instruction H(2)(a) of Form 10–Q.

Electric and gas gross margins and net income for **ULH&P** for the nine months ended September 30, 2005, and 2004 were as follows:

	ULH&P			
	2005	2004	Change	% Change
	(in millions)			
Electric gross margin(1)	$ **55**	$ 52	$ 3	6 %
Gas gross margin(2)	**32**	32	—	—
Net income	**9**	13	(4)	(31)

(1) Electric gross margin is calculated as *Electric operating revenues* less *Electricity purchased from parent company for resale* expense from the Condensed Statements of Income.

(2) Gas gross margin is calculated as *Gas operating revenues* less *Gas purchased* expense from the Condensed Statements of Income.

The six percent increase in electric gross margins was primarily due to increased demand caused by warmer weather in the third quarter of 2005, as compared to 2004. Gas gross margins remained flat as an increase in rate tariff adjustments associated with the gas main replacement program and the demand–side management program, which encourages efficient customer gas usage, was partially offset by a decline in non–weather related demand.

The 31 percent decrease in net income was partially due to higher operation and maintenance costs associated with the transmission of electricity. Operation and maintenance cost also increased due to increased expense related to the pending Duke–**Cinergy** merger and increased costs associated with sales of accounts receivables to an unconsolidated affiliate. Also contributing to the decrease in net income were increased property taxes. There were also increases in *Interest Expense* related to an increase in average long–term debt outstanding. These decreases were partially offset by the increase in electric gross margins as previously discussed.

LIQUIDITY AND CAPITAL RESOURCES

Capital Requirements

Environmental Issues

Environmental Protection Agency Regulations

In March 2005, the EPA issued the Clean Air Interstate Rule (CAIR) which would require states to revise their State Implementation Plan (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 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. At the same time, the EPA issued the Clean Air Mercury Rule (CAMR) which requires reductions in mercury emissions from coal–fired power plants beginning in 2010. 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 CAIR and CAMR; however, the states have the ability to introduce more stringent requirements if desired. Under both CAIR and 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. In August 2005, the EPA proposed a Federal Implementation Plan (FIP) to act as a backstop to ensure that states implement the CAIR in a timely manner. If a state fails to develop a CAIR SIP, the EPA intends to finalize the FIP in time to implement phase 1 of CAIR for the state by 2009 and 2010 for NO_X and SO_2, respectively. Numerous states, environmental organizations, industry groups, including some of which **Cinergy** is a member, and individual companies have challenged various portions of both rules. Those challenges are currently pending in the Federal Circuit Court for the District of Columbia. On October 21, 2005, the EPA agreed to reconsider certain aspects of the CAMR and the determination not to regulate mercury under Section 112 of the Clean Air Act (CAA). At this time we cannot predict the outcome of these matters.

Over the 2005–2009 time period, we expect to spend approximately $1.8 billion to reduce mercury, SO_2, and NO_X emissions. These estimates 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 60 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. See "PSI Environmental Compliance Case" in "Future Expectations/Trends" for more details. **CG&E** would receive partial recovery of depreciation and financing costs related to environmental compliance projects for 2005–2008 through its recently approved RSP. See "CG&E Electric Rate Filing" in "Future Expectations/Trends" for more details.

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.

Clear Skies Legislation

President Bush has proposed environmental legislation that would combine a series of CAA requirements, including the recent mercury, SO_2, and NO_X reduction regulations for coal–fired power plants with a legislative solution that includes trading and specific emissions reductions and timelines to meet those reductions. The President's "Clear Skies Initiative" would seek an overall 70 percent reduction in emissions from power plants over a phased–in reduction schedule beginning in 2010 and continuing through 2018. When the Clear Skies Initiative was stalled in Congress, the EPA finalized the CAIR and CAMR regulations to accomplish Clear Skies' goals within the existing framework of the CAA. Clear Skies has been reintroduced in the Senate in 2005, but its prospects for passage are uncertain in the current session. At this time, we cannot predict whether this or any multi–emissions bill will be passed.

Energy Bill

A comprehensive energy bill (the Energy Policy Act of 2005) passed Congress in July 2005 and was signed by President Bush on August 8, 2005. The bill, among other things:

- Repeals PUHCA effective six months after the bill's enactment (i.e., February 9, 2006);
- Amends certain provisions of the Federal Power Act, including new provisions related to consumer protection and enforcement and expands FERC's authority to impose civil and criminal penalties for, among other things, reliability infractions and power trading irregularities;
- Revises the Public Utility Regulatory Policies Act of 1978, including the removal of restrictions on ownership by electric utilities of qualifying facilities and the removal of the utility's requirement to purchase power from facilities under certain circumstances;
- Provides FERC with expanded authority in the electric industry to review mergers, acquisitions and asset dispositions, effective six months after the bill's enactment;
- Provides FERC with authority to oversee and enforce, through the creation of a new Electric Reliability Organization, reliability standards, and promotes rules that provide incentives to enhance transmission facilities;
- Includes tax incentives for the development of wind and other renewable technologies;
- Includes tax incentives for integrated coal gasification combined cycle (IGCC) facilities; and
- Accelerates the tax depreciation rates for pollution control equipment on power plants built after 1975.

Under terms of the bill, **Cinergy's** pending merger with Duke is grandfathered under existing FERC authority. In addition, the bill authorizes a significant number of programs and grants that may be of help in, among other things, lowering the cost of adding IGCC facilities and furthering carbon sequestration activities. However, those authorizations must be appropriated next year by Congress. It is too early to determine if any of the programs will be appropriated dollars in order to carry them out, or if **Cinergy** will be a direct beneficiary of those programs. At this time, it is too early to predict the overall impact this new legislation will have on our financial position or results of operations.

Environmental Lawsuits

We are currently involved in the following lawsuits which are discussed in more detail in Note 9(a) of the "Notes to Condensed Financial Statements" in "Item 1. Financial Statements." An unfavorable outcome of any of these lawsuits could have a material impact on our liquidity and capital resources.

- CAA Lawsuit
- CO_2 Lawsuit
- Selective Catalytic Reduction Units at Gibson Station
- Zimmer Station Lawsuit
- Manufactured Gas Plant Sites
- Asbestos Claims Litigation

Pension and Other Postretirement Benefits

Cinergy maintains qualified defined benefit pension plans covering substantially all United States employees meeting certain minimum age and service requirements. Plan assets consist of investments in equity and debt securities. 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 (ERISA). Although mitigated by strong performance in 2003 and 2004, ongoing retiree payments and the decline in market value of the investment portfolio in 2002 reduced the assets held in trust to satisfy plan obligations. Additionally, continuing low long–term interest rates have increased the liability for funding purposes. As a result of these events, our near term funding targets have increased substantially. **Cinergy** has adopted a five–year plan to reduce, or eliminate, the unfunded pension obligation initially measured as of January 1, 2003. This unfunded obligation will be recalculated as of January 1 of each year in the five–year plan. Because this unfunded obligation is the difference between the liability determined actuarially on an ERISA basis and the fair value of plan assets, the liability determined by this calculation is different than the pension liability calculated for accounting purposes reported on **Cinergy's** Condensed Consolidated Balance Sheets.

Cinergy's minimum required contributions in calendar year 2004 totaled $16 million. Actual contributions in 2004 were $117 million, reflecting additional discretionary contributions of $101 million under the aforementioned five–year plan. Due to the significant 2004 and previous calendar year contributions, **Cinergy's** minimum required contributions in calendar year 2005 are zero. Actual discretionary contributions for the nine months ended September 30, 2005 were $102 million, which is an increase from the $72 million disclosed in the 2004 10–K. This $30 million increase is primarily the result of a change in the retirement age assumption which increased the near–term funding estimates. **Cinergy** may consider making discretionary contributions in 2006 and future periods; however, at this time, we are unable to determine the amount of those contributions. Estimated contributions fluctuate based on changes in market performance of plan assets and actuarial assumptions. Absent the occurrence of interim events that could materially impact these targets, we will update our expected target contributions annually as the actuarial funding valuations are completed and make decisions about future contributions at that time.

Other Investing Activities

Our ability to invest in growth initiatives is limited by certain legal and regulatory requirements, including the PUHCA. The PUHCA limits the types of non–utility businesses in which **Cinergy** and other registered holding companies under the PUHCA can invest as well as the amount of capital that can be invested in permissible non–utility businesses. These investment restrictions will terminate upon the repeal of PUHCA. For a discussion of the PUHCA Repeal, see "Energy Bill" in "Liquidity and Capital Resources." Also, the timing and amount of investments in the non–utility businesses is dependent on the development and favorable evaluations of opportunities. Under the PUHCA restrictions, we are allowed to invest, or commit to invest, in certain non–utility businesses, including:

- Exempt Wholesale Generators (EWG) and Foreign Utility Companies (FUCO)

An EWG is an entity, certified by the FERC, devoted exclusively to owning and/or operating, and selling power from one or more electric generating facilities. An EWG whose generating facilities are located in the United States is limited to making only wholesale sales of electricity. An entity claiming status as an EWG must provide notification thereof to the SEC under the PUHCA.

A FUCO is a company all of whose utility assets and operations are located outside the United States and which are used for the generation, transmission, or distribution of electric energy for sale at retail or wholesale, or the distribution of gas at retail. A FUCO may not derive any income, directly or indirectly, from the generation, transmission, or distribution of electric energy for sale or the distribution of gas at retail within the United States. An entity claiming status as a FUCO must provide notification thereof to the SEC under the PUHCA.

In June 2005, the SEC issued an order under PUHCA authorizing **Cinergy** to invest (including by way of guarantees) an aggregate amount in EWGs and FUCOs equal to the sum of (1) our average consolidated retained earnings from time to time plus (2) $2 billion through the earlier of (a) the closing of the pending Duke–**Cinergy** merger or (b) June 23, 2006. As of September 30, 2005, we had invested or committed to invest $0.7 billion in EWGs and FUCOs, leaving available investment capacity under the order of $2.9 billion.

- Qualifying Facilities and Energy–Related Non–Utility Entities

SEC regulations under the PUHCA permit **Cinergy** and other registered holding companies to invest and/or guarantee an amount equal to 15 percent of consolidated capitalization (consolidated capitalization is the sum of *Notes payable and other short–term obligations*, *Long–term debt* (including amounts due within one year), Cumulative Preferred Stock of Subsidiaries, and Total Common Stock Equity) in domestic qualifying cogeneration and small power production plants (qualifying facilities) and certain other domestic energy–related non–utility entities. At September 30, 2005, we had invested and/or guaranteed $1.3 billion of the $1.5 billion available. In August 2004, **Cinergy** filed an application with the SEC requesting authority under the PUHCA to increase its investment and/or guarantee authority by $2 billion above the current authorized amount. In light of our existing unused capacity, together with the repeal of PUHCA and the pending merger with Duke, **Cinergy** withdrew this application in the third quarter of 2005.

- Energy–Related Assets

Cinergy has been granted SEC authority under the PUHCA to invest up to $1 billion in non–utility Energy–Related Assets within the United States, Canada, and Mexico. Energy–Related Assets include natural gas exploration, development, production, gathering, processing, storage and transportation facilities and equipment, liquid oil reserves and storage facilities, and associated assets, facilities, and equipment, but would exclude any assets, facilities, or equipment that would cause the owner or operator thereof to be deemed a public utility company. As of September 30, 2005, we did not have any investments in these Energy–Related Assets.

- Infrastructure Services Companies

In July 2005, the SEC issued an order under the PUHCA authorizing **Cinergy** to invest up to $100 million (including existing investments and guarantees) through June 30, 2008 in companies that derive or will derive substantially all of their operating revenues from the sale of Infrastructure Services including:

- Design, construction, retrofit, and maintenance of utility transmission and distribution systems;

- Installation and maintenance of natural gas pipelines, water and sewer pipelines, and underground and overhead telecommunications networks; and

- Installation and servicing of meter reading devices and related communications networks, including fiber optic cable.

At September 30, 2005, we had invested $30 million in Infrastructure Services companies.

Guarantees

On June 23, 2005, the SEC issued an order under the PUHCA authorizing **Cinergy Corp.** to provide guarantees in an aggregate amount not to exceed $3.0 billion. For a discussion of the PUHCA Repeal, see "Energy Bill" in "Liquidity and Capital Resources." As of September 30, 2005, we had $1.2 billion outstanding under the guarantees issued, of which 81 percent represents guarantees of obligations reflected on **Cinergy's** Condensed Consolidated Balance Sheets. The amount outstanding represents **Cinergy Corp.'s** guarantees of liabilities and commitments of its consolidated subsidiaries, unconsolidated subsidiaries, and joint ventures.

See Note 9(c)(*iv*) of the "Notes to Condensed Financial Statements" in "Item 1. Financial Statements" for a discussion of guarantees in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (Interpretation 45). Interpretation 45 requires disclosure of maximum potential liabilities for guarantees issued on behalf of unconsolidated subsidiaries and joint ventures and under indemnification clauses in various contracts. The Interpretation 45 disclosure differs from the PUHCA restrictions in that it requires a calculation of maximum potential liability, rather than actual amounts outstanding; it excludes guarantees issued on behalf of consolidated subsidiaries and it includes potential liabilities under indemnification clauses.

Marketing & Trading Liquidity Risks

Cinergy has certain contracts in place, primarily with trading counterparties, that require the issuance of collateral in the event our debt ratings are downgraded below investment grade. Based upon our September 30, 2005 trading portfolio, if such an event were to occur, **Cinergy** would be required, based on contractual provisions, to post up to $551 million in additional collateral related to its gas and power trading operations, of which $108 million is related to **CG&E**.

As a consequence of rising commodity prices, as of September 30, 2005, **Cinergy** has posted $481 million in total cash collateral, of which $240 million is related to **CG&E**, and received total cash collateral of $387 million, of which $260 million is related to **CG&E**. Also, **Cinergy** has posted non–cash collateral in the form of letters of credit totaling $232 million, of which $225 million is related to **CG&E**, and received letters of credit totaling $482 million, of which $136 million is related to **CG&E**.

Capital Resources

Cinergy, **CG&E**, **PSI**, and **ULH&P** meet their current and future capital requirements through a combination of funding sources including, but not limited to, internally generated cash flows, tax–exempt bond issuances, capital lease and operating lease structures, the securitization of certain asset classes, short–term bank borrowings, issuance of commercial paper, and issuances of long–term debt and equity. Funding decisions are based on market conditions, market access, relative pricing information, borrowing duration and current versus forecasted cash needs. **Cinergy**, **CG&E**, **PSI**, and **ULH&P** are committed to maintaining balance sheet health, responsibly managing capitalization, and maintaining adequate credit ratings. **Cinergy**, **CG&E**, **PSI**, and **ULH&P** believe that they have adequate financial resources to meet their future needs.

Sale of Accounts Receivable

CG&E, **PSI**, and **ULH&P** have an agreement with Cinergy Receivables Company, LLC (Cinergy Receivables), an affiliate, to sell, on a revolving basis, nearly all of the retail accounts receivable and related collections of **CG&E**, **PSI**, and **ULH&P**. Cinergy Receivables funds its purchases with borrowings from commercial paper conduits that obtain a security interest in the receivables. This program accelerates the collection of cash for **CG&E**, **PSI**, and **ULH&P** related to these retail receivables. **Cinergy Corp.** does not consolidate Cinergy Receivables because it meets the requirements to be accounted for as a qualifying special purpose entity (SPE).

Notes Payable and Other Short–term Obligations

We are required to secure authority to issue short–term debt from the SEC under the PUHCA and from the PUCO. The SEC under the PUHCA regulates the issuance of short–term debt by **Cinergy Corp.**, **PSI**, and **ULH&P**. The PUCO has regulatory jurisdiction over the issuance of short–term debt by **CG&E**. For a discussion of the PUHCA Repeal, see "Energy Bill" in "Liquidity and Capital Resources."

	Short–term Regulatory Authority September 30, 2005 (in millions)	
	Authority	Outstanding
Cinergy Corp.	$ 4,000 (1)	$ 874
CG&E and subsidiaries	665 (2)	205
PSI	600	373
ULH&P	65 (2)	10

(1) In June 2005, the SEC issued an order under PUHCA authorizing **Cinergy** to increase its total capitalization (excluding *retained earnings* and *accumulated other comprehensive income (loss)*), which may be any combination of debt and equity securities, by $4 billion over the September 30, 2004 levels. Outside this requirement, **Cinergy Corp.** is not subject to specific regulatory debt authorizations.

(2) In December 2004, **Cinergy** and **ULH&P** requested approval from the SEC for an increase in **ULH&P's** authority from $65 million to $150 million to coincide with the completion of its pending transaction with **CG&E** in which **ULH&P** will acquire interests in three of **CG&E's** electric generating stations. At this time, we are unable to predict whether the SEC will approve this request.

For the purposes of quantifying regulatory authority, short–term debt includes revolving credit line borrowings, uncommitted credit line borrowings, intercompany money pool obligations, and commercial paper.

Cinergy Corp.'s short–term borrowings consist primarily of unsecured revolving lines of credit and the sale of commercial paper. **Cinergy Corp.'s** revolving credit facility and commercial paper program also support the short–term borrowing needs of **CG&E**, **PSI**, and **ULH&P**. In addition, **Cinergy Corp.**, **CG&E**, and **PSI** maintain uncommitted lines of credit. These facilities are not firm sources of capital but rather informal agreements to lend money, subject to availability, with pricing determined at the time of advance. The following table summarizes our *Notes payable and other short–term obligations* and *Notes payable to affiliated companies*:

	Short–term Borrowings September 30, 2005				
	Established Lines	Outstanding	Unused (in millions)	Standby Liquidity(1)	Available Revolving Lines of Credit
Cinergy					
Cinergy Corp.					
Revolving line(2)	$ 2,000	$ —	$ 2,000	$ 1,102	$ 898
Uncommitted lines	40	—	40		
Commercial paper(3)		874			
Utility operating companies					
Uncommitted lines	75	—	75		
Pollution control notes		248			
Non–regulated subsidiaries					
Revolving lines(4)	162	45	117	—	117
Short–term debt		7			
Pollution control notes		25			
Cinergy Total		$ 1,199			$ 1,015
CG&E and subsidiaries					
Uncommitted lines	$ 15	$ —	$ 15		
Pollution control notes		112			
Money pool		205			
CG&E Total		$ 317			
PSI					
Uncommitted lines	$ 60	$ —	$ 60		
Pollution control notes		136			
Money pool		373			
PSI Total		$ 509			
ULH&P					
Money pool		$ 10			
ULH&P Total		$ 10			

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(1) Standby liquidity is reserved against the revolving line of credit to support the commercial paper program and outstanding letters of credit (currently $874 million and $228 million, respectively).

(2) Consists of a five–year facility which was entered into in September 2005, matures in September 2010, and contains $500 millio sublimits each for **CG&E** and **PSI,** and a $65 million sublimit for **ULH&P** (which may be increased to $100 million upon the completion of its pending transaction with **CG&E** in which **ULH&P** will acquire interests in three of **CG&E's** electric generating stations. See "Regulatory Outlook – Kentucky" in "Future Expectations/Trends" for further information regarding this transaction.).

(3) **Cinergy Corp.'s** commercial paper program limit is $1.5 billion. The commercial paper program is supported by **Cinergy Corp.'s** revolving lines of credit.

(4) Of the $162 million, $150 million relates to a three–year senior revolving credit facility that Cinergy Canada, Inc. entered into in December 2004 and that matures in December 2007.

Short–term Notes

In September 2005, **Cinergy Corp.**, **CG&E, PSI,** and **ULH&P** entered into a five–year revolving credit facility with a termination date of September 2010 which can be extended twice, each extension for an additional one–year period. The new credit agreement replaces two existing credit agreements, one dated April 2004 and one dated December 2004.

The new credit agreement provides that the pending merger between Duke and **Cinergy Corp.** will not be considered a fundamental change or a "Change of Control" for purposes of the credit agreement.

For purposes of making borrowings the new credit agreement does not require certain environmental, litigation or material adverse change representations and warranties that were in the credit agreements it replaced.

At September 30, 2005, **Cinergy Corp.** had $898 million 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			$ 874	
Letter of credit support			228	
Total(1)		$ 2,000	1,102	$ 898

(1) In September 2005, **Cinergy Corp.** successfully placed a $2 billion senior unsecured revolving credit facility which replaced the $1 billion five–year facility, set to expire in December 2009, and the $1 billion three–year facility, set to expire in April 2007. **CG&E** and **PSI** each have $500 million borrowing sublimits on this facility, and **ULH&P** has a $65 million borrowing sublimit on this facility (which may be increased to $100 million upon the completion of its pending transaction with **CG&E** in which **ULH&P** will acquire interests in three of **CG&E's** electric generating stations. See Note 12(a) for further information regarding this transaction.)

In our credit facility, **Cinergy Corp.** has covenanted to maintain:

- a consolidated net worth of $2 billion; and
- a ratio of consolidated indebtedness to consolidated total capitalization not in excess of 65 percent.

As part of **CG&E's** $500 million sublimit under the $2 billion five–year credit facility, **CG&E** has covenanted to maintain:

- a consolidated net worth of $1 billion; and
- a ratio of consolidated indebtedness to consolidated total capitalization not in excess of 65 percent.

As part of **PSI's** $500 million sublimit under the $2 billion five–year credit facility, **PSI** has covenanted to maintain:

- a consolidated net worth of $900 million; and
- a ratio of consolidated indebtedness to consolidated total capitalization not in excess of 65 percent.

As part of **ULH&P's** $65 million sublimit under the $2 billion five–year credit facility, **ULH&P** has covenanted to maintain:

- a consolidated net worth of $150 million, provided that in the event that the sublimit has been increased to $100 million the consolidated net worth would be $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.

The latter two events, however, are subject to dollar–based materiality thresholds. As of September 30, 2005, **Cinergy**, **CG&E**, **PSI,** and **ULH&P** are in compliance with all of their debt covenants.

Variable Rate Pollution Control Notes

In October 2005, **PSI** borrowed the proceeds from the Indiana Finance Authority's issuance of $50 million principal amount of its Environmental Revenue Bonds, Series 2005B, due October 1, 2040. Holders of the Series 2005B Bonds are entitled to credit enhancement in the form of a standby letter of credit, which if drawn upon, provides for the payment of both interest and principal on the Series 2005B Bonds. The initial interest rate for the Series 2005B Bonds was 2.75% and is reset weekly. Because the holders have the right to have their Bonds redeemed on a weekly basis, they are classified as *Notes payable and other short–term obligations.* **PSI** is using the proceeds from these borrowings to assist in the acquisition and construction of solid waste disposal facilities located at various generating stations in Indiana.

Long–term Debt

We are required to secure authority to issue long–term debt from the SEC under the PUHCA and the state utility commissions of Ohio, Kentucky, and Indiana. For a discussion of the PUHCA Repeal, see "Energy Bill" in "Liquidity and Capital Resources." The SEC under the PUHCA regulates the issuance of long–term debt by **Cinergy Corp.** The respective state utility commissions regulate the issuance of long–term debt by our utility operating companies.

A summary of our long–term debt authorizations at September 30, 2005, was as follows:

	Authorized	Used	Available
		(in millions)	
Cinergy Corp.			
PUHCA total capitalization(1)	$ 4,000	$ 657	$ 3,343
CG&E and subsidiaries(2)			
State Public Utility Commissions	$ 575	$ —	$ 575
State Public Utility Commission – Tax–Exempt	250	94	156
PSI			
State Public Utility Commission(3)	$ 500	$ —	$ 500
State Public Utility Commission – Tax–Exempt(4)	250	50	200
ULH&P			
State Public Utility Commission(5)	$ 75	$ —	$ 75

(1) In June 2005, the SEC issued an order under PUHCA authorizing **Cinergy** to increase its total capitalization (excluding *retained earnings* and *accumulated other comprehensive income (loss)*), which may be any combination of debt and equity securities, by $4 billion over the September 30, 2004 levels. Outside this requirement, **Cinergy Corp.** is not subject to specific regulatory debt authorizations.

(2) Includes amounts for **ULH&P**.

(3) In October 2005, **PSI** issued $350 million principal amount of its 6.12% Debentures due October 15, 2035.

(4) In June 2005, the IURC granted **PSI** financing authority to borrow the proceeds from the issuance and sale of up to $250 million principal amount of tax exempt securities through December 31, 2005. In October 2005, **PSI** borrowed the proceeds from the Indiana Finance Authority's issuance of its $100 million principal amount of its Environmental Revenue Bonds.

(5) In April 2005, the KPSC granted **ULH&P** financing authority to issue and sell up to $500 million principal amount of secured and unsecured debt; enter into inter–company promissory notes up to an aggregate principal amount of $200 million; and borrow up to a maximum of $200 million aggregate principal amount of tax–exempt debt through December 31, 2006. This authority is contingent upon the completion of its pending transaction with **CG&E** in which **ULH&P** will acquire interests in three of **CG&E's** electric generating stations. See "Regulatory Outlook – Kentucky" in "Future Expectations/Trends" for further information regarding this transaction.

Cinergy Corp. has an effective shelf registration statement with the SEC relating to the issuance of up to $750 million in any combination of common stock, preferred stock, stock purchase contracts or unsecured debt securities, of which $323 million remains available for issuance. **CG&E** has an effective shelf registration statement with the SEC relating to the issuance of up to $800 million in any combination of unsecured debt securities, first mortgage bonds, or preferred stock, all of which remains available for issuance. **PSI** has an effective shelf registration statement with the SEC relating to the issuance of up to $800 million in any combination of unsecured debt securities, first mortgage bonds, or preferred stock, all of which remains available for issuance. **ULH&P** has an effective shelf registration statement with the SEC for the issuance of up to $125 million in any combination of unsecured and secured debt securities.

Off–Balance Sheet Arrangements

As discussed in the 2004 10–K, **Cinergy** uses off–balance sheet arrangements from time to time to facilitate financing of various projects. **Cinergy's** primary off–balance sheet arrangement involves the sale of accounts receivable to a qualifying SPE.

In 2001, **Cinergy Corp.** issued $316 million notional amount of combined securities, a component of which was stock purchase contracts. These contracts obligated the holder to purchase common shares of **Cinergy Corp.** stock by February 2005. Since the stock purchase contracts were detachable and classified in equity, the change in their fair value was not recorded in equity or earnings and therefore the stock purchase contracts were considered off–balance sheet arrangements. In January and February 2005, the stock purchase contracts were settled, resulting in the issuance of common stock that is recorded on **Cinergy's** Condensed Consolidated Balance Sheets as Common Stock Equity.

Securities Ratings

As of September 30, 2005, the major credit rating agencies rated our securities as follows:

	Fitch(1)	Moody's(2)	S&P(3)
Cinergy Corp.			
Corporate Credit	BBB+	Baa2	BBB+
Senior Unsecured Debt	BBB+	Baa2	BBB
Commercial Paper	F–2	P–2	A–2
Preferred Trust Securities	BBB+	Baa2	BBB
CG&E			
Senior Secured Debt	A–	A3	A–
Senior Unsecured Debt	BBB+	Baa1	BBB
Junior Unsecured Debt	BBB	Baa2	BBB–
Preferred Stock	BBB	Baa3	BBB–
Commercial Paper	F–2	P–2	Not Rated
PSI			
Senior Secured Debt	A–	A3	A–
Senior Unsecured Debt	BBB+	Baa1	BBB
Junior Unsecured Debt	BBB	Baa2	BBB–
Preferred Stock	BBB	Baa3	BBB–
Commercial Paper	F–2	P–2	Not Rated
ULH&P			
Senior Unsecured Debt	BBB+	Baa1	BBB

(1) Fitch Ratings (Fitch)

(2) Moody's Investors Service (Moody's)

(3) Standard & Poor's Ratings Services (S&P)

The highest investment grade credit rating for Fitch is AAA, Moody's is Aaa1, and S&P is AAA.

The lowest investment grade credit rating for Fitch is BBB–, Moody's is Baa3, and S&P is BBB–.

On May 10, 2005, S&P placed its ratings of **Cinergy Corp.** and its subsidiaries on CreditWatch with negative implications. This action was in response to the announcement of the pending merger of Duke and **Cinergy** and the uncertainty around the final details of the transaction. Fitch has affirmed its existing ratings, noting that it anticipates the combined entity to achieve a credit profile similar to that of **Cinergy**. Moody's has also affirmed its ratings, anticipating that no incremental debt will be issued as a result of the merger. See "Pending Merger" for a further discussion of the transaction.

A security rating is not a recommendation to buy, sell, or hold securities. These securities ratings may be revised or withdrawn at any time, and each rating should be evaluated independently of any other rating.

Equity

As discussed in the 2004 10–K, in January and February 2005, **Cinergy Corp.** issued a total of 9.2 million shares of common stock pursuant to certain stock purchase contracts that were issued as a component of combined securities in December 2001. Net proceeds from the transaction of $316 million were used to reduce short–term debt.

Cinergy issues new **Cinergy Corp.** common stock shares to satisfy obligations under certain of its employee stock plans and the Cinergy Corp. Direct Stock Purchase and Dividend Reinvestment Plan. During the nine months ended September 30, 2005, **Cinergy** issued 2.5 million shares under these plans.

In June 2005, **Cinergy Corp.** contributed $200 million in capital to **PSI**. The capital contribution was used to repay short–term indebtedness and is consistent with supporting **PSI's** current credit ratings.

Cash dividends declared for the quarter ended September 30, 2005 include dividends of $0.48 per share which were declared by the board of directors on July 21 and dividends of $0.48 per share which were declared on September 30.

FUTURE EXPECTATIONS/TRENDS

In the "Future Expectations/Trends" section, we discuss developments in the electric and gas industry and other matters. Each of these discussions will address the current status and potential future impact on our financial position or results of operations.

Electric Industry

Regulatory Outlook

Ohio

Transfer of Duke Generating Assets

The merger agreement provides that Duke and **Cinergy** will use their reasonable best efforts to transfer five generating stations located in the Midwest from Duke to **CG&E**. This transfer will require regulatory approval by the FERC and the IURC. There can be no guarantee that such approvals will be obtained or will be obtained on terms or with conditions acceptable to Duke, **Cinergy**, and Duke Energy Holding. Duke intends to effectuate the transfer as an equity infusion into **CG&E** at book value. In conjunction with the transfer, Duke and **CG&E** intend to enter into a financial arrangement over a multi-year period, to eliminate any potential cash shortfalls that may result from **CG&E** owning and operating the assets. At this time, we cannot predict the outcome of this matter.

CG&E Electric Rate Filing

In response to the PUCO's request that **CG&E** propose a RSP to mitigate the potential for significant rate increases when the market development period comes to an end, **CG&E** filed a proposed RSP which was approved by the PUCO in November 2004. The major features of the RSP are as follows:

- **Provider of Last Resort (POLR) Charge: CG&E** began collecting a POLR charge from non–residential customers effective January 1, 2005, and will begin to collect a POLR charge from residential customers effective January 1, 2006. The POLR charge includes several discrete charges, the most significant being an annually adjusted component (AAC) intended to provide cost recovery primarily for environmental compliance expenditures; an infrastructure maintenance fund charge (IMF) intended to provide compensation to **CG&E** for committing its physical capacity to meet its POLR obligation; and a system reliability tracker (SRT) intended to provide cost recovery for capacity purchases, purchased power, reserve capacity, and related market costs for purchases to meet capacity needs. We anticipate the collection of the AAC and IMF will result in an approximate $36 million increase in revenues in 2005 and an additional $50 million in 2006. The SRT will be billed based on dollar–for–dollar costs incurred. A portion of these charges is avoidable by certain customers who switch to an alternative generation supplier and provide notice to **CG&E** that they will remain switched through December 31, 2008. Therefore, these estimates are subject to change, depending on the level of switching that occurs in future periods. **CG&E** has filed an application for approval of its SRT (2005 actual and 2006 estimated) with the PUCO. In October, a settlement agreement unopposed by any party to the case was filed with the PUCO providing for implementation of the 2006 SRT at a 15 percent reserve margin and approval of the 2005 SRT price. A Commission decision is expected on this matter in the fourth quarter of 2005. In 2007 and 2008, **CG&E** could seek additional increases in the AAC component of the POLR based on **CG&E's** actual net costs for the specified expenditures.

- **Generation Rates and Fuel Recovery:** A new rate has been established for generation service after the market development period ends. In addition, a fuel cost recovery mechanism that is adjusted quarterly has been established to recover costs for fuel, emission allowances, and certain purchased power costs, that exceed the amount originally included in the rates frozen in the **CG&E** transition plan. These new rates were applied to non–residential customers beginning January 1, 2005 and will be applied to residential customers beginning January 1, 2006. The fuel clause recovery mechanism was recently audited by the PUCO's auditor. The audit recommended alternate methodologies for administration of the fuel clause recovery mechanism that vary from **CG&E's** current practice. A hearing before PUCO hearing examiners was held in early November at which the PUCO staff took positions contrary to **CG&E's** current practice. **CG&E** officials also testified at the hearing concerning our current practices. An order from the PUCO on these matters is expected in the fourth quarter of this year. While we cannot predict the outcome of these proceedings, an outcome resulting in administrative methodologies substantially different from those being employed by **CG&E** could have a material impact on **CG&E** and **Cinergy's** results of operations.

- **Generation Rate Reduction:** The existing five percent generation rate reduction required by statute for residential customers implemented under **CG&E's** 2000 plan will end on December 31, 2005.

- **Transmission Cost Recovery:** A transmission cost recovery mechanism was established beginning January 1, 2005 for non–residential customers and will be established beginning January 1, 2006 for residential customers. The transmission cost recovery mechanism is designed to permit **CG&E** to recover Midwest ISO charges, all FERC approved transmission costs, and all congestion costs allocable to retail ratepayers that are provided service by **CG&E**.

- **Distribution Cost Recovery: CG&E** will have the ability to defer certain capital–related distribution costs from July 1, 2004 through December 31, 2005 with recovery from non–residential customers to be provided through a rider beginning January 1, 2006 through December 31, 2010.

CG&E had also filed an electric distribution base rate case for residential and non–residential customers to be effective January 1, 2005. Under the terms of the RSP described previously, **CG&E** withdrew this base rate case and, in February 2005, **CG&E** filed a new distribution base rate case with rates to become effective January 1, 2006. The originally requested amount of the increase was $78 million, which was subsequently updated to $69.5 million. On September 9, 2005, the PUCO issued its Staff Report recommending a revenue increase range between approximately $43 million and $49 million. The hearing for this case is set to begin December 12, 2005.

In March 2005, the Ohio Consumers' Counsel asked the Ohio Supreme Court to overturn the RSP. We expect the court to decide the case in 2006; however, at this time we cannot predict the outcome of this matter.

Kentucky

The KPSC and the FERC have approved **ULH&P's** planned 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, and associated transactions. **ULH&P** is currently seeking approval of the transaction in a proceeding before the SEC, wherein the Ohio Consumers' Counsel has intervened in opposition. The transfer, which will be at net book value, will not affect current electric rates for **ULH&P's** customers, as power will be provided under the same terms as under the current wholesale power contract with **CG&E** through December 31, 2006. Assuming receipt of SEC approval, we would anticipate the transfer to take place in the first quarter of 2006.

Indiana

Wheatland Generating Facility Acquisition

On May 6, 2005, we signed a definitive agreement with subsidiaries of Allegheny Energy, Inc. whereby, subject to the terms and upon satisfaction of the conditions to closing provided in the purchase agreement, **PSI** and/or **CG&E** had the right to acquire the 512–megawatt Wheatland generating facility for approximately $100 million. The Wheatland facility, located in Knox County, Indiana, has four natural gas–fired simple cycle combustion turbines and is directly connected to the **Cinergy** transmission system. In June and August 2005, respectively, the FERC and IURC approved the acquisition and the Department of Justice and Federal Trade Commission completed their review of the transaction pursuant to the notification requirements of the Hart–Scott–Rodino Antitrust Improvements Act. In August 2005, **PSI** acquired 100 percent of the Wheatland facility. Its output will be used to bolster the reserve margins on the **PSI** system.

Integrated Coal Gasification Combined Cycle

Cinergy is studying the feasibility of constructing a commercial IGCC generating station to help meet increased demand over the next decade. **PSI** would be a majority owner of the facility and operate it. **Cinergy** will partner with Bechtel Corporation and General Electric Company to complete this study. An IGCC plant turns coal to gas, removing most of the SO_2 and other emissions before the gas is used to fuel a combustion turbine generator. The technology uses less water and has fewer emissions than a conventional coal–fired plant with currently required pollution control equipment. Another benefit is the potential to remove mercury and CO_2 upstream of the combustion process at a lower cost than conventional plants. In August 2005, **PSI** and Vectren Energy Delivery of Indiana, Inc. (Vectren) filed a joint petition at the IURC seeking cost recovery of the feasibility study as well as engineering and preconstruction costs associated with the consideration and exploration of constructing an IGCC plant. If a decision is reached to move forward with constructing such a plant, **PSI** would seek approval from the IURC to begin construction. If approved, we would anticipate the IURC's subsequent approval to include the assets in **PSI's** rate base.

PSI Environmental Compliance Case

In November 2004, **PSI** filed a compliance plan case with the IURC seeking approval of **PSI's** plan for complying with SO_2, NO_X, and mercury emission reduction requirements discussed previously in "Environmental Protection Agency Regulations" in "Liquidity and Capital Resources", including approval of cost recovery and an overall rate of return of eight percent related to certain projects. **PSI** requested approval to recover the financing, depreciation, and operation and maintenance costs, among others, related to $1.08 billion in capital projects designed to reduce emissions of SO_2, NO_X, and mercury at **PSI's** coal–burning generating stations. An evidentiary hearing was held in May 2005 and a final IURC Order is expected in the fourth quarter of 2005.

FERC and Midwest ISO

FERC

The FERC has issued several notices of proposed rulemaking and inquiry on a variety of matters to implement provisions of the Energy Bill, among other things. At this time, we cannot predict the outcome of these proposals.

Midwest ISO Energy Markets

The Midwest ISO is a regional transmission organization established in 1998 as a non–profit organization which maintains functional control over the combined transmission systems of its members, including **Cinergy**. In March 2004, the Midwest ISO filed with the FERC proposed changes to its existing transmission tariff to add terms and conditions to implement a centralized economic dispatch platform supported by a Day–Ahead and Real–Time Energy Market design, including Locational Marginal Pricing (LMP) and Financial Transmission Rights (FTRs) (Energy Markets Tariff). The FERC has issued orders that, among other things, conditionally approve the start–up of the Energy Markets Tariff which occurred April 1, 2005. The FERC issued orders in response to requests for rehearing on certain matters in the FERC's original orders. **Cinergy**has appealed the FERC orders to a federal appeals court.

Specifically, the Energy Markets Tariff manages system reliability through the use of a market–based congestion management system and includes a centralized dispatch platform, the intent of which is to dispatch the most economic resources to meet load requirements reliably and efficiently in the Midwest ISO region, which covers a large portion of 15 Midwestern states and one Canadian province. The Energy Markets Tariff uses LMP (i.e., the energy price for the next megawatt (MW) may vary throughout the Midwest ISO market based on transmission congestion and energy losses), and the allocation or auction of FTRs, which are instruments that hedge against congestion costs occurring in the Day–Ahead market. The Energy Markets Tariff also includes market monitoring and mitigation measures as well as a resource adequacy proposal, that proposes both an interim solution for participants providing and having access to adequate generation resources and a proposal to develop a long–term solution to resource adequacy concerns. The Midwest ISO performs a day–ahead unit commitment and dispatch forecast for all resources in its market and also performs the real–time resource dispatch for resources under its control on a five minute basis. The **Cinergy** utility operating companies are seeking recovery of costs that they incur related to the Energy Markets Tariff. We have been operating under the Energy Markets Tariff since April 2005. We continue to work with the Midwest ISO to monitor the implementation of the new market and at this time we do not believe it will have a material impact on our results of operations or financial position.

Global Climate Change

Presently, GHG emissions, which principally consist of CO_2, are not regulated, and while several legislative proposals have been introduced in Congress to reduce utility GHG emissions, none have been passed. Nevertheless, we anticipate a mandatory program to reduce GHG emissions will exist in the future. We expect that any regulation of GHGs will impose costs on **Cinergy.** Depending on the details, any GHG regulation could mean:

- Increased capital expenditures associated with investments to improve plant efficiency or install CO_2 emission reduction technology (to the extent that such technology exists) or construction of alternatives to coal generation;
- Increased operation and maintenance expense;
- Our older, more expensive to operate generating stations may operate fewer hours each year because the addition of CO_2 costs could cause their generation to be less economic; and
- Increased expenses associated with the purchase of CO_2 emission allowances, should such an emission allowances market be created.

We would plan to seek recovery of the costs associated with a GHG program in rate regulated states where cost recovery is permitted.

In September 2003, **Cinergy** announced a voluntary GHG management commitment to reduce its GHG emissions during the period from 2010 through 2012 by five percent below our 2000 level, maintaining those levels through 2012. **Cinergy** expects to spend $21 million between 2004 and 2010 on projects to reduce or offset its GHG emissions. **Cinergy** is committed to supporting the President's voluntary initiative, addressing shareholder interest in the issue, and building internal expertise in GHG management and GHG markets. Our voluntary commitment includes the following:

- Measuring and inventorying company–related sources of GHG emissions;
- Identifying and pursuing cost–effective GHG emission reduction and offsetting activities;
- Funding research of more efficient and alternative electric generating technologies;
- Funding research to better understand the causes and consequences of climate change;
- Encouraging a global discussion of the issues and how best to manage them; and
- Participating in discussions to help shape the policy debate.

Cinergy is also studying the feasibility of constructing a commercial IGCC generating station which would be "carbon capture ready" or have the potential to capture CO_2 and then potentially sequester it underground. See "Integrated Coal Gasification Combined Cycle" discussed previously for more information.

Gas Industry

Significant Rate Developments

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 up to ten years. The tracking mechanism allows **ULH&P** to recover depreciation costs and rate of return annually over the life of the deferred assets. As of September 30, 2005 we have capitalized $60 million in costs associated with the accelerated gas main replacement program through this tracking mechanism of which **ULH&P** has recovered $8.6 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 the Company and the KPSC filed with the Franklin Circuit Court, requesting dismissal of the case for failure to prosecute by the 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 increase in base rates. The KPSC did not rule on this request by October 1, 2005 causing the initial tracking mechanism to expire. In accordance with Kentucky law, **ULH&P** implemented the full amount of the requested rate increase on October 1, 2005. Any revenue collected pursuant to the rate increase will be subject to refund if the KPSC does not approve the full requested amount. **ULH&P** expects that the KPSC will issue its decision during the fourth quarter of 2005.

Gas Prices and Supply

Natural gas prices remained in the $8 – $9 per thousand cubic feet (Mcf) range through most of the summer due primarily to the warmer than normal summer and the increased use of gas to fire electric generation peaking units. Extensive damage to the natural gas infrastructure along the Gulf Coast caused by Hurricanes Katrina and Rita pushed the price of natural gas into the $12 – $14 per Mcf range by late September. Winter delivery prices for 2005 and early 2006 assuming normal winter weather, are expected to range from $11 to $13 per Mcf in the Midwest or about 50 percent greater than last winter. Price movement is usually driven by the effects of weather conditions, availability of supply, and changes in demand and storage inventories. Currently, neither **CG&E's** nor **ULH&P's** gas delivery operations profit from changes in the cost of natural gas since natural gas purchase costs are passed directly to the customer dollar–for–dollar under the gas cost recovery mechanism that is mandated under state law.

ULH&P utilizes a price mitigation program designed to mitigate the effects of gas price volatility on customers, which the KPSC has approved through April 2008. The program allows the pre–arranging of between 20–75 percent of winter heating season base load gas requirements and up to 50 percent of summer season base load gas requirements. **CG&E** similarly mitigates its gas procurement costs; however, **CG&E's** gas price mitigation program has not been pre–approved by the PUCO but rather it is subject to PUCO review as part of the normal gas cost recovery process.

CG&E and **ULH&P** use primarily long–term fixed price contracts and contracts with a ceiling and floor on the price. These contracts employ the normal purchases and sales scope exception, and do not involve hedge accounting under Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (Statement 133).

Other Matters

Synthetic Fuel Production

Cinergy produces from two facilities synthetic fuel that qualifies for tax credits (through 2007) in accordance with Section 29 of the IRC if certain requirements are satisfied.

Cinergy's sale of synthetic fuel has generated $306 million in tax credits through September 30, 2005 of which $27 million related to the new facility purchased in the second quarter of 2005. The IRS is currently auditing **Cinergy** for the 2002 and 2003 tax years and has recently challenged certain other taxpayers' Section 29 tax credits. We expect the IRS will evaluate the various key requirements for claiming our Section 29 credits related to synthetic fuel. If the IRS challenges our Section 29 tax credits related to synthetic fuel, and such challenges were successful, this could result in the disallowance of up to all $306 million in previously claimed Section 29 tax credits for synthetic fuel produced by the applicable **Cinergy** facilities and a loss of our ability to claim future Section 29 tax credits for synthetic fuel produced by such facilities. We believe that we operate in conformity with all the necessary requirements to be allowed such tax credits under Section 29. Upon consummation of the pending merger of Duke and **Cinergy**, the synthetic fuel produced by **Cinergy's** new facility pursuant to the existing commercial arrangement would cease to qualify for the Section 29 credit. **Cinergy** is evaluating transactions for the disposition of a portion of the affected facility that **Cinergy** believes would enable the fuel produced by the facility to continue to qualify for credit under IRC Section 29. In the event a suitable transaction is not achieved, **Cinergy** anticipates that its production of synthetic fuel at the affected facility would be suspended upon consummation of the pending merger with Duke.

Section 29 also provides for a phase–out of the credit based on the average price of crude oil during a calendar year. The phase–out is based on a prescribed calculation and definition of crude oil prices. Based on current crude oil prices and the recent volatility of such prices, we believe it is possible that for 2006 and 2007, the amount of the tax credits could be reduced. If oil prices are high enough, we may idle the plants, as the value of the credits would not exceed the net costs to produce the synthetic fuel. Net income related to these facilities for the nine months ended September 30, 2005 was approximately $30 million. The net book value of our plants at September 30, 2005 was approximately $50 million.

Ohio Taxes

The Ohio legislature has approved sweeping changes to Ohio's tax law which will phase out the Ohio corporate franchise tax over five years. The franchise tax will be replaced by a "Commercial Activity Tax", a tax imposed on gross receipts. We do not expect the tax law changes to have a material impact on our cash flows. The phase–out of the Ohio franchise tax resulted in the elimination of state income tax deferrals under GAAP thus reducing the effective income tax rate during the period. However, we do not expect these changes to have a material impact on our results of operations or financial position going forward over the remainder of the phase–out period.

MARKET RISK SENSITIVE INSTRUMENTS

Energy Commodities Sensitivity

The transactions associated with Commercial's energy marketing and trading activities and substantial investment in generation assets give rise to various risks, including price risk. Price risk represents the potential risk of loss from adverse changes in the market price of electricity or other energy commodities. As Commercial continues to develop its energy marketing and trading business, its exposure to movements in the price of electricity and other energy commodities may become greater. As a result, we may be subject to increased future earnings volatility.

As discussed in the 2004 10–K, Commercial's energy marketing and trading activities principally consist of Marketing & Trading's natural gas marketing and trading operations and **CG&E's** power marketing and trading operations.

Changes in Fair Value

The changes in fair value of the energy risk management assets and liabilities for **Cinergy** and **CG&E** for the nine months ended September 30, 2005 and 2004 are presented in the table below.

	Change in Fair Value			
	September 30, 2005		September 30, 2004	
	Cinergy(1)	CG&E	Cinergy(1)	CG&E
	(in millions)			
Fair value of contracts outstanding at the beginning of the year	**$ 82**	**$ 36**	$ 41	$ 20
Changes in fair value attributable to changes in valuation techniques and assumptions(2)	**(3)**	**(3)**	—	—
Other changes in fair value(3)	**(122)**	**(36)**	129	60
Option premiums paid/(received)	**15**	**14**	1	4
Contracts settled	**(154)**	**(91)**	(93)	(32)
Fair value of contracts outstanding at end of period	**$ (182)**	**$ (80)**	$ 78	$ 52

(1) The results of **Cinergy** also include amounts related to non–registrants.

(2) Represents changes in fair value recognized in income, caused by changes in assumptions used in calculating fair value or changes in modeling techniques.

(3) Represents changes in fair value recognized in income, primarily attributable to fluctuations in price. This amount includes both realized and unrealized gains on energy trading contracts.

The following are the balances at September 30, 2005 and 2004 of our energy risk management assets and liabilities:

	September 30, 2005		September 30, 2004	
	Cinergy(1)	CG&E	Cinergy(1)	CG&E
	(in millions)			
Energy risk management assets – current	$ **1,260**	$ **670**	$ 470	$ 178
Energy risk management assets – non–current	**397**	**208**	137	48
Energy risk management liabilities – current	**1,419**	**741**	396	126
Energy risk management liabilities – non–current	**420**	**217**	133	48
	$ **(182)**	$ **(80)**	$ 78	$ 52

(1) The results of **Cinergy** also include amounts related to non–registrants.

The following table presents the expected maturity of the energy risk management assets and liabilities as of September 30, 2005 for **Cinergy** and **CG&E**:

Source of Fair Value(1)	Fair Value of Contracts at September 30, 2005 Maturing Within 12 months	12–36 months	36–60 months	Thereafter	Total Fair Value
			(in millions)		
Cinergy(2)					
Prices actively quoted	$ (190)	$ (23)	$ —	$ —	$ (213)
Prices based on models and other valuation methods(3)	31	(4)	7	(3)	31
Total	$ (159)	$ (27)	$ 7	$ (3)	$ (182)
CG&E					
Prices actively quoted	$ (82)	$ (8)	$ —	$ —	$ (90)
Prices based on models and other valuation methods(3)	11	(2)	2	(1)	10
Total	$ (71)	$ (10)	$ 2	$ (1)	$ (80)

(1) While liquidity varies by trading regions, active quotes are generally available for two years for standard electricity transactions and three years for standard gas transactions. Non–standard transactions are classified based on the extent, if any, of modeling used in determining fair value. Long–term transactions can have portions in both categories depending on the length.

(2) The results of **Cinergy** also include amounts related to non–registrants.

(3) A substantial portion of these amounts include option values.

Generation Portfolio Risks

Cinergy optimizes the value of its non–regulated portfolio. The portfolio includes generation assets (power and capacity), fuel, and emission allowances and we manage all of these components as a portfolio. We use models that forecast future generation output, fuel requirements, and emission allowance requirements based on forward power, fuel and emission allowance markets. The component pieces of the portfolio are bought and sold based on this model in order to manage the economic value of the portfolio. With the issuance of Statement of Financial Accounting Standards No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities* (Statement 149), most forward power transactions from management of the portfolio are accounted for at fair value. The other component pieces of the portfolio are typically not subject to Statement 149 and are accounted for using the accrual method, where changes in fair value are not recognized. As a result, we are subject to earnings volatility via MTM gains or losses from changes in the value of the contracts accounted for using fair value. A hypothetical $1.00 per MWh increase or decrease consistently applied to all forward power prices would have resulted in an increase or decrease in fair value of these contracts of approximately $6.7 million as of September 30, 2005. See "2005 Quarterly Results of Operations" and "2005 Year to Date Results of Operations" for further discussion of the impact on current quarter and year to date results.

Energy Trading Credit Risk

Cinergy's extension of credit for energy marketing and trading is governed by a Corporate Credit Policy. Written guidelines approved by **Cinergy's** Risk Policy Committee document the management approval levels for credit limits, evaluation of creditworthiness, and credit risk mitigation procedures. **Cinergy** analyzes net credit exposure and establishes credit reserves based on the counterparties' credit rating, payment history, and length of the outstanding obligation. Exposures to credit risks are monitored daily by the Corporate Credit Risk function, which is independent of all trading operations. Energy commodity prices can be extremely volatile and the market can, at times, lack liquidity. Because of these issues, credit risk for energy commodities is generally greater than with other commodity trading.

The following tables provide information regarding **Cinergy's** and **CG&E's** exposure on energy trading contracts as of September 30, 2005. The tables include accounts receivable and energy risk management assets, which are net of accounts payable and energy risk management liabilities with the same counterparties when we have the right of offset. The credit collateral shown in the following tables includes cash and letters of credit.

Cinergy(1)

Rating	Total Exposure Before Credit Collateral	Credit Collateral	Net Exposure	Percentage of Total Net Exposure	Number of Counterparties Greater than 10% of Total Net Exposure	Net Exposure of Counterparties Greater than 10% of Total Net Exposure(4)
			(in millions)			
Investment Grade(2)	$ 1,360	$ 358	$ 1,002	81%	—	$ —
Internally Rated–Investment Grade(3)	326	194	132	11	—	—
Non–Investment Grade	134	95	39	3	—	—
Internally Rated–Non–Investment Grade	170	110	60	5	—	—
Total	$ 1,990	$ 757	$ 1,233	100%	—	$ —

(1) Includes amounts related to non–registrants.

(2) Includes counterparties rated Investment Grade or the counterparties' obligations are guaranteed or secured by an Investment Grade entity.

(3) Counterparties include a variety of entities, including investor–owned utilities, privately held companies, cities and municipalities. **Cinergy** assigns internal credit ratings to all counterparties within our credit risk portfolio, applying fundamental analytical tools. Included in this analysis is a review of (but not limited to) counterparty financial statements with consideration given to off–balance sheet obligations and assets, specific business environment, access to capital, and indicators from debt and equity capital markets.

(4) Exposures, positive or negative, with counterparties that are related to one another are not aggregated when no right of offset exists and as a result, credit is extended and evaluated on a separate basis.

CG&E

Rating	Total Exposure Before Credit Collateral	Credit Collateral	Net Exposure	Percentage of Total Net Exposure	Number of Counterparties Greater than 10% of Total Net Exposure	Net Exposure of Counterparties Greater than 10% of Total Net Exposure(3)
			(in millions)			
Investment Grade(1)	$ 384	$ 160	$ 224	85%	1	$ 5
Internally Rated–Investment Grade(2)	151	138	13	5	—	—
Non–Investment Grade	47	37	10	4	—	—
Internally Rated–Non–Investment	30	14	16	6	—	—

Grade						
Total	$ 612	$ 349	$ 263	100%	1	$ 54

(1) Includes counterparties rated Investment Grade or the counterparties' obligations are guaranteed or secured by an Investment Grade entity.

(2) Counterparties include various cities and municipalities.

(3) Exposures, positive or negative, with counterparties that are related to one another are not aggregated when no right of offset exists and as a result, credit is extended and evaluated on a separate basis.

ACCOUNTING MATTERS

Critical Accounting Estimates

Preparation of financial statements and related disclosures in compliance with GAAP requires the use of assumptions and estimates regarding future events, including the likelihood of success of particular investments or initiatives, estimates of future prices or rates, legal and regulatory challenges, and anticipated recovery of costs. Therefore, the possibility exists for materially different reported amounts under different conditions or assumptions. We consider an accounting estimate to be critical if: 1) the accounting estimate requires us to make assumptions about matters that were reasonably uncertain at the time the accounting estimate was made, and 2) changes in the estimate are reasonably likely to occur from period to period.

Cinergy's 2004 10–K includes a discussion of accounting policies that are critical to the presentation of **Cinergy's** financial position and results of operations. These include:

- Fair Value Accounting for Energy Marketing and Trading;
- Regulatory Accounting;
- Income Taxes;
- Contingencies;
- Impairment of Long–Lived Assets; and
- Impairment of Unconsolidated Investments.

Accounting Changes

Asset Retirement Obligations

In March 2005, the FASB issued Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (Interpretation 47), an interpretation of Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* (Statement 143). Statement 143 requires recognition of legal obligations associated with the retirement or removal of long–lived assets at the time the obligations are incurred. Interpretation 47 clarifies that a conditional asset retirement obligation (which occurs when the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity) is a legal obligation within the scope of Statement 143. As such, the fair value of a conditional asset retirement obligation must be recognized as a liability when incurred if the liability's fair value can be reasonably estimated. Interpretation 47 also clarifies when sufficient information exists to reasonably estimate the fair value of an asset retirement obligation.

Cinergy will adopt Interpretation 47 on December 31, 2005. Upon adoption of Interpretation 47 **Cinergy** will recognize the impact, if any, of additional liabilities for conditional asset retirement obligations as a cumulative effect of a change in accounting principle. We continue to evaluate the impact of adopting this new interpretation and are currently unable to predict whether the implementation of this accounting standard will be material to our financial position or results of operations.

Share–Based Payment

In December 2004, the FASB issued a replacement of Statement of Financial Accounting Standards No. 123, *Accounting for Stock–Based Compensation* (Statement 123), *Statement of Financial Accounting Standards No. 123 (revised 2004), Share–Based Payment* (Statement 123R). This standard will require, among other things, accounting for all stock–based compensation arrangements under the fair value method.

In 2003, we prospectively adopted accounting for our stock–based compensation plans using the fair value recognition provisions of Statement 123, as amended by Statement of Financial Accounting Standards No. 148, *Accounting for Stock–Based Compensation–Transition and Disclosure*, for all employee awards granted or with terms modified on or after January 1, 2003. Therefore, the impact of implementation of Statement 123R on stock options within our stock–based compensation plans is not expected to be material. Statement 123R contains certain provisions that will modify the accounting for various types of stock–based compensation other than stock options. We are in the process of evaluating the impact of this new standard on our plans. **Cinergy** will adopt Statement 123R on January 1, 2006.

Income Taxes

In October 2004, the American Jobs Creation Act (AJCA) was signed into law. The AJCA includes a one–time deduction of 85 percent of certain foreign earnings that are repatriated, as defined in the AJCA. Based on our analysis, repatriation pursuant to this provision will not have a material impact on our financial position or results of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

This information is provided in, and incorporated by reference from, the "Market Risk Sensitive Instruments" section in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations".

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are our controls and other procedures that are designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 (Exchange Act) is recorded, processed, summarized, and reported, within the time periods specified by the Securities and Exchange Commission's (SEC) rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we have evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2005, and, based upon this evaluation, our chief executive officer and chief financial officer have concluded that these controls and procedures are effective in providing reasonable assurance that information requiring disclosure is recorded, processed, summarized, and reported within the timeframe specified by the SEC's rules and forms.

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we have evaluated changes in our internal control over financial reporting (as such term is defined in Rules 13a–15(f) and 15d–15(f) under the Exchange Act) during the fiscal quarter ended September 30, 2005 and found no change that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

CLEAN AIR ACT (CAA) 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**, The Cincinnati Gas & Electric Company (**CG&E**), and PSI Energy, Inc. (**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 State Implementation Plan (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 Environmental Protection Agency (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 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. 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 the discretion to accept the appeal at this time. There are a number of other legal issues currently before the district court judge, and the case is currently set for trial by jury commencing in February 2006.

In March 2000, the United States also filed in the United States District Court for the Southern District of Ohio an amended complaint in a separate lawsuit alleging violations of the CAA relating to PSD, NSR, and Ohio SIP requirements regarding various generating stations, including a generating station operated by Columbus Southern Power Company (CSP) and jointly–owned by CSP, The Dayton Power and Light Company (DP&L), and **CG&E**. The EPA is seeking injunctive relief and civil penalties of up to $27,500 per day for each violation. This suit is being defended by CSP. In April 2001, the United States District Court for the Southern District of Ohio in that case ruled that the Government and the intervening plaintiff environmental groups cannot seek monetary damages for alleged violations that occurred prior to November 3, 1994; however, they are entitled to seek injunctive relief for such alleged violations. Neither party appealed that decision. This matter was heard in trial in July 2005. A decision is expected by the end of 2005.

In addition, **Cinergy** and **CG&E** have been informed by DP&L that in June 2000, the EPA issued a Notice of Violation (NOV) to DP&L for alleged violations of PSD, NSR, and Ohio SIP requirements at a station operated by DP&L and jointly–owned by DP&L, CSP, and **CG&E**. The NOV indicated the EPA may (1) issue an order requiring compliance with the requirements of the Ohio SIP, or (2) bring a civil action seeking injunctive relief and civil penalties of up to $27,500 per day for each violation. In September 2004, Marilyn Wall and the Sierra Club brought a lawsuit against **CG&E**, DP&L and CSP for alleged violations of the CAA at this same generating station. This case is currently in discovery.

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.

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. We are not able to predict whether resolution of these matters would have a material effect on our financial position or results of operations.

SELECTIVE CATALYTIC REDUCTION UNITS (SCR) AT GIBSON STATION

In May 2004, SCRs and other pollution control equipment became operational at Units 4 and 5 of **PSI's** Gibson Station in accordance with compliance deadlines under the nitrogen oxide SIP Call. In June and July 2004, Gibson Station temporarily shut down the equipment on these units due to a concern that portions of the plume from those units' stacks appeared to break apart and descend to ground level, at certain times, under certain weather conditions. As a result, and, working with the City of Mt. Carmel, Illinois, Illinois EPA, Indiana Department of Environmental Management (IDEM), EPA, and the State of Illinois, we developed a protocol regarding the use of the SCRs while we explored alternatives to address this issue. After the protocol was finalized, the Illinois Attorney General brought an action in Wabash County Circuit Court against **PSI** seeking a preliminary injunction to enforce the protocol. In August 2004, the court granted that preliminary injunction. **PSI** is appealing that decision to the Fifth District Appellate Court, but we cannot predict the ultimate outcome of that appeal or of the underlying action by the Illinois Attorney General.

In April 2005, we completed the installation of a permanent control system to address this issue. The new control system will support all five Gibson generating units. We will seek recovery of any related capital as well as increased emission allowance expenditures through the regulatory process. We do not believe costs related to resolving this matter will have a material impact on our financial position or results of operations.

ZIMMER GENERATING STATION (ZIMMER STATION) LAWSUIT

In November 2004, a citizen of the Village of Moscow, Ohio, the town adjacent to **CG&E's** Zimmer Station, brought a purported class action in the United States District Court for the Southern District of Ohio seeking monetary damages and injunctive relief against **CG&E** for alleged violations of the CAA, the Ohio SIP, and Ohio laws against nuisance and common law nuisance. The plaintiffs have filed a number of additional notices of intent to sue and two lawsuits raising claims similar to those in the original claim. One lawsuit was dismissed on procedural grounds and the remaining two have been consolidated. At this time, we cannot predict whether the outcome of this matter will have a material impact on our financial position or results of operations. We intend to defend this lawsuit vigorously in court.

MANUFACTURED GAS PLANT (MGP) SITES

Coal tar residues, related hydrocarbons, and various metals have been found in at least 22 sites that **PSI** or its predecessors previously owned and sold in a series of transactions with Northern Indiana Public Service Company (NIPSCO) and Indiana Gas Company, Inc. (IGC). The 22 sites are in the process of being studied and will be remediated, if necessary. In 1998 NIPSCO, IGC, and **PSI** entered into Site Participation and Cost Sharing Agreements to allocate liability and responsibilities between them. The IDEM oversees investigation and cleanup of all of these sites. Thus far, **PSI** has primary responsibility for investigating, monitoring and, if necessary, remediating nine of these sites. In December 2003, **PSI** entered into a voluntary remediation plan with the state of Indiana, providing a formal framework for the investigation and cleanup of the sites.

In April 1998, **PSI** filed suit in Hendricks County in the state of Indiana against its general liability insurance carriers. **PSI** sought a declaratory judgment to obligate its insurance carriers to (1) defend MGP claims against **PSI** and compensate **PSI** for its costs of investigating, preventing, mitigating, and remediating damage to property and paying claims related to MGP sites; or (2) pay **PSI's** cost of defense. **PSI** settled, in principle, its claims with all but one of the insurance carriers in January 2005 prior to commencement of the trial. With respect to the lone insurance

carrier, a jury returned a verdict against **PSI** in February 2005. **PSI** has appealed this decision. At the present time, **PSI** cannot predict the outcome of this litigation, including the outcome of the appeal.

PSI has accrued costs related to investigation, remediation, and groundwater monitoring for those sites where such costs are probable and can be reasonably estimated. We will continue to investigate and remediate the sites as outlined in the voluntary remediation plan. As additional facts become known and investigation is completed, we will assess whether the likelihood of incurring additional costs becomes probable. Until all investigation and remediation is complete, we are unable to determine the overall impact on our financial position or results of operations.

CG&E and **ULH&P** have performed site assessments on certain of their sites where we believe MGP activities have occurred at some point in the past and have found no imminent risk to the environment. At the present time, **CG&E** and **ULH&P** cannot predict whether investigation and/or remediation will be required in the future at any of these sites.

ASBESTOS CLAIMS LITIGATION

CG&E and **PSI** have been named as defendants or co–defendants in lawsuits related to asbestos at their electric generating stations. Currently, there are approximately 130 pending lawsuits. In these lawsuits, plaintiffs claim to have been exposed to asbestos–containing products in the course of their work at the **CG&E** and **PSI** generating stations. The plaintiffs further claim that as the property owner of the generating stations, **CG&E** and **PSI** should be held liable for their injuries and illnesses based on an alleged duty to warn and protect them from any asbestos exposure. A majority of the lawsuits to date have been brought against **PSI**. The impact on **CG&E's** and **PSI's** financial position or results of operations of these cases to date has not been material.

Of these lawsuits, one case filed against **PSI** has been tried to verdict. The jury returned a verdict against **PSI** in the amount of approximately $500,000 on a negligence claim and a verdict for **PSI** on punitive damages. **PSI** appealed this decision up to the Indiana Supreme Court. In July 2005, the Indiana Supreme Court upheld the jury's verdict. In addition, **PSI** has settled a number of other lawsuits for amounts, which neither individually nor in the aggregate, are material to **PSI's** financial position or results of operations. We are currently evaluating the effect of the Indiana Supreme Court's ruling on our existing docket of cases.

At this time, **CG&E** and **PSI** are not able to predict the ultimate outcome of these lawsuits or the impact on **CG&E's** and **PSI's** financial position or results of operations.

MERGER LAWSUIT

In May, a purported shareholder class action was filed in the Court of Common Pleas in Hamilton County, Ohio against **Cinergy** and each of the members of the Board of Directors. The lawsuit alleges that the defendants breached their duties of due care and loyalty to shareholders by agreeing to the merger agreement between Duke and **Cinergy** and is seeking to either enjoin or amend the terms of the merger. **Cinergy** and the individual defendants filed a motion to dismiss this lawsuit in July. We believe this lawsuit is without merit and **Cinergy** intends to defend this lawsuit vigorously in court. We are unable to predict the outcome of this matter, including whether resolution of this matter will impact our pending merger.

DUNAVAN WASTE SUPERFUND SITE

In July and October 2005, **PSI** received notices from the EPA that it has been identified as a de minimus potentially responsible party under the Comprehensive Environmental Response, Compensation, and Liability Act at the Dunavan Waste Oil Site in Oakwood, Vermilion County, Illinois. At this time, **PSI** does not have any further information regarding the scope of potential liability associated with this matter.

OHIO EPA PENALTY ON CINERGY POWER GENERATION SERVICES

In October 2005, the Ohio EPA proposed a civil penalty of $102,000 on Cinergy Power Generation Services to settle multiple, unrelated alleged violations occurring at multiple **CG&E** generating stations over the past several years. **CG&E** is currently reviewing the settlement proposal.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The number of shares (or units) provided in the table below represent shares exchanged in connection with employee option exercises and shares purchased by the plan trustee on behalf of the 401(k) Excess Plan.

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
July 1 – July 31	10,997	$ 45.45	—	—
August 1 – August 31	10,692	$ 43.23	—	—
September 1 – September 30	2	$ 43.19	—	—

ITEM 6. EXHIBITS

The documents listed below are being furnished or filed on behalf of **Cinergy Corp.**, The Cincinnati Gas & Electric Company (**CG&E**), PSI Energy, Inc. (**PSI**), and The Union Light, Heat and Power Company (**ULH&P**). Exhibits not identified as previously furnished or filed are furnished or filed herewith:

Exhibit Designation	Registrant	Nature of Exhibit	Previously Filed as Exhibit to:
Additional Exhibits			
2–a	**Cinergy Corp.**	Amendment No. 2 Agreement and Plan of Merger, dated October 3, 2005, by and among Duke Energy Corporation, **Cinergy Corp.**, Deer Holding Corp., Deer Acquisition Corp. and Cougar Acquisition Corp.	**Cinergy Corp.** Form 8–K, filed October 7, 2005
10–a	**Cinergy Corp.**	Separation Agreement and Waiver and Release Agreement, dated July 8, 2005, between Cinergy Services, Inc. and R. Foster Duncan	**Cinergy Corp.** Form 8–K, filed July 8, 2005
10–b	**Cinergy Corp.**	Amendment to Employment Agreement, effective May 24, 2005, between Cinergy Services, Inc. and Michael J. Cyrus	**Cinergy Corp.** Form 8–K, filed July 8, 2005
10–c	**Cinergy Corp.**	Form of incentive stock option grant agreement.	
10–d	**Cinergy Corp.**	Form of non–qualified stock option grant agreement.	
10–e	**Cinergy Corp.**	Form of restricted stock grant agreement.	
10–f	**Cinergy Corp.**	Form of performance share grant agreement.	
10–g	**Cinergy Corp.**	Form of phantom stock grant agreement.	
Certificates			
31–a	**Cinergy Corp.** **CG&E** **PSI** **ULH&P**	Certification by James E. Rogers pursuant to Rule 13a–14(a)/15d–14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes–Oxley Act of 2002.	
31–b	**Cinergy Corp.** **CG&E** **PSI** **ULH&P**	Certification by Lynn J. Good pursuant to Rule 13a–14(a)/15d–14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes–Oxley Act of 2002.	
32–a	**Cinergy Corp.** **CG&E** **PSI** **ULH&P**	Certification by James E. Rogers pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes–Oxley Act of 2002.	
32–b	**Cinergy Corp.** **CG&E** **PSI** **ULH&P**	Certification by Lynn J. Good pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes–Oxley Act of 2002.	

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, each of the Registrants has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CINERGY CORP.

THE CINCINNATI GAS & ELECTRIC COMPANY

PSI ENERGY, INC.

THE UNION LIGHT, HEAT AND POWER COMPANY

Registrants

Date: November 4, 2005

/s/ David L. Wozny

David L. Wozny
(duly authorized officer
and
principal accounting officer)

TEMPLATE

INCENTIVE STOCK OPTION AGREEMENT FOR

EMPLOYEES UNDER THE CINERGY CORP.

1996 LONG–TERM INCENTIVE COMPENSATION PLAN

THIS INCENTIVE STOCK OPTION AGREEMENT (the "Agreement"), effective as of ______________ (the "Date of Grant"), is made by and between Cinergy Corp., a Delaware corporation, and ______________ (the "Optionee"), an employee of Cinergy Corp. or one of its directly or indirectly held majority or greater–owned subsidiaries (collectively referred to in this Agreement as the "Company").

WHEREAS, Cinergy Corp. has adopted the Cinergy Corp. 1996 Long–Term Incentive Compensation Plan, as amended from time to time (the "Plan"), pursuant to which the Optionee has been granted an incentive stock option (the "Option") to purchase shares of Cinergy Corp. common stock, with par value of $0.01 per share ("Common Stock"), pursuant to the Plan, on the terms set forth in this Agreement; and

WHEREAS, the parties desire to enter into this Agreement to set forth their understandings with respect to the grant of the Option described in this Agreement.

NOW, THEREFORE, in consideration of the recitals and the mutual agreements contained in this Agreement, the parties agree as follows:

1. Option Grant.

Cinergy Corp. hereby grants to the Optionee effective on the Date of Grant an Option to purchase _________ shares of Common Stock, pursuant to the Plan, on the terms and conditions set forth in this Agreement. The number of shares of Common Stock subject to this Option, and the Option Price described below in Section 2, are subject to adjustment as provided in the Plan.

2. Purchase Price.

The purchase price of each share of Common Stock subject to this Option is $_________ (the "Option Price"). At the time this Option is exercised, the Optionee must pay the aggregate Option Price of the shares with respect to which the Optionee exercises the Option pursuant to one of the following methods: (a) in cash, (b) by tendering to the Company whole shares of Common Stock owned by the Optionee, or owned jointly by the Optionee and his or her spouse (with the spouse's written consent), for at least six (6) months (a "Stock Swap"), which tendered shares must have a Fair Market Value (as defined in the Plan) equal to the aggregate Option Price of the shares with respect to which the Optionee exercises the Option, (c) any combination of the methods described in (a) and (b) of this sentence, or (d) any other method approved by the Committee (as defined in the Plan). To exercise this Option, the Optionee must send written notice to the Cinergy Corp. Manager, Compensation, at the address noted in Section 20 or follow such other procedures as are specified by the Company. The notice shall state the number of shares of Common Stock in respect of which the Option is being exercised, shall identify the Option as an incentive stock option, and shall be signed by the person or persons exercising the Option. The notice shall be accompanied by payment of the full cash Option Price for such shares of Common Stock, or followed as soon as practicable by the delivery of shares used in a Stock Swap and related cash (if applicable), or any other consideration approved by the

Committee. Certificates evidencing shares of Common Stock purchased pursuant to this Option will not be delivered to the Optionee until payment has been made.

3. **Term of, and Right to Exercise, Option.**

The term of this Option (the "Option Term") shall be for a period of ten years from the Date of Grant, subject to earlier termination as otherwise provided in this Agreement. Except as otherwise provided below, the Option shall become exercisable with respect to _______________ (____%) of the total number of shares of Common Stock covered by this Option on ________________, but only if the Optionee remains continuously employed with the Company from the Date of Grant until ________________.(1) From and after the date the Option becomes exercisable, the shares of Common Stock subject to this Option may be purchased at any time, or from time to time, in whole or in part, until the Option Term expires, but in no case may fewer than 100 such shares be purchased at any one time, except to purchase all remaining shares subject to the Option.

4. **Effect of Termination of Employment due to Reasons other than Retirement, Death or Disability.**

If the Optionee ceases to be an employee of the Company for any reason other than as a result of his or her termination of employment on or after attaining age fifty (50) with five years of "Service" under the Cinergy Corp. Non–Union Employees' Pension Plan ("Retirement"), death or disability (as defined in Section 7), this Option, to the extent exercisable on the date of termination, will remain exercisable until the earlier of (a) the date three months following the effective date of the Optionee's termination of employment or (b) the expiration of the Option Term.

5. **Effect of Termination of Employment Due to Retirement.**

If the Optionee ceases to be an employee of the Company as a result of his or her Retirement, the Option shall become immediately exercisable in its entirety and the Optionee may exercise this Option in whole or in part, subject to Section 6, at any time prior to the expiration of the Option Term.

6. **Effect of Death.**

Notwithstanding Section 5, if the Optionee dies either while employed by the Company or after his or her termination of employment because of Retirement, the Option shall become immediately exercisable in its entirety and may be exercised in whole or in part by the Optionee's executor, administrator, legatees or estate beneficiaries at any time during the period commencing upon the Optionee's death and ending on the earlier of (a) the date twelve (12) months after the date of the Optionee's death or (b) the expiration of the Option Term.

7. **Effect of Disability.**

In the event that the Optionee while employed by the Company becomes "disabled," as that term is defined under the then existing long–term disability plan of the Company in which the Optionee participates (or if no such plan exists, as determined by the Committee), the Optionee will be deemed to be employed by the Company during his or her period of disability.

8. **Effect of Change in Control.**

The occurrence of a "Change in Control" (as defined in the Plan) of Cinergy Corp. shall have no affect upon the vesting and exercisability of the Option. Notwithstanding the foregoing, in the event that the Optionee's employment is terminated by the Company without Cause or by the Optionee for Good Reason during the two–year period beginning on the "Cinergy Effective Time", as such term is used in the Agreement and Plan of Merger by and among Duke Energy

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(1) The vesting events for stock option grants vary for each participant (e.g., cliff or graded vesting schedule).

Corporation, Cinergy Corp., Deer Holding Corp., Deer Acquisition Corp. and Cougar Acquisition Corp., dated May 8, 2005, the Option to the extent it has not previously terminated shall immediately become vested and exercisable in full. For purposes of this Agreement, the terms "Cause" and "Good Reason" shall have the meaning given to such terms in the most recent employment agreement, as amended, in effect for the Optionee.

9. Transferability.

This Option is not transferable or assignable otherwise than by will or the laws of descent and distribution. The Option may be exercised only by the Optionee, or, if the Optionee dies, by his or her executor, administrator, legatees, or beneficiaries of his or her estate who are entitled to this Option, or in the event of his or her legal incapacity, by his or her guardian or legal representative acting on behalf of the Optionee in a fiduciary capacity under state law and court supervision.

10. Effect of Assignment or Pledge.

If the Optionee attempts to assign or pledge shares of Common Stock covered by this Option, or if there is a levy, attachment, execution or other legal or equitable process upon this Option, the Company has the right to terminate this Option.

11. Incorporation of the Plan's Terms.

This Option is subject to all the terms, provisions and conditions of the Plan, which is incorporated into this Agreement by reference, and to such regulations, procedures and administrative guidelines as may from time to time be adopted by the Committee. A copy of the Plan and a set of administrative guidelines have been furnished to the Optionee and an additional copy may be obtained from the Company. In the event of any conflict between the provisions of the Plan or administrative guidelines (as the case may be) and the provisions of this Agreement, the terms, conditions and provisions of the Plan and/or administrative guidelines shall control, and this Agreement shall be deemed to be modified accordingly. The Committee shall have final authority to interpret and construe the Plan and this Agreement and to make any and all determinations thereunder, and its decision shall be binding and conclusive upon the Optionee and his or her legal representative in respect of any questions arising under the Plan, or this Agreement.

12. Incentive Stock Options.

This Option is intended to be an "incentive stock option" within the meaning of that term under Section 422 of the Internal Revenue Code of 1986, as amended. Subject to and upon the terms, conditions and provisions of the Plan, each and every provision of this Agreement shall be administered, construed and interpreted so that this Option shall so qualify as an incentive stock option.

13. Disqualifying Dispositions.

The Optionee agrees to notify the Company, in writing pursuant to Section 20 of the Plan or pursuant to such other procedures as are specified by the Company, immediately upon any sale or transfer of any shares of Common Stock received upon exercise of this Option to the extent such sale or transfer takes place prior to the later of (a) two years from the Date of Grant, or (b) one year from the date of exercise of this Option.

14. **Expiration of Rights.**

Unless earlier terminated in accordance with the terms of this Agreement, all rights to exercise this Option will expire, in any event, ten years from the Date of Grant.

15. **Certificate.**

Certificates evidencing shares transferred upon exercise of this Option may bear a legend setting forth, among other things, such restrictions on the disposition or transfer of the shares as the Company may deem consistent with applicable federal and state laws.

16. **No Right to Continued Employment.**

Nothing in this Option shall restrict the right of the Company to terminate the Optionee's employment at any time with or without cause.

17. **Successors.**

The terms of this Agreement shall be binding upon and inure to the benefit of the Company, its successors and assigns, and the Optionee and the Optionee's beneficiaries, executors, administrators, heirs and successors.

18. **Invalid Provision.**

The invalidity or unenforceability of any particular provision of this Agreement shall not affect the other provisions of this Agreement, and this Agreement shall be construed in all respects as if such invalid or unenforceable provision has been omitted.

19. **Modifications.**

No change, modification or waiver of any provision of this Agreement shall be valid unless the same be in writing and signed by the parties.

20. **Notices and Electronic Delivery and Signature.**

All notices to the Company and the exercise of the Option herein granted, shall be addressed to Cinergy Corp., 139 East Fourth Street, Cincinnati, Ohio 45202, Attention: Manager, Compensation, or such other address or in accordance with such other procedure as the Company may, from time to time, specify. Notwithstanding the foregoing, the Employee hereby consents and agrees to electronic delivery of any Plan documents, proxy materials, annual reports and other related documents, including all materials required to be distributed pursuant to applicable securities laws. If the Company establishes procedures for an electronic signature system for delivery and acceptance of Plan documents (including documents relating to any programs adopted under the Plan), the Employee hereby consents to such procedures and agrees that his or her electronic signature is the same as, and shall have the same force and effect as, his or her manual signature. The Employee consents and agrees that any such procedures and delivery may be effected by a third party engaged by the Company to provide administrative services related to the Plan, including any program adopted under the Plan. The Employee understands that, unless earlier revoked by the Employee, this consent shall be effective for the duration of the Agreement and that he or she shall have the right at any time to request written copies of any and all materials referred to above.

21. Headings.

The headings of the Sections of this Agreement are provided for convenience only and are not to serve as a basis for interpretation or construction, and shall not constitute a part of this Agreement.

22. Governing Law.

This Agreement and the Optionee's rights under it shall be construed and determined in accordance with the laws of the state of Delaware.

23. Entire Agreement.

This Agreement and the Plan contain the entire agreement and understanding of the parties with respect to the subject matter contained in this Agreement, and supersede all prior communications, representations and negotiations in respect thereto.

24. Counterparts.

This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

25. Satisfaction of Legal Requirements.

This Option may not be exercised until the Company has been advised by counsel that all applicable legal requirements have been met.

IN WITNESS WHEREOF, this Agreement has been executed by the parties effective as of the _____ day of ______________, _____.

OPTIONEE	CINERGY CORP.
Signature: ______________________________	By: _________________________

Exhibit 10-d

TEMPLATE

NON–QUALIFIED STOCK OPTION AGREEMENT FOR EMPLOYEES UNDER THE CINERGY CORP. 1996 LONG–TERM INCENTIVE COMPENSATION PLAN

THIS NON–QUALIFIED STOCK OPTION AGREEMENT (the "Agreement"), effective as of _______________ (the "Date of Grant"), is made by and between Cinergy Corp., a Delaware corporation, and _______________ (the "Optionee"), an employee of Cinergy Corp. or one of its directly or indirectly held majority or greater–owned subsidiaries (collectively referred to in this Agreement as the "Company").

WHEREAS, Cinergy Corp. has adopted the Cinergy Corp. 1996 Long–Term Incentive Compensation Plan, as amended from time to time (the "Plan"), pursuant to which the Optionee has been granted a non–qualified stock option (the "Option") to purchase shares of Cinergy Corp. common stock, with par value of $0.01 per share ("Common Stock"), pursuant to the Plan, on the terms set forth in this Agreement; and

WHEREAS, the parties desire to enter into this Agreement to set forth their understandings with respect to the grant of the Option described in this Agreement.

NOW, THEREFORE, in consideration of the recitals and the mutual agreements contained in this Agreement, the parties agree as follows:

1. Option Grant.

Cinergy Corp. hereby grants to the Optionee effective on the Date of Grant an Option to purchase __________ shares of Common Stock, pursuant to the Plan, on the terms and conditions set forth in this Agreement. The number of shares of Common Stock subject to this Option, and the Option Price described below in Section 2, are subject to adjustment as provided in the Plan. The Option is intended to be a non–qualified stock option and shall not be treated as an "incentive stock option" within the meaning of that term under Section 422 of the Internal Revenue Code of 1986, as amended.

2. Purchase Price.

The purchase price of each share of Common Stock subject to this Option is $__________ (the "Option Price"). At the time this Option is exercised, the Optionee must pay the aggregate Option Price of the shares with respect to which the Optionee exercises the Option pursuant to one of the following methods: (a) in cash, (b) by tendering to the Company whole shares of Common Stock owned by the Optionee, or owned jointly by the Optionee and his or her spouse (with the spouse's written consent), for at least six (6) months (a "Stock Swap"), which tendered shares must have a Fair Market Value (as defined in the Plan) equal to the aggregate Option Price of the shares with respect to which the Optionee exercises the Option, (c) any combination of the methods described in (a) and (b) of this sentence, or (d) any other method approved by the Committee (as defined in the Plan). To exercise this Option, the Optionee must send written notice to the Cinergy Corp. Manager, Compensation, at the address noted in Section 19 or follow such other procedure as specified by the Company. The notice shall state the number of shares of Common Stock in respect of which the Option is being exercised, shall identify the Option as a non–qualified stock option, and shall be signed by the person or persons exercising the Option. The notice shall be accompanied by payment of the full cash Option Price for such shares of Common Stock, or followed as soon as practicable by the delivery of shares used in a Stock Swap and related cash (if applicable), or any other consideration approved by the Committee. Certificates evidencing shares of Common Stock purchased pursuant to this Option will not be delivered to the Optionee until payment has been made.

3. Term of, and Right to Exercise, Option.

The term of this Option (the "Option Term") shall be for a period of ten years from the Date of Grant, subject to earlier termination as otherwise provided in this Agreement. Except as otherwise provided below, the Option shall become exercisable with respect to ______________ (___ %) of the total number of shares of Common Stock covered by this Option on ______________, but only if the Optionee remains continuously employed with the Company from the Date of Grant until ______________.(1) From and after the date the Option becomes exercisable, the shares of Common Stock subject to this Option may be purchased at any time, or from time to time, in whole or in part, until the Option Term expires, but in no case may fewer than 100 such shares be purchased at any one time, except to purchase all remaining shares subject to the Option.

4. Effect of Termination of Employment due to Reasons other than Retirement, Death or Disability.

If the Optionee ceases to be an employee of the Company for any reason other than as a result of his or her termination of employment on or after attaining age fifty (50) with five years of "Service" under the Cinergy Corp. Non–Union Employees' Pension Plan ("Retirement"), death or disability (as defined in Section 7), this Option, to the extent exercisable on the date of termination, will remain exercisable until the earlier of (a) the date three months following the effective date of the Optionee's termination of employment or (b) the expiration of the Option Term.

5. Effect of Termination of Employment Due to Retirement.

If the Optionee ceases to be an employee of the Company as a result of his or her Retirement, the Option shall become immediately exercisable in its entirety and the Optionee may exercise this Option in whole or in part, subject to Section 6, at any time prior to the expiration of the Option Term.

6. Effect of Death.

Notwithstanding Section 5, if the Optionee dies either while employed by the Company or after his or her termination of employment because of Retirement, the Option shall become immediately exercisable in its entirety and may be exercised in whole or in part by the Optionee's executor, administrator, legatees or estate at any time during the period commencing upon the Optionee's death and ending on the earlier of (a) the date twelve (12) months after the date of the Optionee's death or (b) the expiration of the Option Term.

7. Effect of Disability.

In the event that the Optionee while employed by the Company becomes "disabled," as that term is defined under the then existing long–term disability plan of the Company in which the Optionee participates (or if no such plan exists, as determined by the Committee), the Optionee will be deemed to be employed by the Company during his or her period of disability.

8. Effect of Change in Control.

The occurrence of a "Change in Control" (as defined in the Plan) of Cinergy Corp. shall have no affect upon the vesting and exercisability of the Option. Notwithstanding the foregoing, in the event that the Optionee's employment is terminated by the Company without Cause or by the Optionee for Good Reason during the two-year period beginning on the "Cinergy Effective Time",

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(1) The vesting events for stock option grants vary for each participant (e.g., cliff or graded vesting schedule).

as such term is used in the Agreement and Plan of Merger by and among Duke Energy Corporation, Cinergy Corp., Deer Holding Corp., Deer Acquisition Corp. and Cougar Acquisition Corp., dated May 8, 2005, the Option to the extent it has not previously terminated shall immediately become vested and exercisable in full. For purposes of this Agreement, the terms "Cause" and "Good Reason" shall have the meaning given to such terms in the most recent employment agreement, as amended, in effect for the Optionee.

9. Transferability.

Except as otherwise provided by the Committee, this Option is not transferable or assignable otherwise than by will or the laws of descent and distribution. The Option may be exercised only by the Optionee, or, if the Optionee dies, by his or her executor, administrator, legatees, or beneficiaries of his or her estate who are entitled to this Option, or in the event of his or her legal incapacity, by his or her guardian or legal representative acting on behalf of the Optionee in a fiduciary capacity under state law and court supervision.

10. Effect of Assignment or Pledge.

If the Optionee attempts to assign or pledge shares of Common Stock covered by this Option, or if there is a levy, attachment, execution or other legal or equitable process upon this Option, the Company has the right to terminate this Option.

11. Incorporation of the Plan's Terms.

This Option is subject to all the terms, provisions and conditions of the Plan, which is incorporated into this Agreement by reference, and to such regulations, procedures and administrative guidelines as may from time to time be adopted by the Committee. A copy of the Plan and a set of administrative guidelines have been furnished to the Optionee and an additional copy may be obtained from the Company. In the event of any conflict between the provisions of the Plan or administrative guidelines (as the case may be) and the provisions of this Agreement, the terms, conditions and provisions of the Plan and/or administrative guidelines shall control, and this Agreement shall be deemed to be modified accordingly. The Committee shall have final authority to interpret and construe the Plan and this Agreement and to make any and all determinations thereunder, and its decision shall be binding and conclusive upon the Optionee and his or her legal representative in respect of any questions arising under the Plan, or this Agreement.

12. Tax Withholding.

A certificate evidencing the shares of Common Stock purchased as a result of the exercise of this Option will not be issued until the Optionee has satisfied his or her obligations with respect to withholding tax.

13. Expiration of Rights.

Unless earlier terminated in accordance with the terms of this Agreement, all rights to exercise this Option will expire, in any event, ten years from the Date of Grant.

14. Certificate.

Certificates evidencing shares transferred upon exercise of this Option may bear a legend setting forth, among other things, such restrictions on the disposition or transfer of the shares as the Company may deem consistent with applicable federal and state laws.

15. No Right to Continued Employment.

Nothing in this Option shall restrict the right of the Company to terminate the Optionee's employment at any time with or without cause.

16. Successors.

The terms of this Agreement shall be binding upon and inure to the benefit of the Company, its successors and assigns, and the Optionee and the Optionee's beneficiaries, executors, administrators, heirs and successors.

17. Invalid Provision.

The invalidity or unenforceability of any particular provision of this Agreement shall not affect the other provisions of this Agreement, and this Agreement shall be construed in all respects as if such invalid or unenforceable provision has been omitted.

18. Modifications.

No change, modification or waiver of any provision of this Agreement shall be valid unless the same be in writing and signed by the parties.

19. Notices and Electronic Delivery and Signature.

All notices to the Company and the exercise of the Option herein granted, shall be addressed to Cinergy Corp., 139 East Fourth Street, Cincinnati, Ohio 45202, Attention: Manager, Compensation, or such other address or in accordance with such other procedure as the Company may, from time to time, specify. Notwithstanding the foregoing, the Employee hereby consents and agrees to electronic delivery of any Plan documents, proxy materials, annual reports and other related documents, including all materials required to be distributed pursuant to applicable securities laws. If the Company establishes procedures for an electronic signature system for delivery and acceptance of Plan documents (including documents relating to any programs adopted under the Plan), the Employee hereby consents to such procedures and agrees that his or her electronic signature is the same as, and shall have the same force and effect as, his or her manual signature. The Employee consents and agrees that any such procedures and delivery may be effected by a third party engaged by the Company to provide administrative services related to the Plan, including any program adopted under the Plan. The Employee understands that, unless earlier revoked by the Employee, this consent shall be effective for the duration of the Agreement and that he or she shall have the right at any time to request written copies of any and all materials referred to above.

20. Headings.

The headings of the Sections of this Agreement are provided for convenience only and are not to serve as a basis for interpretation or construction, and shall not constitute a part of this Agreement.

21. Governing Law.

This Agreement and the Optionee's rights under it shall be construed and determined in accordance with the laws of the state of Delaware.

22. Entire Agreement.

This Agreement and the Plan contain the entire agreement and understanding of the parties with respect to the subject matter contained in this Agreement, and supersede all prior communications, representations and negotiations in respect thereto.

23. Counterparts.

This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

24. Satisfaction of Legal Requirements.

This Option may not be exercised until the Company has been advised by counsel that all applicable legal requirements have been met.

IN WITNESS WHEREOF, this Agreement has been executed by the parties effective as of the _____ day of _______________, _____.

OPTIONEE	CINERGY CORP.
Signature: ______________________________	By: ___________________________

Exhibit 10–e

TEMPLATE

RESTRICTED STOCK AGREEMENT FOR EMPLOYEES UNDER THE CINERGY CORP. 1996 LONG–TERM INCENTIVE COMPENSATION PLAN

THIS RESTRICTED STOCK AGREEMENT (the "Agreement"), dated effective as of ______________ (the "Date of Grant"), is made by and between Cinergy Corp., a Delaware corporation, and ______________ (the "Employee"), an employee of Cinergy Corp. or one of its directly or indirectly held majority or greater–owned subsidiaries (collectively referred to herein as the "Company").

WHEREAS, Cinergy Corp. has adopted the Cinergy Corp. 1996 Long–Term Incentive Compensation Plan, as amended from time to time (the "Plan"), pursuant to which the Employee has been granted the right, contingent upon the Employee satisfying certain vesting requirements, to receive shares of Cinergy Corp. common stock, with par value of $0.01 per share ("Common Stock"), on the terms set forth in this Agreement; and

WHEREAS, the parties desire to enter into this Agreement to set forth their understandings with respect to the Common Stock described in this Agreement, such Common Stock sometimes referred to herein as "Restricted Stock."

NOW, THEREFORE, in consideration of the recitals and the mutual agreements contained in this Agreement, the parties agree as follows:

1. **Grant of Restricted Stock.** Cinergy Corp. hereby grants to the Employee as of the Date of Grant ______ shares of Restricted Stock (the "Restricted Stock") subject to and upon the terms, conditions and restrictions set forth in this Agreement and the Plan. The Restricted Stock shall be fully paid and nonassessable.

2. **Restrictions on Restricted Stock.** The Restricted Stock shall be subject to the following terms, conditions and restrictions:

(a) Subject to the restrictions set forth in the Plan and this Agreement, the Employee shall possess all incidents of ownership of the Restricted Stock.

(b) The Restricted Stock, and the Employee's interest therein, may not be sold, exchanged, assigned, transferred, pledged, hypothecated, encumbered or otherwise disposed of by the Employee, except to the Company, until the Restricted Stock has become vested as provided in Section 2(c) hereof; provided, however, that the Employee's rights with respect to the Restricted Stock may be transferred by will or pursuant to the laws of descent and distribution. Any purported transfer or encumbrance in violation of this Agreement shall be void, and the other party to any such purported transaction shall not obtain any right or interest in the Common Stock.

(c) Subject to earlier forfeiture as described in Section 2(d) hereof, the Restricted Stock shall vest on ______________, provided that the Employee has been continuously employed with the Company as of such date [and the Committee (as defined in the Plan) determines as of such date that all of the performance measures set forth in Section 2(e) (the "Performance Measures") have been satisfied in full.] Notwithstanding the preceding sentence, the Restricted Stock shall immediately vest in full [(without regard to whether the Performance Measures have been satisfied)] if Employee has been continuously employed with the Company until the first to occur of the following events (provided that such events occur on or prior to _______________): (i) the Employee's death, (ii) the

Employee's disability (as that term is defined in the Cinergy Corp. Long–Term Disability Plan) or, (iii) during the two–year period beginning on the "Cinergy Effective Time," as such term is used in the Agreement and Plan of Merger by and among Duke Energy Corporation, Cinergy Corp., Deer Holding Corp., Deer Acquisition Corp. and Cougar Acquisition Corp., dated May 8, 2005, either the Company terminates the Employee's employment for reasons other than Cause or the Employee terminates his or her employment with the Company for Good Reason.(1)

(d) The Employee shall forfeit his or her Restricted Stock in its entirety if he or she ceases to remain continuously employed by the Company until the date on which the Restricted Stock vests in accordance with Section 2(c) hereof. In the event of forfeiture, the certificate(s) representing the Restricted Stock covered by this Agreement shall be transferred to and reacquired by the Company at no cost to the Company.

(e) For purposes of this Agreement, the following terms shall have the following meanings:

(i) For purposes of this Agreement, the terms "Cause" and "Good Reason" shall have the meaning given to such terms in the most recent employment agreement, as amended, in effect for the Employee.

(ii) "Performance Period" shall mean the period beginning on ________________ and ending on ________________.

(iii) "Performance Measures" shall be as follows: [Insert Performance Measures]

3. **Certificate; Restrictive Legend.** The Employee agrees that the Restricted Stock shall be represented by a certificate or certificates registered in the Employee's name and endorsed with an appropriate legend referring to the restrictions set forth in this Agreement.

4. **Retention of Stock Certificate; Dividends.**

(a) The certificate(s) representing the Restricted Stock shall be held in custody by the Company or its agent until those shares have become vested in accordance with Section 2(c) of this Agreement. The Employee hereby appoints the Company, with full power of substitution, as the Employee's true and lawful attorney–in–fact with irrevocable power and authority in the name and on behalf of the Employee to take any action and execute all documents and instruments, including, without limitation, stock powers which may be necessary to transfer the certificate or certificates evidencing such forfeited shares to the Company upon such forfeiture.

(b) Except as otherwise provided herein, from and after the Date of Grant, the Employee shall have all rights of a shareholder with respect to the Restricted Stock, including the right to vote the Restricted Stock [and receive any dividends;] [, but during the period commencing on ______________ and ending on the date the Restricted Stock becomes fully vested, any dividends that would have been paid to the Employee if he or she had held the Restricted Stock during such period and such stock had not been subject to forfeiture provisions will be retained by the Company and will be subject to the provisions set forth in Section 2; if the Restricted Stock becomes vested as provided herein, the Company shall transfer to the Employee within thirty days after such vesting date additional Common Stock having a fair market value on the date of transfer equal to the dividends retained with respect to the Restricted Stock;] provided, however, that any additional Common Stock or other securities that the Employee may become entitled to

(1) The vesting events for restricted stock vary for each participant. Some restricted stock grants incorporate a cliff vesting schedule while others use a graded vesting schedule. The restricted stock grants incorporate some or all of the items set forth in Section 2(c).

receive pursuant to a stock dividend, stock split, combination of shares, recapitalization, merger, consolidation, separation or reorganization or any other change in the capital structure of the Company shall be subject to the same restrictions as the Restricted Stock covered by this Agreement.

5. **Income Taxes.** The Employee shall pay to the Company promptly upon request, and in any event at the time the Employee recognizes taxable income in respect of the Restricted Stock, an amount equal to the taxes the Company determines it is required to withhold under applicable tax laws with respect to the Restricted Stock. Such payment shall be made in the form of cash, shares of Common Stock already owned or withholding from shares otherwise transferable upon the lapse of restrictions, or in a combination of such methods, as determined by the Employee. The Employee shall promptly notify the Company of any election made by the Employee pursuant to Section 83(b) of the Code.

6. **Incorporation by Reference.** The provisions of the Plan are incorporated into this Agreement by reference. This Agreement shall be construed in accordance with the provisions of the Plan and such regulations as may from time to time be adopted by the Committee. Any capitalized terms not otherwise defined in this Agreement shall have the definitions set forth in the Plan. The Committee shall have final authority to interpret and construe the Plan and this Agreement and to make any and all determinations thereunder, and its decision shall be binding and conclusive upon the Employee and his or her legal representative in respect of any questions arising under the Plan, or this Agreement. In the event of any conflict between the provisions of the Plan and the provisions of this Agreement, the terms, conditions and provisions of the Plan shall control, and this Agreement shall be deemed to be modified accordingly. By signing this Agreement, the Employee acknowledges that he or she has received a copy of the Plan and this Agreement and has had an opportunity to review the Plan and this Agreement and agrees to be bound by all the terms and provisions of the Plan and this Agreement.

7. **Notices and Electronic Delivery and Signature.** Except as otherwise provided by the Company from time to time, any and all notices, designations, consents, offers, acceptances and any other communications provided for in this Agreement shall be given in writing and shall be delivered either personally or by registered or certified mail, postage prepaid, which shall be addressed, in the case of Cinergy Corp., to Cinergy Corp., 139 East Fourth Street, Cincinnati, Ohio 45202, Attention: Manager, Compensation, or such other address or in accordance with such other procedure as the Company may, from time to time, specify, and in the case of the Employee, to the Employee's address appearing on the books of the Company, or to the Employee's residence or to such other address as may be designated in writing by the Employee. Notwithstanding the foregoing, the Employee hereby consents and agrees to electronic delivery of any Plan documents, proxy materials, annual reports and other related documents, including all materials required to be distributed pursuant to applicable securities laws. If the Company establishes procedures for an electronic signature system for delivery and acceptance of Plan documents (including documents relating to any programs adopted under the Plan), the Employee hereby consents to such procedures and agrees that his or her electronic signature is the same as, and shall have the same force and effect as, his or her manual signature. The Employee consents and agrees that any such procedures and delivery may be effected by a third party engaged by the Company to provide administrative services related to the Plan, including any program adopted under the Plan. The Employee understands that, unless earlier revoked by the Employee, this consent shall be effective for the duration of the Agreement and that he or she shall have the right at any time to request written copies of any and all materials referred to above.

8. **No Right to Continued Employment.** Nothing in the Plan or in this Agreement shall confer upon the Employee any right to continue in the employ of the Company or shall interfere with or restrict in any way the right of the Company, which is hereby expressly reserved, to remove, terminate or discharge the Employee at any time for any reason whatsoever, with or without Cause.

9. **Successors.** The terms of this Agreement shall be binding upon and inure to the benefit of Cinergy

Corp., its successors and assigns, and on the Employee and the beneficiaries, executors, administrators, heirs, and successors of the Employee.

10. **Invalid Provision.** The invalidity or unenforceability of any particular provision of this Agreement shall not affect the other provisions of this Agreement, and this Agreement shall be construed in all respects as if such invalid or unenforceable provision has been omitted.

11. **Modifications.** No change, amendment, modification or waiver of any provision of this Agreement shall be valid unless the same is in writing and signed by the parties.

12. **Entire Agreement.** This Agreement and the Plan contain the entire agreement and understanding of the parties with respect to the subject matter contained in this Agreement, and supersede all prior communications, representations and negotiations in respect thereto.

13. **Governing Law.** This Agreement and the Employee's rights under it shall be construed and determined in accordance with the laws of the state of Delaware.

14. **Headings.** The headings of the Sections of this Agreement are provided for convenience only and are not to serve as a basis for interpretation or construction, and shall not constitute a part of this Agreement.

15. **Counterparts.** This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

16. **Compliance with Law.** The Company shall make reasonable efforts to comply with all applicable federal and state securities laws; provided, however, notwithstanding any other provision of this Agreement, the Company shall not be obligated to deliver any Common Stock pursuant to this Agreement if the delivery thereof would result in a violation of any such law.

IN WITNESS WHEREOF, this Agreement has been executed and delivered by the parties as of the ______ day of ________________, _____.

EMPLOYEE

Signature: ______________________________

CINERGY CORP.

By: ___________________________

Exhibit 10–f

TEMPLATE

PERFORMANCE SHARES AGREEMENT FOR

EMPLOYEES UNDER THE CINERGY CORP.

1996 LONG–TERM INCENTIVE COMPENSATION PLAN

THIS PERFORMANCE SHARES AGREEMENT (the "Agreement"), effective as of ______________ (the "Date of Grant"), is made by and between Cinergy Corp., a Delaware corporation, and ______________ (the "Employee"), an employee of Cinergy Corp. or one of its directly or indirectly held majority or greater–owned subsidiaries (collectively referred to herein as the "Company").

WHEREAS, Cinergy Corp. has adopted the Cinergy Corp. 1996 Long–Term Incentive Compensation Plan, as amended from time to time (the "Plan"), pursuant to which the Employee has been granted the right, contingent upon the attainment of certain corporate performance measures within an established time period, to receive shares of Cinergy Corp. common stock, with par value of $0.01 per share ("Common Stock"), on the terms set forth in this Agreement; and

WHEREAS, the parties desire to enter into this Agreement to set forth their understandings with respect to the contingent right to receive a certain number of shares of Common Stock as described in this Agreement, such contingent right sometimes referred to herein as "performance shares."

NOW, THEREFORE, in consideration of the recitals and the mutual agreements contained in this Agreement, the parties agree as follows:

1. Contingent Award.

Cinergy Corp. hereby grants to the Employee effective as of the Date of Grant, the right, contingent upon the attainment of certain corporate performance measures during performance cycle ____ commencing on January 1, _____ and ending on December 31, _____ (the "Performance Cycle"), to receive shares of Common Stock on the terms and conditions set forth in this Agreement. For the Performance Cycle, the Employee's contingent target award is _________ shares of Common Stock (the "Target Award"). The number of shares of Common Stock covered by the Target Award is subject to adjustment, including reductions in the event of a demotion or change to a lower level position, as provided in the Plan and in such procedures or guidelines that may from time to time be adopted by the Committee (as defined in the Plan), including the Administrative Guidelines adopted on _______________ (the "Administrative Guidelines").

2. Corporate Performance Measure.

The corporate performance measure is based on a comparison of the total shareholder return ("TSR") of a share of Common Stock to the TSR of the companies listed in the S&P Supercomposite Electric Index as of the beginning of the Performance Cycle (the "Comparator Group"); for purposes of this Agreement, TSRs shall be as calculated by reference to Bloomberg Financial L.P. (including the reinvestment of dividends or other distributions); provided, however, that the TSR of the Comparator Group shall be calculated without taking into account any company that, during the Performance Cycle, either (i) becomes the subject of a voluntary or involuntary petition in bankruptcy pursuant to Title 11 of the United States Code, (ii) undergoes a "change in control," or (iii) becomes the subject of any public announcement of a proposal for such company to undergo a "change in control." For this purpose, a "change in control" means (i) the sale of all or substantially all of the assets of the company on a consolidated basis to a person or entity other than to a subsidiary or affiliate of the company, (ii) a merger, reorganization or consolidation after which the holders of the company's outstanding voting power immediately prior to such transaction, in the aggregate, do not own a majority of the outstanding voting power of the surviving or resulting entity immediately upon completion of such transaction, (iii) the sale of all or substantially all of the outstanding common shares of the company to an unrelated person or entity or (iv) any other transaction where the owners of the company's outstanding voting power prior to such transaction, in the aggregate, do not own at least a majority of the outstanding voting power of the relevant entity after the transaction.

3. **Payout Calculation and Form of Payment.**

The number of shares of Common Stock earned for the Performance Cycle will be determined by comparing the TSR of a share of Common Stock during the Performance Cycle to the TSR of the Comparator Group during the Performance Cycle, as described in Subsection 3(a) and Subsection 3(b) below.

(a) The percentage of the Target Award earned by the Employee, if any, will be determined in accordance with the following chart and the guidelines contained in Subsection 3(b).

Percentage of Individual Target Payment

Relative TSR Performance Percentile	Percentage of Target Award Earned
85th or above	200%
80th	185%
70th	150%
60th	115%
55th	100%
40th	40%
30th or below	0%

(b) The chart contained in Subsection 3(a) shall be applied in accordance with the following guidelines.

(i) If the relative TSR of a share of Common Stock compared to the TSR of the Comparator Group is between any two levels listed above, the Committee will calculate, by interpolation, the percentage of the Target Award that is earned by the Employee.

(ii) If the relative TSR of a share of Common Stock *is equal to or less than the* 30th percentile of the TSR of the Comparator Group, the Employee will not earn any performance shares under this Agreement.

(iii) The maximum number of shares of Common Stock that can be earned under this Agreement is 200% of the number of shares of Common Stock covered by the Target Award.

(c) Except as otherwise provided herein, the number of shares of Common Stock earned by the Employee shall be paid to or for the benefit of the Employee no later than March 15 of the calendar year following the calendar year in which occurs the last day of the Performance Cycle. Notwithstanding the preceding sentence, in the event of the Employee's death during the Performance Cycle, the number of shares of Common Stock earned by the Employee shall be paid on behalf of the Employee as soon as administratively practicable following his or her death but no later than _________________.

(d) Except as otherwise provided herein, the Employee shall be entitled to receive, no later than March 15 of the calendar year following the calendar year in which occurs the last day of the Performance Cycle, the number of shares of Common Stock (if any) equal to (i) the cumulative amount of cash dividends that would have been paid to the Executive if he or she had owned, during the entire Performance Cycle, the number of shares of Common Stock specified in Section 3(c) above, divided by (ii) the "Fair Market Value" (as that term is defined in the Plan) of a share of Common Stock on the last day of the Performance Cycle.

(e) Notwithstanding any other provision of this Agreement, the Committee in its sole discretion may determine whether to pay all or any portion of any award earned pursuant to this Agreement in shares of Common Stock or in an amount of cash equal to the Fair Market Value of such shares of Common Stock.

4. <u>Effect of Termination of Employment due to Reasons other than Retirement, Death or Disability</u>.

If, prior to the last day of the Performance Cycle, the Employee ceases to be an employee of the Company for any reason other than as a result of his or her termination of employment on or after attaining age fifty (50) with five years of "Service" under the Cinergy Corp. Non–Union Employees' Pension Plan ("Retirement"), death or disability (as defined in Section 7), all contingent rights set forth in this Agreement will be immediately forfeited on the effective date of the Employee's termination.

5. <u>Effect of Termination of Employment Due to Retirement</u>.

If, prior to the last day of the Performance Cycle, the Employee's employment with the Company is terminated as a result of his or her Retirement, the Employee will continue to participate in the Performance Cycle and will earn a pro rata award of performance shares, the amount of which shall be calculated by the Committee based on (a) the number of full and partial months (out of the total months in the Performance Cycle) that the Employee was an active employee during the Performance Cycle and (b) the relative TSR of a share of Common Stock during the entire Performance Cycle compared to the TSR of the Comparator Group during the entire Performance Cycle.

6. <u>Effect of Termination of Employment Due to Death</u>.

If, prior to the last day of the Performance Cycle, the Employee dies while employed by the Company, the Employee's executor, administrator, legatees or estate beneficiaries will receive a pro rata award of performance shares, the amount of which shall be calculated by the Committee based on (a) the number of full and partial months (out of the total months in the Performance Cycle) that the Employee was an active employee during the Performance Cycle and (b) the relative TSR of a share of Common Stock compared to the TSR of the Comparator Group during the period of time commencing on the Date of Grant and ending on the December 31 nearest the date of the Employee's death, but ending no earlier than

________________.

7. <u>Effect of Disability</u>.

If, prior to the last day of the Performance Cycle, the Employee becomes "disabled" as that term is defined under the then existing long–term disability plan of the Company in which the Employee participates (or if no such plan exists, as determined by the Committee), the Employee will continue to participate in the Performance Cycle and will earn a pro rata award of performance shares, the amount of which shall be calculated by the Committee based on (a) the number of full months (out of the total months in the Performance Cycle) that the Employee was an active employee during the Performance Cycle and (b) the relative TSR of a share of Common Stock during the entire Performance Cycle compared to the TSR of the Comparator Group during the entire Performance Cycle.

8. Effect of Change in Control.

(a) Change in Control While Employed. Notwithstanding the above, if a "Change in Control" (as defined in the Plan) of Cinergy Corp. occurs while the Employee is employed by the Company and prior to the last day of the Performance Cycle, the following provisions shall apply and benefits shall not be paid to or on behalf of the Employee under any other provision of this Agreement.

(i) The Target Award shall be deemed earned at a level equal to the greater of (I) the actual performance level during the period (the "Pro Rata Period") commencing on January 1, 2006 and ending on the date that is two business days immediately preceding the date on which the "Effective Time" occurs, as such term is defined in the Agreement and Plan of Merger by and among Duke Energy Corporation, Cinergy Corp., Deer Holding Corp., Deer Acquisition Corp. and Cougar Acquisition Corp., dated as of May 8, 2005 or (ii) the target performance level (i.e., the 55th performance percentile), and the Employee shall earn a pro rata award of performance shares, the amount of which shall be calculated by the Committee based on the number of days in the Pro Rata Period out of the total number of days in the Performance Cycle. The number of performance shares described above shall be payable, subject to Section 3(e), in shares of Common Stock within thirty (30) days after the occurrence of such Change in Control.

(ii) The Employee shall also be entitled to receive, subject to Section 3(e), within thirty (30) days after the occurrence of such Change in Control, the number of shares of Common Stock equal to (I) the cumulative amount of cash dividends that would have been paid to the Executive if he or she had owned, during the period commencing on the Date of Grant and ending on the date of the Change in Control, the number of shares of Common Stock specified in Section 8(a)(i) above, divided by (II) the Fair Market Value of a share of Common Stock immediately prior to the Change in Control.

(iii) Qualifying Termination of Employment Following Change in Control. In addition to any other payments made under Sections 8(a)(i) and 8(a)(ii) of this Agreement, in the event that, during the two–year period beginning on the Cinergy Effective Time, the Employee has an involuntary "separation from service" (within the meaning of Code Section 409A) other than for Cause or a voluntary "separation from service" (within the meaning of Code Section 409A) for Good Reason, the Employee shall be entitled to receive, subject to Section 3(e), within thirty (30) days after the occurrence of such separation from service, the number of shares of Common Stock equal to (I) the Target Award reduced by the number of shares of Common Stock specified in Section 8(a)(i) above, plus (II) the cumulative amount of cash dividends that would have been paid to the Employee if he or she had owned, during the period commencing on the Date of Grant and ending on the date of the separation from service, the number of shares of Common Stock specified in Section 8(a)(iii)(I) above, divided by the Fair Market Value of a share of Common Stock immediately prior to the separation from service. Notwithstanding the above, if required to comply with Code Section 409A, such payment shall not be made until five (5) days following the 6^{th} month anniversary of such separation from service if the Employee is a "specified employee" within the meaning of Code Section 409A.

(iv) For purposes of this Agreement, "Cinergy Effective Time" has the meaning given to such term in the Agreement and Plan of Merger by and among Duke Energy Corporation, Cinergy Corp., Deer Holding Corp., Deer Acquisition Corp. and Cougar Acquisition Corp., dated May 8, 2005, and the terms "Cause" and "Good Reason" shall have the meaning given to such terms in the most recent employment agreement, as amended, in effect for the Employee.

(b) Change in Control Following Retirement. Notwithstanding the foregoing, if a Change in Control of Cinergy Corp. occurs after the Employee's Retirement but prior to the last day of the Performance Cycle, the following provisions shall apply and benefits shall not be paid to or on behalf of the Employee under any other provision of this Agreement.

(i) The Employee shall be entitled to receive, subject to Section 3(e), within thirty (30) days after the occurrence of such Change in Control, a pro rata award of performance shares, the amount of which shall be calculated by the Committee based on (I) the number of full and partial months (out of a total of 36 months) that he or she was an active employee during the Performance Cycle and (II) the fact that the Target Award shall be deemed earned at the greater of the actual performance level during the Pro Rata Period or the target performance level (i.e., the 55^{th} performance percentile).

(ii) The Employee shall also be entitled to receive, subject to Section 3(e), within thirty (30) days after the occurrence of such Change in Control, the number of shares of Common Stock equal to (I) the cumulative amount of cash dividends that would have been paid to the Executive if he or she had owned, during the period commencing on the Date of Grant and ending on the date of the Change in Control, the number of shares of Common Stock specified in Section 8(b)(i) above, divided by (II) the Fair Market Value of a share of Common Stock immediately prior to the Change in Control.

(c) Change in Control Following Death. Notwithstanding the foregoing, if a Change in Control of Cinergy Corp. occur after the Employee's death while employed by the Company, but prior to the later of (I) the December 31 nearest the date of the Employee's death or (II) _______________, the following provisions shall apply and benefits shall not be paid to or on behalf of the Employee under any other provision of this Agreement.

(i) The Employee's executor, administrator, legatees or estate beneficiaries shall be entitled to receive, subject to Section 3(e), within thirty (30) days after the occurrence of such Change in Control, a pro rata award of performance shares, the amount of which shall be calculated by the Committee based on (I) the number of full and partial months (out of a total of 36 months) that he or she was an active employee during the Performance Cycle and (II) the fact that the Target Award shall be deemed earned at the greater of the actual performance level during the Pro Rata Period or the target performance level (i.e., the 55^{th} performance percentile).

(ii) The Employee's executor, administrator, legatees or estate beneficiaries shall also be entitled to receive, subject to Section 3(e), within thirty (30) days after the occurrence of such Change in Control, the number of shares of Common Stock equal to (I) the cumulative amount of cash dividends that would have been paid to the Executive if he or she had owned, during the period commencing on the Date of Grant and ending on the date of the Change in Control, the number of shares of Common Stock specified in Section 8(c)(i) above, divided by (II) the Fair Market Value of a share of Common Stock immediately prior to the Change in Control.

(d) Change in Control Following Disability. Notwithstanding the foregoing, if a Change in Control of Cinergy Corp. occurs after the Employee becomes disabled while employed by the Company but prior to the last day of the Performance Cycle, the following provisions shall apply and benefits shall not be paid to or on behalf of the Employee under any other provision of this Agreement.

(i) The Employee shall be entitled to receive, subject to Section 3(e), within thirty (30) days after the occurrence of such Change in Control, a pro rata award of performance shares, the amount of which shall be calculated by the Committee based on (I) the number of full months (out of a total of 36 months) that he or she was an active employee during the Performance Cycle and (II) the fact that the Target Award shall be deemed earned at the greater of the actual performance level during the Pro Rata Period or the target performance level (i.e., the 55th performance percentile).

(ii) The Employee shall also be entitled to receive, subject to Section 3(e), within thirty (30) days after the occurrence of such Change in Control, the number of shares of Common Stock equal to (I) the cumulative amount of cash dividends that would have been paid to the Executive if he or she had owned, during the period commencing on the Date of Grant and ending on the date of the Change in Control, the number of shares of Common Stock specified in Section 8(d)(i) above, divided by (II) the Fair Market Value of a share of Common Stock immediately prior to the Change in Control.

(e) Notwithstanding any other provision of this Agreement, an event shall not result in the occurrence of a Change in Control unless, within the meaning of Code Section 409A, such event results in a change in the ownership or effective control of the Company or in the ownership of a substantial portion of the assets of the Company.

9. Transferability.

The contingent rights set forth in this Agreement are not transferable otherwise than by will or the laws of descent and distribution.

10. Effect of Assignment or Pledge.

If the Employee assigns or pledges contingent shares of Common Stock covered by this Agreement or attempts to do so, or if there is a levy, attachment, execution or other legal or equitable process upon the contingent shares, the Company has the right to terminate this Agreement.

11. Incorporation of the Plan's Terms.

This Agreement is subject to all the terms, provisions and conditions of the Plan, which is incorporated into this Agreement by reference, and to such regulations as may from time to time be adopted by the Committee, including the Administrative Guidelines. A copy of the Plan and a set of Administrative Guidelines have been furnished to the Employee and an additional copy of each may be obtained from the Company. In the event of any conflict between the provisions of the Plan or the Administrative Guidelines (as the case may be) and the provisions of this Agreement, the terms, conditions and provisions of the Plan and/or Administrative Guidelines shall control, and this Agreement shall be deemed to be modified accordingly. The Committee shall have final authority to interpret and construe the Plan and this Agreement and to make any and all determinations thereunder, and its decision shall be binding and conclusive upon the Employee and his or her legal representative in respect of any questions arising under the Plan, or this Agreement.

12. No Right to Continued Employment.

Nothing in this Agreement shall restrict the right of the Company to terminate the Employee's employment at any time with or without cause.

13. Successors.

The terms of this Agreement shall be binding upon and inure to the benefit of the Company, its successors and assigns, and the Employee and the Employee's beneficiaries, executors, administrators, heirs and successors.

14. Invalid Provision.

The invalidity of unenforceability of any particular provision of this Agreement shall not affect the other provisions of this Agreement, and this Agreement shall be construed in all respects as if such invalid or unenforceable provision has been omitted.

15. Modifications and Section 409A of the Code.

No change, modification or waiver of any provision of this Agreement shall be valid unless the same be in writing and signed by the parties. To the extent applicable, it is intended that this Agreement and the Plan comply with the provisions of Section 409A of the Code, including the provisions requiring a delay in payment. This Agreement and the Plan shall be administered in a manner consistent with this intent, and any provision that would cause the Agreement or the Plan to fail to satisfy Section 409A of the Code shall have no force and effect until amended to comply with Section 409A of the Code (which amendment may be retroactive to the extent permitted by Section 409A of the Code and may be made by the Company without the consent of the Employee).

16. Headings.

The headings of the Sections of this Agreement are provided for convenience only and are not to serve as a basis for interpretation or construction, and shall not constitute a part of this Agreement.

17. Governing Law.

Except to the extent pre–empted by federal law, this Agreement and the Employee's rights under it shall be construed and determined in accordance with the laws of the state of Delaware.

18. Entire Agreement.

This Agreement, the Plan and the Administrative Guidelines contain the entire agreement and understanding of the parties with respect to the subject matter contained in this Agreement, and supersede all prior communications, representations and negotiations in respect thereto.

19. Counterparts.

This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

20. Satisfaction of Legal Requirements.

No payment will be made under this Agreement until the Company has been advised by counsel that all applicable legal requirements have been met.

21. Notices and Electronic Delivery and Signature.

All notices to the Company shall be addressed to Cinergy Corp., 139 East Fourth Street, Cincinnati, Ohio 45202, Attention: Manager, Compensation, or such other address or in accordance with such other procedure as the Company may, from time to time, specify. Notwithstanding the foregoing, the Employee hereby consents and agrees to electronic delivery of any Plan documents, proxy materials, annual reports and other related documents, including all materials required to be distributed pursuant to applicable securities laws. If the Company establishes procedures for an electronic signature system for delivery and acceptance of Plan documents (including documents relating to any programs adopted under the Plan), the Employee hereby consents to such procedures and agrees that his or her electronic signature is the same as, and shall have the same force and effect as, his or her manual signature. The Employee consents and agrees that any such procedures and delivery may be effected by a third party engaged by the Company to provide administrative services related to the Plan, including any program adopted under the Plan. The Employee understands that, unless earlier revoked by the Employee, this consent shall be effective for the duration of the Agreement and that he or she shall have the right at any time to request written copies of any and all materials referred to above.

IN WITNESS WHEREOF, this Agreement has been executed by the parties effective as of the _____ day of _______________, _____.

EMPLOYEE

Signature: ______________________________

CINERGY CORP.

By: ___________________________

Exhibit 10-g

TEMPLATE

PHANTOM STOCK AGREEMENT FOR

EMPLOYEES UNDER THE CINERGY CORP.

1996 LONG-TERM INCENTIVE COMPENSATION PLAN

THIS PHANTOM STOCK AGREEMENT (the "Agreement"), effective as of _____________ (the "Date of Grant"), is made by and between Cinergy Corp., a Delaware corporation, and _____________ (the "Employee"), an employee of Cinergy Corp. or one of its directly or indirectly held majority or greater-owned subsidiaries (collectively referred to herein as the "Company").

WHEREAS, Cinergy Corp. has adopted the Cinergy Corp. 1996 Long-Term Incentive Compensation Plan, as amended from time to time (the "Plan"), pursuant to which the Employee has been granted the right, contingent upon the Employee satisfying certain vesting requirements, to receive a lump sum cash payment, the amount of which shall be based on the value of a certain, predetermined number of shares of Cinergy Corp. Common Stock, with par value of $0.01 per share ("Common Stock"), on the terms set forth in this Agreement; and

WHEREAS, the parties desire to enter into this Agreement to set forth their understandings with respect to the contingent right described in this Agreement, such contingent right sometimes referred to herein as "Phantom Stock Right."

NOW, THEREFORE, in consideration of the recitals and the mutual agreements contained in this Agreement, the parties agree as follows:

1. Contingent Award.

(a) **Award of Phantom Stock Right.** In consideration of Employee's service for the Company, Cinergy Corp. hereby grants a Phantom Stock Right to Employee and shall establish an account (the "Account") in the name of Employee on the books and records of Cinergy Corp. and credit the Account with _______ Phantom Stock Right units. Each Phantom Stock Right unit shall correspond to one share of Common Stock.

(b) **Vesting of Phantom Stock Right.** Subject to earlier forfeiture as described below, the Phantom Stock Right shall become fully vested in its entirety if the Employee is continuously employed by the Company from the Date of Grant until the earliest to occur of the following dates (i) _____________, (ii) the date of the Employee's death, (iii) the date of the Employee's involuntary "separation from service" (within the meaning of Code Section 409A) other than for Cause during the two-year period beginning on the Cinergy Effective Time or (iv) the date of the Employee's voluntary "separation from service" (within the meaning of Code Section 409A) for Good Reason during the two-year period beginning on the Cinergy Effective Time. For purposes of this Agreement, "Cinergy Effective Time" has the meaning given to such term in the Agreement and Plan of Merger by and among Duke Energy Corporation, Cinergy Corp., Deer Holding Corp., Deer Acquisition Corp. and Cougar Acquisition Corp., dated May 8, 2005.(1)

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(1) The vesting events for phantom stock grants vary for each participant. Some phantom stock grants incorporate cliff vesting schedules while others use a graded vesting schedule. The phantom stock grants may incorporate some or all of the items set forth in Section 1(b).

(c) **Forfeiture of Phantom Stock Right.** The Employee shall forfeit his or her Phantom Stock Right in its entirety if he or she ceases to remain continuously employed by the Company until the date on which the Phantom Stock Right vests in accordance with Section 1(b) hereof.

(d) **Definitions.** Where used herein, the terms "Cause" and "Good Reason" shall have the meaning given to such terms in the most recent employment agreement, as amended, in effect for the Employee.

2. Payout Calculation and Form of Payment.

Except as otherwise provided herein, in the event that Phantom Stock Right units become fully vested in accordance with Section 1(b), the Employee shall be entitled to receive a lump sum cash payment equal to the sum of (a) the product of (i) the number of Phantom Stock Right units vesting, adjusted as provided in this Agreement, and (ii) the Fair Market Value (as that term is defined in the Plan) of a share of Common Stock as of the date the Phantom Stock Right units vest, plus (b) the product of (i) the number of Phantom Stock Right units vesting and (ii) the aggregate amount of cash dividends paid on a share of Common Stock from the Date of Grant through the date of payment. Such payment shall be made within thirty (30) days following the date on which the Phantom Stock Right units become vested. The Company shall have the right to deduct from all payments made to the Employee pursuant to this Agreement such federal, state or local taxes as are, in the reasonable opinion of the Company, required to be withheld by the Company with respect to such payment. Notwithstanding the above, if required to comply with Code Section 409A, such payment shall not be made until five (5) days following the 6^{th} month anniversary of the Employee's separation from service if the Employee is a "specified employee" within the meaning of Code Section 409A.

3. Adjustments.

The Committee (as defined in the Plan) may make or provide for such adjustments in the number of Phantom Stock Right units covered by this Agreement as the Committee, in its sole discretion exercised in good faith, may determine is equitably required in order to prevent dilution or enlargement of Employee's rights that otherwise would result from (i) any stock dividend, stock split, combination of shares, recapitalization, or other change in the capital structure of Cinergy Corp., (ii) any merger, consolidation, spin–off, split–off, spin–out, split–up, reorganization, partial or complete liquidation, or other distribution of assets or issuance of rights or warrants to purchase securities, or (iii) any other corporate transaction or event having an effect similar to any of the foregoing. In the event of any such transaction or event, the Committee, in its sole discretion exercised in good faith, may provide, in substitution for the Phantom Stock Right, such alternative consideration as it may determine to be equitable in the circumstances and may require in connection therewith the surrender of the Phantom Stock Right.

4. Transferability.

The contingent rights set forth in this Agreement are not transferable otherwise than by will or the laws of descent and distribution.

5. Effect of Assignment or Pledge.

If the Employee assigns or pledges contingent rights covered by this Agreement or attempts to do so, or if there is a levy, attachment, execution or other legal or equitable process upon the contingent rights, Cinergy Corp. shall have the right to terminate this Agreement.

6. Incorporation of the Plan's Terms.

This Agreement is subject to all of the terms, provisions and conditions of the Plan, which is incorporated into this Agreement by reference, and to such regulations as may from time to time be adopted by the Committee. A copy of the Plan has been furnished to the Employee and an additional copy may be obtained from Cinergy Corp. In the event of any conflict between the provisions of the Plan and the provisions of this Agreement, the terms, conditions and provisions of the Plan shall control, and this Agreement shall be deemed to be modified accordingly. The Committee shall have final authority to interpret and construe the Plan and this Agreement and to make any and all determinations thereunder, and its decision shall be binding and conclusive upon the Employee and his or her legal representative in respect of any questions arising under the Plan, or this Agreement.

7. No Right to Continued Employment.

Solely for purposes of this Agreement, Employee shall be deemed to be employed by the Company during all periods in which he or she is receiving benefits under any Cinergy–sponsored short–term or long–term disability plan or program; provided, however, that nothing in this Agreement shall restrict the right of the Company to terminate the Employee's employment at any time with or without Cause.

8. Successors.

The terms of this Agreement shall be binding upon and inure to the benefit of Cinergy Corp., its successors and assigns, and the Employee and the Employee's beneficiaries, executors, administrators, heirs and successors.

9. Invalid Provision.

The invalidity or unenforceability of any particular provision of this Agreement shall not affect the other provisions of this Agreement, and this Agreement shall be construed in all respects as if such invalid or unenforceable provision has been omitted.

10. Modifications and Section 409A of the Code.

No change, modification or waiver of any provision of this Agreement shall be valid unless the same be in writing and signed by the parties. To the extent applicable, it is intended that this Agreement and the Plan comply with the provisions of Section 409A of the Code, including the provisions requiring a delay in payment. This Agreement and the Plan shall be administered in a manner consistent with this intent, and any provision that would cause the Agreement or the Plan to fail to satisfy Section 409A of the Code shall have no force and effect until amended to comply with Section 409A of the Code (which amendment may be retroactive to the extent permitted by Section 409A of the Code and may be made by the Company without the consent of the Employee).

11. Headings.

The headings of the Sections of this Agreement are provided for convenience only and are not to serve as a basis for interpretation or construction, and shall not constitute a part of this Agreement.

12. Governing Law.

Except to the extent pre–empted by federal law, this Agreement and the Employee's rights under it shall be construed and determined in accordance with the laws of the state of Delaware.

13. Entire Agreement.

This Agreement and the Plan contain the entire agreement and understanding of the parties with respect to the subject matter contained in this Agreement, and supersede all prior communications, representations and negotiations in respect thereto.

14. **Counterparts.**

This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

15. **Satisfaction of Legal Requirements.**

No payment will be made under this Agreement until the Company has been advised by counsel that all applicable legal requirements have been met.

16. **Source of Payment.**

Any payments to Employee under this Agreement shall be paid from the Company's general assets, and Employee shall have the status of a general unsecured creditor with respect to the Company's obligations to make payments under this Agreement. Employee acknowledges that the Company shall have no obligation to set aside any assets to fund its obligations under this Agreement.

17. **Notices and Electronic Delivery and Signature.**

All notices to the Company shall be addressed to Cinergy Corp., 139 East Fourth Street, Cincinnati, Ohio 45202, Attention: Manager, Compensation, or such other address or in accordance with such other procedure as the Company may, from time to time, specify. Notwithstanding the foregoing, the Employee hereby consents and agrees to electronic delivery of any Plan documents, proxy materials, annual reports and other related documents, including all materials required to be distributed pursuant to applicable securities laws. If the Company establishes procedures for an electronic signature system for delivery and acceptance of Plan documents (including documents relating to any programs adopted under the Plan), the Employee hereby consents to such procedures and agrees that his or her electronic signature is the same as, and shall have the same force and effect as, his or her manual signature. The Employee consents and agrees that any such procedures and delivery may be effected by a third party engaged by the Company to provide administrative services related to the Plan, including any program adopted under the Plan. The Employee understands that, unless earlier revoked by the Employee, this consent shall be effective for the duration of the Agreement and that he or she shall have the right at any time to request written copies of any and all materials referred to above.

IN WITNESS WHEREOF, this Agreement has been executed by the parties effective as of the date set forth herein.

EMPLOYEE	CINERGY CORP.
Signature: ______________________	By: ______________________

Exhibit 31–a

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER

PURSUANT TO SECTION 302 OF THE SARBANES–OXLEY ACT OF 2002

I, James E. Rogers, certify that:

1. I have reviewed this quarterly report on Form 10–Q of Cinergy Corp., The Cincinnati Gas & Electric Company, PSI Energy, Inc., and The Union Light, Heat and Power Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrants as of, and for, the periods presented in this report;

4. The registrants' other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) for the registrants and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for Cinergy Corp. and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrants, including their consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrants' disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrants' internal control over financial reporting that occurred during the registrants' most recent fiscal quarter (the registrants' fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrants' internal control over financial reporting; and

5. The registrants' other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrants' auditors and the audit committee of the registrants' board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrants' ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrants' internal control over financial reporting.

Date: November 4, 2005

/s/ James E. Rogers
James E. Rogers
Chief Executive Officer

Exhibit 31–b

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER

PURSUANT TO SECTION 302 OF THE SARBANES–OXLEY ACT OF 2002

I, Lynn J. Good, certify that:

1. I have reviewed this quarterly report on Form 10–Q of Cinergy Corp., The Cincinnati Gas & Electric Company, PSI Energy, Inc., and The Union Light, Heat and Power Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrants as of, and for, the periods presented in this report;

4. The registrants' other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) for the registrants and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for Cinergy Corp. and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrants, including their consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrants' disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrants' internal control over financial reporting that occurred during the registrants' most recent fiscal quarter (the registrants' fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrants' internal control over financial reporting; and

5. The registrants' other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financi reporting, to the registrants' auditors and the audit committee of the registrants' board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrants' ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrants' internal control over financial reporting.

Date: November 4, 2005

/s/ Lynn J. Good

Lynn J. Good
Chief Financial Officer

Exhibit 32–a

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES–OXLEY ACT OF 2002**

In connection with the Quarterly Report of Cinergy Corp., The Cincinnati Gas & Electric Company, PSI Energy, Inc. and The Union Light, Heat and Power Company (the "Companies") on Form 10–Q for the period ending September 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James E. Rogers, Chief Executive Officer of the Companies, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes–Oxley Act of 2002, to the best of my knowledge and belief, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Companies.

Date: November 4, 2005

/s/ James E. Rogers
James E. Rogers
Chief Executive Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES–OXLEY ACT OF 2002

In connection with the Quarterly Report of Cinergy Corp., The Cincinnati Gas & Electric Company, PSI Energy, Inc. and The Union Light, Heat and Power Company (the "Companies") on Form 10–Q for the period ending September 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Lynn J. Good, Chief Financial Officer of the Companies, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes–Oxley Act of 2002, to the best of my knowledge and belief, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Companies.

Date: November 4, 2005

/s/ Lynn J. Good
Lynn J. Good
Chief Financial Officer

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10–Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2005

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number	Registrant, State of Incorporation, Address and Telephone Number	I.R.S. Employer Identification No.
1–11377	**CINERGY CORP.** (A Delaware Corporation) 139 East Fourth Street Cincinnati, Ohio 45202 (513) 421–9500	31–1385023
1–1232	**THE CINCINNATI GAS & ELECTRIC COMPANY** (An Ohio Corporation) 139 East Fourth Street Cincinnati, Ohio 45202 (513) 421–9500	31–0240030
1–3543	**PSI ENERGY, INC.** (An Indiana Corporation) 1000 East Main Street Plainfield, Indiana 46168 (513) 421–9500	35–0594457

2-7793

THE UNION LIGHT, HEAT AND POWER COMPANY

31-0473080

(A Kentucky Corporation)
139 East Fourth Street
Cincinnati, Ohio 45202
(513) 421-9500

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether each registrant is an accelerated filer (as defined in Rule 12b–2 of the Act).

Cinergy Corp.	Yes	☒	No	☐
The Cincinnati Gas & Electric Company	Yes	☐	No	☒
PSI Energy, Inc.	Yes	☐	No	☒
The Union Light, Heat and Power Company	Yes	☐	No	☒

This combined Form 10–Q is separately filed by **Cinergy Corp.**, **The Cincinnati Gas & Electric Company**, **PSI Energy, Inc.**, and **The Union Light, Heat and Power Company**. Information contained herein relating to any individual registrant is filed by such registrant on its own behalf. Each registrant makes no representation as to information relating to the other registrants.

The Union Light, Heat and Power Company meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10–Q and is therefore filing its company specific information with the reduced disclosure format specified in General Instruction H(2) of Form 10–Q.

As of July 31, 2005, shares of common stock outstanding for each registrant were as listed:

Registrant	Description	Shares
Cinergy Corp.	Par value $.01 per share	198,881,451
The Cincinnati Gas & Electric Company	Par value $8.50 per share	89,663,086
PSI Energy, Inc.	Without par value, stated value $.01 per share	53,913,701
The Union Light, Heat and Power Company	Par value $15.00 per share	585,333

TABLE OF CONTENTS

Item Number

CINERGY CORP.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Quarter Ended June 30		Year to Date June 30	
	2005	2004	2005	2004
	(in thousands, except per share amounts) (unaudited)			
Operating Revenues				
Electric	$ **914,338**	$ 870,236	$ **1,840,635**	$ 1,728,672
Gas	**79,598**	108,082	**392,694**	458,928
Other	**120,327**	75,419	**225,183**	154,795
Total Operating Revenues	**1,114,263**	1,053,737	**2,458,512**	2,342,395
Operating Expenses				
Fuel, emission allowances, and purchased power	**312,714**	298,756	**617,677**	592,646
Gas purchased	**56,089**	47,420	**264,689**	270,936
Costs of fuel resold	**93,087**	59,062	**178,849**	116,524
Operation and maintenance	**351,121**	332,358	**682,910**	643,194
Depreciation	**130,455**	114,331	**256,941**	219,188
Taxes other than income taxes	**65,083**	65,072	**144,015**	147,319
Total Operating Expenses	**1,008,549**	916,999	**2,145,081**	1,989,807
Operating Income	**105,714**	136,738	**313,431**	352,588
Equity in Earnings of Unconsolidated Subsidiaries	**13,576**	7,331	**18,411**	10,079
Miscellaneous Income (Expense) – Net	**14,535**	5,033	**16,875**	(10,475)
Interest Expense	**68,649**	70,276	**132,712**	137,671
Preferred Dividend Requirements of Subsidiaries	**858**	858	**1,716**	1,716
Income Before Taxes	**64,318**	77,968	**214,289**	212,805
Income Taxes	**13,610**	19,464	**46,225**	51,286
Net Income	$ **50,708**	$ 58,504	$ **168,064**	$ 161,519
Average Common Shares Outstanding – Basic	**198,492**	180,236	**197,066**	179,749
Earnings Per Common Share – Basic (Note 11)	$ **0.25**	$ 0.33	$ **0.85**	$ 0.90
Average Common Shares Outstanding – Diluted	**199,441**	182,277	**198,075**	182,106
Earnings Per Common Share – Diluted (Note 11)	$ **0.25**	$ 0.32	$ **0.85**	$ 0.89
Cash Dividends Declared Per Common Share	$ **0.48**	$ 0.47	$ **0.96**	$ 0.94

The accompanying notes as they relate to Cinergy Corp. are an integral part of these condensed consolidated financial statements.

CINERGY CORP.

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30 2005	December 31 2004
	(dollars in thousands) (unaudited)	
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 148,178**	$ 164,541
Notes receivable, current	**122,976**	214,513
Accounts receivable less accumulated provision for doubtful accounts of $5,455 at June 30, 2005, and $5,514 at December 31, 2004	**939,715**	1,061,140
Fuel, emission allowances, and supplies	**502,482**	444,750
Energy risk management current assets	**352,397**	381,146
Prepayments and other	**279,138**	174,624
Total Current Assets	**2,344,886**	2,440,714
Property, Plant, and Equipment – at Cost		
Utility plant in service	**10,386,087**	10,076,468
Construction work in progress	**377,517**	333,687
Total Utility Plant	**10,763,604**	10,410,155
Non–regulated property, plant, and equipment	**4,798,284**	4,700,009
Accumulated depreciation	**5,355,813**	5,180,699
Net Property, Plant, and Equipment	**10,206,075**	9,929,465
Other Assets		
Regulatory assets	**988,308**	1,030,333
Investments in unconsolidated subsidiaries	**488,411**	513,675
Energy risk management non–current assets	**306,495**	138,787
Notes receivable, non–current	**182,815**	193,857
Other investments	**125,192**	125,367
Restricted funds held in trust	**313,692**	358,006
Goodwill and other intangible assets	**154,047**	132,752
Other	**147,685**	119,361
Total Other Assets	**2,706,645**	2,612,138
Total Assets	**$ 15,257,606**	$ 14,982,317

The accompanying notes as they relate to Cinergy Corp. are an integral part of these condensed consolidated financial statements.

CINERGY CORP.

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30 2005	December 31 2004
	(dollars in thousands) (unaudited)	
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ **1,255,484**	$ 1,348,576
Accrued taxes	**128,713**	216,804
Accrued interest	**59,016**	54,473
Notes payable and other short–term obligations (Note 5)	**865,257**	958,910
Long–term debt due within one year	**478,046**	219,967
Energy risk management current liabilities	**370,960**	310,741
Other	**134,525**	171,188
Total Current Liabilities	**3,292,001**	3,280,659
Non–Current Liabilities		
Long–term debt	**3,975,072**	4,227,741
Deferred income taxes	**1,554,037**	1,597,120
Unamortized investment tax credits	**95,413**	99,723
Accrued pension and other postretirement benefit costs	**732,361**	688,277
Regulatory liabilities	**575,729**	557,419
Energy risk management non–current liabilities	**299,541**	127,340
Other	**205,247**	225,298
Total Non–Current Liabilities	**7,437,400**	7,522,918
Commitments and Contingencies		
Total Liabilities	**10,729,401**	10,803,577
Cumulative Preferred Stock of Subsidiaries		
Not subject to mandatory redemption	**62,818**	62,818
Common Stock Equity		
Common stock – $.01 par value; authorized shares – 600,000,000; issued shares – 198,668,812 at June 30, 2005, and 187,653,506 at December 31, 2004; outstanding shares – 198,528,683 at June 30, 2005, and 187,524,229 at December 31, 2004	**1,987**	1,877
Paid–in capital	**2,941,747**	2,559,715
Retained earnings	**1,594,053**	1,613,340
Treasury shares at cost – 140,129 shares at June 30, 2005, and 129,277 shares at December 31, 2004	**(4,766)**	(4,336)
Accumulated other comprehensive loss	**(67,634)**	(54,674)
Total Common Stock Equity	**4,465,387**	4,115,922
Total Liabilities and Shareholders' Equity	$ **15,257,606**	$ 14,982,317

The accompanying notes as they relate to Cinergy Corp. are an integral part of these condensed consolidated financial statements.

CINERGY CORP.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN COMMON STOCK EQUITY

	Common Stock	Paid–in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Common Stock Equity
	(dollars in thousands, except per share amounts) (unaudited)					
Quarter Ended June 30, 2005						
Balance at April 1, 2005 (197,989,654 shares)	$ 1,981	$ 2,919,758	$ 1,638,704	$ (4,635)	$ (59,831)	$ 4,495,977
Comprehensive income:						
Net income			50,708			50,708
Other comprehensive income (loss), net of tax effect of $4,204						
Foreign currency translation adjustment					(7,269)	(7,269)
Unrealized gain on investment trusts					221	221
Cash flow hedges					(755)	(755)
Total comprehensive income						42,905
Issuance of common stock – net (540,296 shares)	6	23,760				23,766
Treasury shares purchased (1,267 shares)				(131)		(131)
Dividends on common stock ($0.48 per share)			(95,197)			(95,197)
Other		(1,771)	(162)			(1,933)
Ending balance at June 30, 2005 (198,528,683 shares)	$ 1,987	$ 2,941,747	$ 1,594,053	$ (4,766)	$ (67,634)	$ 4,465,387
Quarter Ended June 30, 2004						
Balance at April 1, 2004 (179,544,917 shares)	$ 1,797	$ 2,220,748	$ 1,569,995	$ (3,862)	$ (43,369)	$ 3,745,309
Comprehensive income:						
Net income			58,504			58,504
Other comprehensive income (loss), net of tax effect of $(2,176)						
Foreign currency translation adjustment					446	446
Unrealized gain (loss) on investment trusts					(259)	(259)
Cash flow hedges					3,378	3,378
Total comprehensive income						62,069
Issuance of common stock – net (781,507 shares)	7	25,129				25,136
Treasury shares purchased (3,178 shares)				(104)		(104)
Dividends on common stock ($0.47 per share)			(84,558)			(84,558)
Other		2,207	(58)			2,149
Ending balance at June 30, 2004 (180,323,246 shares)	$ 1,804	$ 2,248,084	$ 1,543,883	$ (3,966)	$ (39,804)	$ 3,750,001

The accompanying notes as they relate to Cinergy Corp. are an integral part of these condensed consolidated financial statements.

	Common Stock	Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Common Stock Equity
	(dollars in thousands, except per share amounts) (unaudited)					
Year to Date June 30, 2005						
Balance at January 1, 2005 (187,524,229 shares)	$ 1,877	$ 2,559,715	$ 1,613,340	$ (4,336)	$ (54,674)	$ 4,115,922
Comprehensive income:						
Net income			168,064			168,064
Other comprehensive income (loss), net of tax effect of $6,635						
Foreign currency translation adjustment					(13,107)	(13,107)
Unrealized loss on investment trusts					(954)	(954)
Cash flow hedges					1,101	1,101
Total comprehensive income						155,104
Issuance of common stock – net (11,015,306 shares)	110	377,513				377,623
Treasury shares purchased (10,852 shares)				(430)		(430)
Dividends on common stock ($0.96 per share)			(187,076)			(187,076)
Other		4,519	(275)			4,244
Ending balance at June 30, 2005 (198,528,683 shares)	$ 1,987	$ 2,941,747	$ 1,594,053	$ (4,766)	$ (67,634)	$ 4,465,387
Year to Date June 30, 2004						
Balance at January 1, 2004 (178,336,854 shares)	$ 1,784	$ 2,195,985	$ 1,551,003	$ (3,255)	$ (44,835)	$ 3,700,682
Comprehensive income:						
Net income			161,519			161,519
Other comprehensive income, net of tax effect of $(3,090)						
Foreign currency translation adjustment					1,432	1,432
Unrealized gain on investment trusts					496	496
Cash flow hedges					3,103	3,103
Total comprehensive income						166,550
Issuance of common stock – net (2,008,423 shares)	20	46,211				46,231
Treasury shares purchased (22,031 shares)				(711)		(711)
Dividends on common stock ($0.94 per share)			(168,545)			(168,545)
Other		5,888	(94)			5,794
Ending balance at June 30, 2004 (180,323,246 shares)	$ 1,804	$ 2,248,084	$ 1,543,883	$ (3,966)	$ (39,804)	$ 3,750,001

The accompanying notes as they relate to Cinergy Corp. are an integral part of these condensed consolidated financial statements.

CINERGY CORP.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year to Date June 30	
	2005	2004
	(dollars in thousands) (unaudited)	
Cash Flows from Operations		
Operating Activities		
Net income	$ **168,064**	$ 161,519
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**256,941**	219,188
Loss on impairment or disposal of subsidiaries and investments, net	**7,542**	29,362
Change in net position of energy risk management activities	**93,461**	(23,669)
Deferred income taxes and investment tax credits – net	**11,094**	41,938
Equity in earnings of unconsolidated subsidiaries	**(18,411)**	(10,079)
Allowance for equity funds used during construction	**(4,402)**	(976)
Regulatory asset/liability deferrals	**(62,480)**	(14,894)
Regulatory assets amortization	**61,435**	48,302
Accrued pension and other postretirement benefit costs	**44,084**	35,426
Cost of removal	**(13,722)**	(9,118)
Changes in current assets and current liabilities:		
Accounts and notes receivable	**209,790**	420,693
Fuel, emission allowances, and supplies	**(91,642)**	(44,545)
Prepayments	**(107,064)**	(31,762)
Accounts payable	**(92,575)**	(213,787)
Accrued taxes and interest	**(83,548)**	(44,933)
Other assets	**(13,255)**	4,910
Other liabilities	**(66,459)**	28,788
Net cash provided by operating activities	**298,853**	596,363
Financing Activities		
Change in short–term debt	**(93,653)**	137,832
Issuance of long–term debt	**4,612**	--
Redemption of long–term debt	**(9,487)**	(319,511)
Issuance of common stock	**377,623**	46,231
Dividends on common stock	**(187,076)**	(168,545)
Net cash provided by (used in) financing activities	**92,019**	(303,993)
Investing Activities		
Construction expenditures (less allowance for equity funds used during construction)	**(523,979)**	(309,699)
Proceeds from notes receivable	**9,800**	8,559
Withdrawal of restricted cash held in trust	**65,380**	10,413
Acquisitions and other investments	**(6,415)**	(11,350)
Proceeds from distributions by investments and sale of investments and subsidiaries	**47,979**	14,405
Net cash used in investing activities	**(407,235)**	(287,672)
Net increase (decrease) in cash and cash equivalents	**(16,363)**	4,698
Cash and cash equivalents at beginning of period	**164,541**	169,120
Cash and cash equivalents at end of period	$ **148,178**	$ 173,818
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for:		
Interest (net of amount capitalized)	$ **134,900**	$ 139,868
Income taxes	$ **66,089**	$ 32,123

The accompanying notes as they relate to Cinergy Corp. are an integral part of these condensed consolidated financial statements.

THE CINCINNATI GAS & ELECTRIC COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Quarter Ended June 30		Year to Date June 30	
	2005	2004	2005	2004
	(dollars in thousands) (unaudited)			
Operating Revenues				
Electric	$ **459,890**	$ 433,246	$ **924,221**	$ 851,161
Gas	**100,468**	90,651	**406,822**	418,303
Other	**60,105**	22,030	**112,776**	41,722
Total Operating Revenues	**620,463**	545,927	**1,443,819**	1,311,186
Operating Expenses				
Fuel, emission allowances, and purchased power	**154,456**	127,497	**300,158**	249,155
Gas purchased	**56,089**	47,418	**263,871**	270,935
Costs of fuel resold	**49,232**	19,628	**90,218**	37,374
Operation and maintenance	**171,476**	150,158	**333,624**	299,921
Depreciation	**45,206**	45,477	**90,370**	89,863
Taxes other than income taxes	**52,441**	49,305	**111,875**	113,500
Total Operating Expenses	**528,900**	439,483	**1,190,116**	1,060,748
Operating Income	**91,563**	106,444	**253,703**	250,438
Miscellaneous Income – Net	**3,633**	3,189	**7,156**	6,043
Interest Expense	**23,853**	22,415	**46,803**	44,851
Income Before Taxes	**71,343**	87,218	**214,056**	211,630
Income Taxes	**17,720**	31,909	**75,767**	78,866
Net Income	$ **53,623**	$ 55,309	$ **138,289**	$ 132,764
Preferred Dividend Requirement	**211**	212	**423**	423
Net Income Applicable to Common Stock	$ **53,412**	$ 55,097	$ **137,866**	$ 132,341
Net Income	$ **53,623**	$ 55,309	$ **138,289**	$ 132,764
Other Comprehensive Income, Net of Tax	**11**	3,207	**1,729**	2,883
Comprehensive Income	$ **53,634**	$ 58,516	$ **140,018**	$ 135,647

The accompanying notes as they relate to The Cincinnati Gas & Electric Company are an integral part of these condensed consolidated financial statements.

THE CINCINNATI GAS & ELECTRIC COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30 2005	December 31 2004
	(dollars in thousands) (unaudited)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ **6,262**	$ 4,154
Notes receivable from affiliated companies	**55,859**	121,559
Accounts receivable less accumulated provision for doubtful accounts	**196,872**	145,105
Accounts receivable from affiliated companies	**37,142**	30,916
Fuel, emission allowances, and supplies	**215,564**	199,769
Energy risk management current assets	**227,848**	148,866
Prepayments and other	**133,334**	54,650
Total Current Assets	**872,881**	705,019
Property, Plant, and Equipment – at Cost		
Utility plant in service		
Electric	**2,283,947**	2,249,352
Gas	**1,206,528**	1,179,764
Common	**250,962**	249,576
Total Utility Plant In Service	**3,741,437**	3,678,692
Construction work in progress	**73,838**	45,762
Total Utility Plant	**3,815,275**	3,724,454
Non–regulated property, plant, and equipment	**3,755,293**	3,660,226
Accumulated depreciation	**2,763,863**	2,694,708
Net Property, Plant, and Equipment	**4,806,705**	4,689,972
Other Assets		
Regulatory assets	**542,121**	609,550
Energy risk management non–current assets	**134,868**	47,276
Restricted funds held in trust	**79,035**	93,671
Other	**113,651**	86,871
Total Other Assets	**869,675**	837,368
Total Assets	**$ 6,549,261**	$ 6,232,359

The accompanying notes as they relate to The Cincinnati Gas & Electric Company are an integral part of these condensed consolidated financial statements.

THE CINCINNATI GAS & ELECTRIC COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30 2005	December 31 2004
	(dollars in thousands) (unaudited)	
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ **392,103**	$ 332,316
Accounts payable to affiliated companies	**40,696**	85,127
Accrued taxes	**172,016**	149,010
Accrued interest	**20,263**	19,408
Notes payable and other short–term obligations (Note 5)	**112,100**	112,100
Notes payable to affiliated companies (Note 5)	**231,940**	180,116
Long–term debt due within one year	**—**	150,000
Energy risk management current liabilities	**219,430**	120,204
Other	**32,772**	33,712
Total Current Liabilities	**1,221,320**	1,181,993
Non–Current Liabilities		
Long–term debt	**1,594,300**	1,443,668
Deferred income taxes	**1,066,857**	1,090,897
Unamortized investment tax credits	**70,299**	73,120
Accrued pension and other postretirement benefit costs	**238,967**	228,058
Regulatory liabilities	**184,203**	164,846
Energy risk management non–current liabilities	**133,273**	40,184
Other	**65,309**	70,395
Total Non–Current Liabilities	**3,353,208**	3,111,168
Commitments and Contingencies		
Total Liabilities	**4,574,528**	4,293,161
Cumulative Preferred Stock		
Not subject to mandatory redemption	**20,485**	20,485
Common Stock Equity		
Common stock – $8.50 par value; authorized shares – 120,000,000; outstanding shares – 89,663,086 at June 30, 2005, and December 31, 2004	**762,136**	762,136
Paid–in capital	**584,176**	584,176
Retained earnings	**644,038**	610,232
Accumulated other comprehensive loss	**(36,102)**	(37,831)
Total Common Stock Equity	**1,954,248**	1,918,713
Total Liabilities and Shareholders' Equity	$ **6,549,261**	$ 6,232,359

The accompanying notes as they relate to The Cincinnati Gas & Electric Company are an integral part of these condensed consolidated financial statements.

THE CINCINNATI GAS & ELECTRIC COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year to Date June 30 2005	Year to Date June 30 2004
	(dollars in thousands) (unaudited)	
Operating Activities		
Net income	**$ 138,289**	$ 132,764
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**90,370**	89,863
Deferred income taxes and investment tax credits – net	**8,666**	16,294
Change in net position of energy risk management activities	**25,741**	(23,280)
Allowance for equity funds used during construction	**(684)**	(719)
Regulatory asset/liability deferrals	**1,682**	7,558
Regulatory assets amortization	**39,646**	27,022
Accrued pension and other postretirement benefit costs	**10,909**	6,638
Cost of removal	**(3,301)**	(3,774)
Changes in current assets and current liabilities:		
Accounts and notes receivable	**7,707**	88,007
Fuel, emission allowances, and supplies	**(44,829)**	(30,965)
Prepayments	**(78,503)**	(7,544)
Accounts payable	**15,356**	(55,176)
Accrued taxes and interest	**23,861**	22,994
Other assets	**(2,766)**	1,858
Other liabilities	**8,676**	10,081
Net cash provided by operating activities	**240,820**	281,621
Financing Activities		
Change in short–term debt, including net affiliate notes	**51,824**	81,112
Redemption of long–term debt	**—**	(110,000)
Dividends on preferred stock	**(423)**	(423)
Dividends on common stock	**(104,061)**	(110,538)
Net cash used in financing activities	**(52,660)**	(139,849)
Investing Activities		
Construction expenditures (less allowance for equity funds used during construction)	**(201,733)**	(148,762)
Withdrawal of restricted funds held in trust	**15,635**	—
Other investments	**46**	(2)
Net cash used in investing activities	**(186,052)**	(148,764)
Net increase (decrease) in cash and cash equivalents	**2,108**	(6,992)
Cash and cash equivalents at beginning of period	**4,154**	15,842
Cash and cash equivalents at end of period	**$ 6,262**	$ 8,850
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for:		
Interest (net of amount capitalized)	**$ 47,835**	$ 45,345
Income taxes	**$ 11,201**	$ 11,264

The accompanying notes as they relate to The Cincinnati Gas & Electric Company are an integral part of these condensed consolidated financial statements.

PSI ENERGY, INC.

AND SUBSIDIARY COMPANY

PSI ENERGY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Quarter Ended June 30		Year to Date June 30	
	2005	2004	2005	2004
	(dollars in thousands) (unaudited)			
Operating Revenues				
Electric	$ **428,457**	$ 414,444	$ **853,864**	$ 830,723
Operating Expenses				
Fuel, emission allowances, and purchased power	**134,080**	155,139	**266,117**	310,045
Operation and maintenance	**122,468**	122,752	**243,039**	231,553
Depreciation	**66,448**	55,059	**133,295**	103,890
Taxes other than income taxes	**10,272**	14,121	**25,933**	30,533
Total Operating Expenses	**333,268**	347,071	**668,384**	676,021
Operating Income	**95,189**	67,373	**185,480**	154,702
Miscellaneous Income – Net	**7,114**	3,017	**10,493**	3,564
Interest Expense	**26,912**	21,701	**51,677**	41,625
Income Before Taxes	**75,391**	48,689	**144,296**	116,641
Income Taxes	**32,661**	23,243	**59,222**	50,389
Net Income	$ **42,730**	$ 25,446	$ **85,074**	$ 66,252
Preferred Dividend Requirement	**647**	646	**1,293**	1,293
Net Income Applicable to Common Stock	$ **42,083**	$ 24,800	$ **83,781**	$ 64,959
Net Income	$ **42,730**	$ 25,446	$ **85,074**	$ 66,252
Other Comprehensive Income (Loss), Net of Tax	**(535)**	(118)	**(1,730)**	366
Comprehensive Income	$ **42,195**	$ 25,328	$ **83,344**	$ 66,618

The accompanying notes as they relate to PSI Energy, Inc. are an integral part of these condensed consolidated financial statements.

PSI ENERGY, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30 2005	December 31 2004
	(dollars in thousands) (unaudited)	
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 15,715**	$ 10,794
Restricted deposits	**25,890**	22,063
Notes receivable from affiliated companies	**45,880**	72,958
Accounts receivable less accumulated provision for doubtful accounts	**38,010**	31,177
Accounts receivable from affiliated companies	**437**	437
Fuel, emission allowances, and supplies	**147,888**	108,793
Prepayments and other	**12,856**	11,804
Total Current Assets	**286,676**	258,026
Property, Plant, and Equipment – at Cost		
Utility plant in service	**6,644,650**	6,397,776
Construction work in progress	**303,243**	287,925
Total Utility Plant	**6,947,893**	6,685,701
Accumulated depreciation	**2,375,789**	2,284,932
Net Property, Plant, and Equipment	**4,572,104**	4,400,769
Other Assets		
Regulatory assets	**446,187**	420,783
Other investments	**72,503**	73,39[illegible]
Restricted funds held in trust	**221,676**	264,335
Other	**45,264**	32,587
Total Other Assets	**785,630**	791,101
Total Assets	**$ 5,644,410**	$ 5,449,896

The accompanying notes as they relate to PSI Energy, Inc. are an integral part of these condensed consolidated financial statements.

PSI ENERGY, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30 2005	December 31 2004
	(dollars in thousands) (unaudited)	
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ **90,555**	$ 65,151
Accounts payable to affiliated companies	**32,100**	38,292
Accrued taxes	**56,485**	65,871
Accrued interest	**31,365**	27,532
Notes payable and other short–term obligations (Note 5)	**135,500**	135,500
Notes payable to affiliated companies (Note 5)	**78,425**	130,580
Long–term debt due within one year	**456,166**	50,000
Other	**50,366**	33,326
Total Current Liabilities	**930,962**	546,252
Non–Current Liabilities		
Long–term debt	**1,418,354**	1,824,219
Deferred income taxes	**660,883**	638,061
Unamortized investment tax credits	**25,113**	26,603
Accrued pension and other postretirement benefit costs	**221,674**	209,992
Regulatory liabilities	**391,525**	392,573
Other	**71,585**	88,665
Total Non–Current Liabilities	**2,789,134**	3,180,113
Commitments and Contingencies		
Total Liabilities	**3,720,096**	3,726,365
Cumulative Preferred Stock		
Not subject to mandatory redemption	**42,333**	42,333
Common Stock Equity		
Common stock – without par value; $.01 stated value; authorized shares – 60,000,000; outstanding shares – 53,913,701 at June 30, 2005, and December 31, 2004	**539**	539
Paid–in capital	**826,019**	626,019
Retained earnings	**1,081,131**	1,078,617
Accumulated other comprehensive loss	**(25,708)**	(23,977)
Total Common Stock Equity	**1,881,981**	1,681,198
Total Liabilities and Shareholders' Equity	$ **5,644,410**	$ 5,449,896

The accompanying notes as they relate to PSI Energy, Inc. are an integral part of these condensed consolidated financial statements.

PSI ENERGY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year to Date June 30	
	2005	2004
	(dollars in thousands) (unaudited)	
Operating Activities		
Net income	$ **85,074**	$ 66,252
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**133,295**	103,890
Deferred income taxes and investment tax credits – net	**17,776**	35,052
Allowance for equity funds used during construction	**(3,719)**	(257)
Regulatory asset/liability deferrals	**(64,162)**	(22,452)
Regulatory assets amortization	**21,789**	21,280
Accrued pension and other postretirement benefit costs	**11,682**	10,260
Cost of removal	**(10,421)**	(5,344)
Changes in current assets and current liabilities:		
Accounts and notes receivable	**20,245**	7,118
Fuel, emission allowances, and supplies	**(43,693)**	3,863
Prepayments	**(778)**	(32)
Accounts payable	**19,212**	(41,508)
Accrued taxes and interest	**(5,553)**	(2,679)
Other assets	**(18,239)**	(783)
Other liabilities	**1,942**	3,835
Net cash provided by operating activities	**164,450**	178,49[illegible]
Financing Activities		
Change in short–term debt, including net affiliate notes	**(52,155)**	30,337
Contribution from parent	**200,000**	—
Dividends on preferred stock	**(1,293)**	(1,293)
Dividends on common stock	**(81,268)**	(57,870)
Net cash provided by (used in) financing activities	**65,284**	(28,826)
Investing Activities		
Construction expenditures (less allowance for equity funds used during construction)	**(269,341)**	(140,606)
Withdrawal of restricted funds held in trust	**45,227**	10,413
Other investments	**(699)**	(1,346)
Net cash used in investing activities	**(224,813)**	(131,539)
Net increase in cash and cash equivalents	**4,921**	18,130
Cash and cash equivalents at beginning of period	**10,794**	6,565
Cash and cash equivalents at end of period	$ **15,715**	$ 24,695
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for:		
Interest (net of amount capitalized)	$ **53,100**	$ 43,894
Income taxes	$ **34,650**	$ 19,502

The accompanying notes as they relate to PSI Energy, Inc. are an integral part of these condensed consolidated financial statements.

THE UNION LIGHT, HEAT AND POWER COMPANY

CONDENSED STATEMENTS OF INCOME

	Quarter Ended June 30		Year to Date June 30	
	2005	2004	2005	2004
	(dollars in thousands) (unaudited)			
Operating Revenues				
Electric	**$ 56,424**	$ 56,732	**$ 111,008**	$ 112,947
Gas	**18,672**	15,985	**76,447**	74,124
Total Operating Revenues	**75,096**	72,717	**187,455**	187,071
Operating Expenses				
Electricity purchased from parent company for resale	**39,936**	39,854	**79,436**	79,307
Gas purchased	**10,625**	7,481	**50,824**	48,314
Operation and maintenance	**17,489**	13,795	**33,204**	27,555
Depreciation	**5,177**	5,027	**10,287**	9,952
Taxes other than income taxes	**1,600**	1,239	**3,084**	2,677
Total Operating Expenses	**74,827**	67,396	**176,835**	167,805
Operating Income	**269**	5,321	**10,620**	19,266
Miscellaneous Income – Net	**715**	242	**1,565**	741
Interest Expense	**1,703**	1,270	**3,448**	2,497
Income (Loss) Before Taxes	**(719)**	4,293	**8,737**	17,510
Income Taxes	**(232)**	1,202	**3,030**	6,531
Net Income (Loss)	**$ (487)**	$ 3,091	**$ 5,707**	$ 10,979

The accompanying notes as they relate to The Union Light, Heat and Power Company are an integral part of these condensed financial statements.

THE UNION LIGHT, HEAT AND POWER COMPANY

CONDENSED BALANCE SHEETS

	June 30 2005	December 31 2004
	(dollars in thousands) (unaudited)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ **6,486**	$ 4,197
Notes receivable from affiliated companies	**8,099**	20,675
Accounts receivable less accumulated provision for doubtful accounts	**927**	1,451
Accounts receivable from affiliated companies	**1,016**	5,671
Inventory and supplies	**7,311**	8,500
Prepayments and other	**1,176**	285
Total Current Assets	**25,015**	40,779
Property, Plant, and Equipment – at Cost		
Utility plant in service		
Electric	**291,473**	285,828
Gas	**263,260**	256,667
Common	**42,018**	42,176
Total Utility Plant In Service	**596,751**	584,671
Construction work in progress	**13,257**	6,070
Total Utility Plant	**610,008**	590,741
Accumulated depreciation	**183,139**	176,726
Net Property, Plant, and Equipment	**426,869**	414,015
Other Assets		
Regulatory assets	**7,111**	10,070
Other	**2,492**	2,801
Total Other Assets	**9,603**	12,871
Total Assets	$ **461,487**	$ 467,665

The accompanying notes as they relate to The Union Light, Heat and Power Company are an integral part of these condensed financial statements.

THE UNION LIGHT, HEAT AND POWER COMPANY

CONDENSED BALANCE SHEETS

	June 30 2005	December 31 2004
	(dollars in thousands) (unaudited)	
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current Liabilities		
Accounts payable	$ **5,056**	$ 16,028
Accounts payable to affiliated companies	**7,319**	22,236
Accrued interest	**1,460**	1,370
Notes payable to affiliated companies (Note 5)	**18,867**	11,246
Other	**8,863**	7,009
Total Current Liabilities	**41,565**	57,889
Non–Current Liabilities		
Long–term debt	**94,375**	94,340
Deferred income taxes	**59,417**	58,422
Unamortized investment tax credits	**2,499**	2,626
Accrued pension and other postretirement benefit costs	**18,876**	17,762
Regulatory liabilities	**33,453**	29,979
Other	**13,083**	14,136
Total Non–Current Liabilities	**221,703**	217,265
Commitments and Contingencies		
Total Liabilities	**263,268**	275,154
Common Stock Equity		
Common stock – $15.00 par value; authorized shares – 1,000,000; outstanding shares – 585,333 at June 30, 2005, and December 31, 2004	**8,780**	8,780
Paid–in capital	**23,455**	23,455
Retained earnings	**167,270**	161,562
Accumulated other comprehensive loss	**(1,286)**	(1,286)
Total Common Stock Equity	**198,219**	192,511
Total Liabilities and Shareholder's Equity	**$ 461,487**	$ 467,665

The accompanying notes as they relate to The Union Light, Heat and Power Company are an integral part of these condensed financial statements.

THE UNION LIGHT, HEAT AND POWER COMPANY

CONDENSED STATEMENTS OF CASH FLOWS

	Year to Date June 30	
	2005	2004
	(dollars in thousands) (unaudited)	
Operating Activities		
Net income	$ **5,707**	$ 10,979
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**10,287**	9,952
Deferred income taxes and investment tax credits – net	**2,561**	393
Allowance for equity funds used during construction	**(308)**	9
Regulatory asset/liability deferrals	**1,446**	2,370
Regulatory assets amortization	**1,968**	617
Accrued pension and other postretirement benefit costs	**1,114**	756
Cost of removal	**(523)**	(852)
Changes in current assets and current liabilities:		
Accounts and notes receivable	**17,755**	14,134
Inventory and supplies	**1,189**	142
Prepayments	**(891)**	279
Accounts payable	**(25,889)**	(9,207)
Accrued taxes and interest	**2,088**	8,273
Other assets	**680**	301
Other liabilities	**(1,640)**	(769)
Net cash provided by operating activities	**15,544**	37,377
Financing Activities		
Change in short–term debt, including net affiliate notes	**7,621**	(16,135)
Net cash provided by (used in) financing activities	**7,621**	(16,135)
Investing Activities		
Construction expenditures (less allowance for equity funds used during construction)	**(20,876)**	(16,147)
Net cash used in investing activities	**(20,876)**	(16,147)
Net increase in cash and cash equivalents	**2,289**	5,095
Cash and cash equivalents at beginning of period	**4,197**	1,899
Cash and cash equivalents at end of period	$ **6,486**	$ 6,994
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for:		
Interest (net of amount capitalized)	$ **3,198**	$ 2,295
Income taxes	$ **—**	$ 4

The accompanying notes as they relate to The Union Light, Heat and Power Company are an integral part of these condensed financial statements.

INDEX

NOTES TO CONDENSED FINANCIAL STATEMENTS

NOTES TO CONDENSED FINANCIAL STATEMENTS

In this report **Cinergy** (which includes **Cinergy Corp.** and all of our regulated and non–regulated subsidiaries) is, at times, referred to in the first person as "we," "our," or "us." In addition, when discussing **Cinergy's** financial information, it necessarily includes the results of The Cincinnati Gas & Electric Company (**CG&E**), PSI Energy, Inc. (**PSI**), The Union Light, Heat and Power Company (**ULH&P**) and all of **Cinergy's** other consolidated subsidiaries. When discussing **CG&E's** financial information, it necessarily includes the results of **ULH&P** and all of **CG&E's** other consolidated subsidiaries.

1. Organization and Summary of Significant Accounting Policies

(a) *Pending Merger*

On May 8, 2005, **Cinergy Corp.** entered into an agreement and plan of merger with Duke Energy Corporation (Duke), a North Carolina corporation, whereby **Cinergy Corp.** will be merged with Duke. Under the merger agreement, each share of **Cinergy Corp.** Common Stock will be converted into 1.56 shares of the newly formed company, Duke Energy Holding Corp.

The merger agreement has been approved by both companies' Boards of Directors. Consummation of the merger is subject to customary conditions, including, among others, the approval of the shareholders of both companies and the approvals of various regulatory authorities. See Note 13 for further information regarding the merger.

(b) *Presentation*

Our Condensed Financial Statements reflect all adjustments (which include normal, recurring adjustments) necessary in the opinion of the registrants 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 registrants' combined Form 10–K for the year ended December 31, 2004 (2004 10–K). Certain amounts in the 2004 Condensed Financial Statements have been reclassified to conform to the 2005 presentation.

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

- Valuing derivative contracts used in our energy marketing and trading activities;
- Evaluating the regulatory recoverability of various costs;
- Providing reserves for contingencies, including legal, environmental, and income taxes; and
- Evaluating various non–regulated fixed assets and investments for impairment.

These estimates and judgments are discussed more fully in "Critical Accounting Estimates" in our 2004 10–K. Actual results could differ, as these estimates and assumptions involve judgment about future events or performance.

(c) *Revenue Recognition*

(i) *Utility Revenues*

CG&E, **PSI**, and **ULH&P** (collectively, our utility operating companies) record *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 **Cinergy**, **CG&E**, **PSI**, and **ULH&P** as of June 30, 2005 and 2004, were as follows:

	2005	2004
	(in millions)	
Cinergy	**$ 148**	$ 135
CG&E and subsidiaries	**77**	70
PSI	**71**	65
ULH&P	**12**	12

(ii) *Energy Marketing and Trading Revenues*

We market and trade electricity, natural gas, and other energy–related products. Many of the contracts associated with these products qualify as derivatives in accordance with Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*. We designate derivative transactions as either trading or non–trading at the time they are originated in accordance with Emerging Issues Task Force Issue 02–3, *Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities*. Trading contracts are reported on a net basis and non–trading contracts are reported on a gross basis. Net reporting requires presentation of realized and unrealized gains and losses on trading derivatives on a net basis in *Operating Revenues*. Gross reporting requires presentation of sales contracts in *Operating Revenues* and purchase contracts in *Fuel, emission allowances, and purchased power* expense or *Gas purchased* expense.

(iii) *Other Operating Revenues*

Cinergy and **CG&E** recognize revenue from coal origination, which represents contract structuring and marketing of physical coal. These revenues are included in *Other Operating Revenues* on the Condensed Consolidated Statements of Income. *Other Operating Revenues* for **Cinergy** also includes sales of synthetic fuel.

(d) *Accounting Changes*

(i) *Asset Retirement Obligations*

In March 2005, the Financial Accounting Standards Board (FASB) issued Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (Interpretation 47), an interpretation of Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* (Statement 143). Statement 143 requires recognition of legal obligations associated with the retirement or removal of long–lived assets at the time the obligations are incurred. Interpretation 47 clarifies that a conditional asset retirement obligation (which occurs when the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity) is a legal obligation within the scope of Statement 143. As such, the fair value of a conditional asset retirement obligation must be recognized as a liability when incurred if the liability's fair value can be reasonably estimated. Interpretation 47 also clarifies when sufficient information exists to reasonably estimate the fair value of an asset retirement obligation.

Cinergy will adopt Interpretation 47 on December 31, 2005. Upon adoption of Interpretation 47 **Cinergy** will recognize the impact, if any, of additional liabilities for conditional asset retirement obligations as a cumulative effect of a change in accounting principle. We have begun evaluating the impact of adopting this new interpretation and are currently unable to predict whether the implementation of this accounting standard will be material to our financial position or results of operations.

(ii) *Share–Based Payment*

In December 2004, the FASB issued a replacement of Statement of Financial Accounting Standards No. 123, *Accounting for Stock–Based Compensation* (Statement 123), *Statement of Financial Accounting Standards No. 123 (revised 2004), Share–Based Payment* (Statement 123R). This standard will require, among other things, accounting for all stock–based compensation arrangements under the fair value method.

In 2003, we prospectively adopted accounting for our stock–based compensation plans using the fair value recognition provisions of Statement 123, as amended by Statement of Financial Accounting Standards No. 148, *Accounting for Stock–Based Compensation–Transition and Disclosure*, for all employee awards granted or with terms modified on or after January 1, 2003. Therefore, the impact of implementation of Statement 123R on stock options within our stock–based compensation plans is not expected to be material. Statement 123R contains certain provisions that will modify the accounting for various stock–based compensation plans other than stock options. We are in the process of evaluating the impact of this new standard on these plans. **Cinergy** will adopt Statement 123R on January 1, 2006.

(iii) *Income Taxes*

In October 2004, the American Jobs Creation Act (AJCA) was signed into law. The AJCA includes a one–time deduction of 85 percent of certain foreign earnings that are repatriated, as defined in the AJCA. Based on our analysis, we do not believe that repatriation pursuant to this provision will have a material impact on our financial position or results of operations.

2. Common Stock

As discussed in the 2004 10–K, in January and February 2005, **Cinergy Corp.** issued a total of 9.2 million shares of common stock pursuant to certain stock purchase contracts that were issued as a component of combined securities in December 2001. Net proceeds from the transaction of $316 million were used to reduce short–term debt.

Cinergy issues new **Cinergy Corp.** common stock shares to satisfy obligations under certain of its employee stock plans and the Cinergy Corp. Direct Stock Purchase and Dividend Reinvestment Plan. During the six months ended June 30, 2005, **Cinergy** issued 1.9 million shares under these plans.

In June 2005, **Cinergy Corp.** contributed $200 million in capital to **PSI**. The capital contribution was used to repay short–term indebtedness and is consistent with supporting **PSI's** current credit ratings.

3. Cumulative Preferred Stock

In July 2005, PSI notified holders of its $31.075 million notional amount 6.875% Cumulative Preferred Stock that it intends to redeem all outstanding shares on August 17, 2005 at a price of $103.09 per share plus accrued and unpaid dividends.

4. Long–Term Debt

In July 2005, **PSI** notified holders of its \$50 million principal amount Series ZZ First Mortgage secured 5 ¾% Series 1993B Environmental Revenue Refunding Bonds, due February 15, 2028, of its intention to redeem all outstanding bonds in August 2005. **PSI** will redeem these bonds with the proceeds from the issuance by the Indiana Finance Authority of \$50 million principal amount of its Environmental Revenue Refunding Bonds, Series 2005A, due July 1, 2035. The bonds bear a fixed rate of interest through 2035 of 4.50 percent.

In August 2005, **PSI** notified holders of its \$30 million principal amount 7.125% Series AAA First Mortgage Bonds, due 2024, of its intention to redeem all outstanding bonds on September 2, 2005. In anticipation of these bonds being redeemed, they have been classified as *Long–term debt due within one year* on the Condensed Consolidated Balance Sheets.

Also in August 2005, **PSI** redeemed the $50 million 6.50% Synthetic Putable Yield Securities due August 1, 2026 through the exercise of call provisions of the securities. Because these securities would have been subject to mandatory redemption if the call provision had not been exercised, they have been classified as *Long-term debt due within one year* on the Condensed Consolidated Balance Sheets.

5. Notes Payable and Other Short-term Obligations

Cinergy Corp.'s short-term borrowings consist primarily of unsecured revolving lines of credit and the sale of commercial paper. **Cinergy Corp.'s** $2 billion revolving credit facilities and $1.5 billion commercial paper program also support the short-term borrowing needs of **CG&E**, **PSI**, and **ULH&P**. In addition, **Cinergy Corp.**, **CG&E**, and **PSI** maintain uncommitted lines of credit. These facilities are not firm sources of capital but rather informal agreements to lend money, subject to availability, with pricing determined at the time of advance. The following table summarizes our *Notes payable and other short-term obligations* and *Notes payable to affiliated companies*:

	June 30, 2005			December 31, 2004		
	Established Lines	Outstanding	Weighted Average Rate	Established Lines	Outstanding	Weighted Average Rate
			(dollars in millions)			
Cinergy						
Cinergy Corp.						
Revolving lines(1)	$ 2,000	$ —	— %	$ 2,000	$ —	— %
Uncommitted lines	40	—	—	40	—	—
Commercial paper(2)		547	3.35		676	2.45
Utility operating companies						
Uncommitted lines	75	—	—	75	—	—
Pollution control notes		248	2.81		248	2.43
Non-regulated subsidiaries						
Revolving lines(3)	162	40	3.85	158	8	5.67
Short-term debt		5	8.61		2	4.50
Pollution control notes		25	2.62		25	2.30
Cinergy Total		$ 865	3.23 %		$ 959	2.47 %
CG&E and subsidiaries						
Uncommitted lines	$ 15	$ —	— %	$ 15	—	— %
Pollution control notes		112	2.73		112	2.34
Money pool		232	3.31		180	2.38
CG&E Total		$ 344	3.12 %		$ 292	2.36 %
PSI						
Uncommitted lines	$ 60	$ —	— %	$ 60	$ —	— %
Pollution control notes		136	2.87		136	2.49
Money pool		78	3.31		130	2.38
PSI Total		$ 214	3.03 %		$ 266	2.44 %
ULH&P						
Money pool		$ 19	3.31 %		$ 11	2.38 %

ULH&P Total	**$ 19**	**3.31 %**	$ 11	2.38 %

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(1) Consists of a three–year $1 billion facility and a five–year $1 billion facility. The three–year facility was entered into in April 2004 and matures in April 2007. The five–year facility was entered into in December 2004, matures in December 2009, and contains $500 million sublimits each for **CG&E** and **PSI**.

(2) **Cinergy Corp.'s** commercial paper program limit is $1.5 billion. The commercial paper program is supported by **Cinergy Corp.'s** revolving lines of credit.

(3) Of the $162 million and $158 million, in 2005 and 2004, respectively, $150 million relates to a three–year senior revolving credit facility that Cinergy Canada, Inc. entered into in December 2004 and matures in December 2007.

At June 30, 2005, **Cinergy Corp.** had $1.4 billion remaining unused and available capacity relating to its $2 billion revolving credit facilities. These revolving credit facilities include the following:

Credit Facility	Expiration	Established Lines	Outstanding and Committed	Unused and Available
			(in millions)	
Five–year senior revolving	December 2009			
Direct borrowing			$ —	
Commercial paper support			—	
Total five–year facility(1)		$ 1,000	—	$ 1,000
Three–year senior revolving	April 2007			
Direct borrowing			—	
Commercial paper support			547	
Letter of credit support			11	
Total three–year facility		1,000	558	442
Total Credit Facilities		$ 2,000	$ 558	$ 1,442

(1) **CG&E** and **PSI** each have $500 million borrowing sublimits on this facility.

In our credit facilities, **Cinergy Corp.** has covenanted to maintain:

- a consolidated net worth of $2 billion; and
- a ratio of consolidated indebtedness to consolidated total capitalization not in excess of 65 percent.

As part of **CG&E's** $500 million sublimit under the $1 billion five–year credit facility, **CG&E** has covenanted to maintain:

- a consolidated net worth of $1 billion; and
- a ratio of consolidated indebtedness to consolidated total capitalization not in excess of 65 percent.

As part of **PSI's** $500 million sublimit under the $1 billion five–year credit facility, **PSI** has covenanted to maintain:

- a consolidated net worth of $900 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 facilities 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.

The latter two events, however, are subject to dollar–based materiality thresholds. As of June 30, 2005, **Cinergy**, **CG&E**, and **PSI** are in compliance with all of their debt covenants.

6. Energy Trading Credit Risk

Cinergy's extension of credit for energy marketing and trading is governed by a Corporate Credit Policy. Written guidelines approved by **Cinergy's** Risk Policy Committee document the management approval levels for credit limits, evaluation of creditworthiness, and credit risk mitigation procedures. Exposures to credit risks are monitored daily by the Corporate Credit Risk function, which is independent of all trading operations. As of June 30, 2005, 95 percent of the credit exposure, net of credit collateral, related to energy trading and marketing activity was with counterparties rated investment grade or the counterparties' obligations were guaranteed or secured by an investment grade entity. The majority of these investment grade counterparties are externally rated. If a counterparty has an external rating, the lower of Standard & Poor's Ratings Services or Moody's Investors Service is used; otherwise, **Cinergy's** internal rating of the counterparty is used. The remaining five percent represents credit exposure of $33 million with counterparties rated non–investment grade.

As of June 30, 2005, **CG&E** had a concentration of trading credit exposure of $48 million with two counterparties accounting for greater than ten percent of **CG&E's** total trading credit exposure. These counterparties are rated investment grade.

Energy commodity prices can be extremely volatile and the market can, at times, lack liquidity. Because of these issues, credit risk for energy commodities is generally greater than with other commodity trading.

We continually review and monitor our credit exposure to all counterparties and secondary counterparties. If appropriate, we may adjust our credit reserves to attempt to compensate for increased credit risk within the industry. Counterparty credit limits may be adjusted on a daily basis in response to changes in a counterparty's financial status or public debt ratings.

7. Financial Instruments

We enter into financial derivative contracts for the purpose of managing financial instrument risk. Forward starting swaps are a type of financial derivative that mitigates volatility associated with fluctuations in interest rates between the time of execution of the swap and the date of an expected debt issuance.

In June 2005, **PSI** executed two forward starting swaps with a combined notional amount of $325 million. The forward starting swaps effectively fix the benchmark interest rate of an anticipated issuance of fixed–rate debt from June 2005 through June 2006, the expected date of issuance of the debt securities. Both forward starting swaps have been designated as cash flow hedges under the provisions of Statement 133. As the terms of these swap agreements mirror the terms of the forecasted debt issuance, we anticipate they will be highly effective hedges. Changes in the fair value of these swaps are recorded in *Accumulated other comprehensive income (loss)*.

8. Pension and Other Postretirement Benefits

As discussed in the 2004 10–K, **Cinergy Corp.** sponsors both pension and other postretirement benefits plans. Our 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 income 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. In addition, we sponsor non–qualified pension plans that cover officers, certain other key employees, and non–employee directors. We 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.

Based on preliminary estimates, we expect 2005 contributions of $102 million for qualified pension benefits, which is an increase from the $72 million disclosed in the 2004 10–K. This $30 million increase is primarily the result of a change in the retirement age assumption which increased the near–term funding estimates. Actual contributions for the first six months of 2005 were zero.

Our benefit plans' costs for the quarter and year to date ended June 30, 2005 and 2004, included the following components:

	Qualified Pension Benefits		Non-Qualified Pension Benefits		Other Postretirement Benefits	
	2005	2004	2005	2004	2005	2004
			(in millions)			
Quarter Ended June 30						
Service cost	$ **9.6**	$ 8.8	$ **1.4**	$ 1.2	$ **1.6**	$ 1.2
Interest cost	**24.0**	22.1	**1.8**	1.7	**5.7**	5.4
Expected return on plans' assets	**(22.1)**	(20.1)	**—**	—	**—**	—
Amortization of transition (asset) obligation	**(0.1)**	(0.1)	**—**	—	**0.1**	0.1
Amortization of prior service cost	**1.2**	1.1	**0.5**	0.5	**(0.3)**	—
Recognized actuarial (gain) loss	**2.0**	0.5	**0.6**	0.7	**2.8**	1.9
Net periodic benefit cost	$ **14.6**	$ 12.3	$ **4.3**	$ 4.1	$ **9.9**	$ 8.6
Year to Date June 30						
Service cost	$ **19.2**	$ 17.6	$ **2.8**	$ 2.4	$ **3.2**	$ 2.6
Interest cost	**48.1**	44.2	**3.6**	3.4	**11.4**	11.4
Expected return on plans' assets	**(44.1)**	(40.2)	**—**	—	**—**	—
Amortization of transition (asset) obligation	**(0.1)**	(0.2)	**—**	—	**0.2**	0.9
Amortization of prior service cost	**2.3**	2.2	**1.0**	1.0	**(0.4)**	—
Recognized actuarial (gain) loss	**3.9**	1.0	**1.2**	1.4	**5.5**	4.0
Net periodic benefit cost	$ **29.3**	$ 24.6	$ **8.6**	$ 8.2	$ **19.9**	$ 18.9

The net periodic benefit costs by registrant for the quarter and year to date ended June 30, 2005 and 2004, were as follows:

	Qualified Pension Benefits		Non-Qualified Pension Benefits		Other Postretirement Benefits	
	2005	2004	2005	2004	2005	2004
			(in millions)			
Quarter Ended June 30						
Cinergy(1)	$ **14.6**	$ 12.3	$ **4.3**	$ 4.1	$ **9.9**	$ 8.6
CG&E and subsidiaries	**4.3**	3.7	**0.2**	0.2	**2.6**	2.0
PSI	**3.7**	3.2	**0.1**	0.2	**5.0**	4.7
ULH&P	**0.4**	0.4	**—**	—	**0.2**	0.2
Year to Date June 30						
Cinergy(1)	$ **29.3**	$ 24.6	$ **8.6**	$ 8.2	$ **19.9**	$ 18.9
CG&E and subsidiaries	**8.7**	7.4	**0.4**	0.4	**5.2**	4.6
PSI	**7.5**	6.4	**0.3**	0.4	**9.9**	10.0
ULH&P	**0.8**	0.8	**—**	—	**0.5**	0.4

(1) The results of **Cinergy** also include amounts related to non–registrants.

9. 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 turbine 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. We currently estimate that we will incur capital costs of approximately $8 million in addition to $816 million already incurred to comply with this program.

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. At the same time, the EPA issued the Clean Air Mercury Rule (CAMR) which requires reductions in mercury emissions from coal–fired power plants. The final regulation also adopts a two–phase cap and trade approach that requires mercury emissions to be cut by 70 percent by 2018. State SIPs must comply with the prescribed reduction levels under CAIR and CAMR; however, the states have the ability to introduce more stringent requirements if desired. Under both CAIR and 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. In August 2005, the EPA proposed a Federal Implementation Plan (FIP) to act as a backstop to ensure that states implement the CAIR in a timely manner. If a state fails to develop a CAIR SIP, the EPA intends to finalize the FIP in time to implement CAIR for the state by the CAIR deadline. Numerous states, environmental organizations, industry groups, including some of which **Cinergy** is a member, and individual companies have challenged various portions of both rules. Those challenges are currently pending in the Federal Circuit Court for the District of Columbia. At this time we cannot predict the outcome of these matters.

Over the 2005–2009 time period, we expect to spend approximately $1.8 billion to reduce mercury, SO_2, and NO_X emissions. These estimates 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 60 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. See (b)(*i*) for more details. **CG&E** would receive partial recovery of depreciation and financing costs related to environmental compliance projects for 2005–2008 through its recently approved rate stabilization plan (RSP). See (b)(*ii*) for more details.

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 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. We expect a final FIP and ruling from the EPA on this matter by March 2006. It is unclear at this time whether any additional reductions would be necessary beyond those required under the CAIR.

(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 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. In addition, three northeast states and two environmental groups have intervened in the case. The case is currently in discovery and is set for trial by jury commencing in February 2006.

In March 2000, the United States also filed in the United States District Court for the Southern District of Ohio an amended complaint in a separate lawsuit alleging violations of the CAA relating to PSD, NSR, and Ohio SIP requirements regarding various generating stations, including a generating station operated by Columbus Southern Power Company (CSP) and jointly–owned by CSP, The Dayton Power and Light Company (DP&L), and **CG&E**. The EPA is seeking injunctive relief and civil penalties of up to $27,500 per day for each violation. This suit is being defended by CSP. In April 2001, the United States District Court for the Southern District of Ohio in that case ruled that the Government and the intervening plaintiff environmental groups cannot seek monetary damages for alleged violations that occurred prior to November 3, 1994; however, they are entitled to seek injunctive relief for such alleged violations. Neither party appealed that decision. This matter was heard in trial in July 2005. A decision is expected by the end of 2005.

In addition, **Cinergy** and **CG&E** have been informed by DP&L that in June 2000, the EPA issued a Notice of Violation (NOV) to DP&L for alleged violations of PSD, NSR, and Ohio SIP requirements at a station operated by DP&L and jointly–owned by DP&L, CSP, and **CG&E**. The NOV indicated the EPA may (1) issue an order requiring compliance with the requirements of the Ohio SIP, or (2) bring a civil action seeking injunctive relief and civil penalties of up to $27,500 per day for each violation. In September 2004, Marilyn Wall and the Sierra Club brought a lawsuit against **CG&E**, DP&L and CSP for alleged violations of the CAA at this same generating station.

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. **Cinergy** intends to defend these lawsuits vigorously in court and filed motions to dismiss with the other defendants in September 2004. We are not able to predict whether resolution of these matters would have a material effect on our financial position or results of operations.

(v) Selective Catalytic Reduction Units at Gibson Station

In May 2004, SCRs and other pollution control equipment became operational at Units 4 and 5 of **PSI's** Gibson Station in accordance with compliance deadlines under the NO_X SIP Call. In June and July 2004, Gibson Station temporarily shut down the equipment on these units due to a concern that portions of the plume from those units' stacks appeared to break apart and descend to ground level, at certain times, under certain weather conditions. As a result, and, working with the City of Mt. Carmel, Illinois, Illinois EPA, Indiana Department of Environmental Management (IDEM), EPA, and the State of Illinois, we developed a protocol regarding the use of the SCRs while we explored alternatives to address this issue. After the protocol was finalized, the Illinois Attorney General brought an action in Wabash County Circuit Court against **PSI** seeking a preliminary injunction to enforce the protocol. In August 2004, the court granted that preliminary injunction. **PSI** is appealing that decision to the Fifth District Appellate Court, but we cannot predict the ultimate outcome of that appeal or of the underlying action by the Illinois Attorney General.

In April 2005, we completed the installation of a permanent control system to address this issue. The new control system will support all five Gibson generating units. We will seek recovery of any related capital as well as increased emission allowance expenditures through the regulatory process. We do not believe costs related to resolving this matter will have a material impact on our financial position or results of operations.

(vi) Zimmer Station Lawsuit

In November 2004, a citizen of the Village of Moscow, Ohio, the town adjacent to **CG&E's** Zimmer Station, brought a purported class action in the United States District Court for the Southern District of Ohio seeking monetary damages and injunctive relief against **CG&E** for alleged violations of the CAA, the Ohio SIP, and Ohio laws against nuisance and common law nuisance. **CG&E** filed a motion to dismiss the lawsuit on primarily procedural grounds and we intend to defend against these claims vigorously. The plaintiffs have filed a number of additional notices of intent to sue and two lawsuits raising claims similar to those in the original claim. At this time, we cannot predict whether the outcome of this matter will have a material impact on our financial position or results of operations.

(vii) Manufactured Gas Plant (MGP) Sites

Coal tar residues, related hydrocarbons, and various metals have been found in at least 22 sites that **PSI** or its predecessors previously owned and sold in a series of transactions with Northern Indiana Public Service Company (NIPSCO) and Indiana Gas Company, Inc. (IGC). The 22 sites are in the process of being studied and will be remediated, if necessary. In 1998 NIPSCO, IGC, and **PSI** entered into Site Participation and Cost Sharing Agreements to allocate liability and responsibilities between them. The IDEM oversees investigation and cleanup of all of these sites. Thus far, **PSI** has primary responsibility for investigating, monitoring and, if necessary, remediating nine of these sites. In December 2003, **PSI** entered into a voluntary remediation plan with the state of Indiana, providing a formal framework for the investigation and cleanup of the sites.

In April 1998, **PSI** filed suit in Hendricks County in the state of Indiana against its general liability insurance carriers. **PSI** sought a declaratory judgment to obligate its insurance carriers to (1) defend MGP claims against **PSI** and compensate **PSI** for its costs of investigating, preventing, mitigating, and remediating damage to property and paying claims related to MGP sites; or (2) pay **PSI's** cost of defense. **PSI** settled, in principle, its claims with all but one of the insurance carriers in January 2005 prior to commencement of the trial. With respect to the lone insurance carrier, a jury returned a verdict against **PSI** in February 2005. **PSI** has appealed this decision. At the present time, **PSI** cannot predict the outcome of this litigation, including the outcome of the appeal.

PSI has accrued costs related to investigation, remediation, and groundwater monitoring for those sites where such costs are probable and can be reasonably estimated. We will continue to investigate and remediate the sites as outlined in the voluntary remediation plan. As additional facts become known and investigation is completed, we will assess whether the likelihood of incurring additional costs becomes probable. Until all investigation and remediation is complete, we are unable to determine the overall impact on our financial position or results of operations.

CG&E and **ULH&P** have performed site assessments on certain of their sites where we believe MGP activities have occurred at some point in the past and have found no imminent risk to the environment. At the present time, **CG&E** and **ULH&P** cannot predict whether investigation and/or remediation will be required in the future at any of these sites.

(viii) Asbestos Claims Litigation

CG&E and **PSI** have been named as defendants or co–defendants in lawsuits related to asbestos at their electric generating stations. Currently, there are approximately 120 pending lawsuits. In these lawsuits, plaintiffs claim to have been exposed to asbestos–containing products in the course of their work at the **CG&E** and **PSI** generating stations. The plaintiffs further claim that as the property owner of the generating stations, **CG&E** and **PSI** should be held liable for their injuries and illnesses based on an alleged duty to warn and protect them from any asbestos exposure. A majority of the lawsuits to date have been brought against **PSI**. The impact on **CG&E's** and **PSI's** financial position or results of operations of these cases to date has not been material.

Of these lawsuits, one case filed against **PSI** has been tried to verdict. The jury returned a verdict against **PSI** in the amount of approximately $500,000 on a negligence claim and a verdict for **PSI** on punitive damages. **PSI** appealed this decision up to the Indiana Supreme Court. In July 2005, the Indiana Supreme Court upheld the jury's verdict. In addition, **PSI** has settled a number of other lawsuits for amounts, which neither individually nor in the aggregate, are material to **PSI's** financial position or results of operations. We are currently evaluating the effect of the Indiana Supreme Court's ruling on our existing docket of cases.

At this time, **CG&E** and **PSI** are not able to predict the ultimate outcome of these lawsuits or the impact on **CG&E's** and **PSI's** financial position or results of operations.

(ix) Dunavan Waste Superfund Site

In July 2005, **PSI** received notice from the EPA that it has been identified as a de minimus potentially responsible party under the Comprehensive Environmental Response, Compensation, and Liability Act at the Dunavan Waste Oil

Site in Oakwood, Vermilion County, Illinois. At this time, **PSI** does not have any further information regarding the scope of potential liability associated with this matter.

(b) *Regulatory*

(i) PSI Environmental Compliance Case

In November 2004, **PSI** filed a compliance plan case with the Indiana Utility Regulatory Commission (IURC) seeking approval of **PSI's** plan for complying with SO_2, NO_X, and mercury emission reduction requirements discussed previously in (a)(*i*), including approval of cost recovery and an overall rate of return of eight percent related to certain projects. **PSI** requested approval to recover the financing, depreciation, and operation and maintenance costs, among others, related to $1.08 billion in capital projects designed to reduce emissions of SO_2, NO_X, and mercury at **PSI's** coal–burning generating stations. An evidentiary hearing was held in May 2005 and a final IURC Order is expected in the third quarter of 2005.

(ii) CG&E Electric Rate Filings

In response to the Public Utilities Commission of Ohio (PUCO's) request that **CG&E** propose a RSP to mitigate the potential for significant rate increases when the market development period comes to an end, **CG&E** filed a proposed RSP which was approved by the PUCO in November 2004. The major features of the RSP are as follows:

- **Provider of Last Resort (POLR) Charge: CG&E** began collecting a POLR charge from non–residential customers effective January 1, 2005, and will begin to collect a POLR charge from residential customers effective January 1, 2006. The POLR charge includes several discrete charges, the most significant being an annually adjusted component (AAC) intended to provide cost recovery primarily for environmental compliance expenditures; an infrastructure maintenance fund charge (IMF) intended to provide compensation to **CG&E** for committing its physical capacity to meet its POLR obligation; and a system reliability tracker (SRT) intended to provide cost recovery for capacity purchases, purchased power, reserve capacity, and related market costs for purchases to meet capacity needs. We anticipate the collection of the AAC and IMF will result in an approximate $36 million increase in revenues in 2005 and an additional $50 million in 2006. The SRT will be billed based on dollar–for–dollar costs incurred. A portion of these charges are avoidable by certain customers who switch to an alternative generation supplier. Therefore, these estimates are subject to change, depending on the level of switching that occurs in future periods. In 2007 and 2008, **CG&E** could seek additional increases in the AAC component of the POLR based on **CG&E's** actual net costs for the specified expenditures.

- **Generation Rates and Fuel Recovery:** A new rate has been established for generation service after the market development period ends. In addition, a fuel cost recovery mechanism that is adjusted quarterly has been established to recover costs for fuel, emission allowances, and certain purchased power costs, that exceed the amount originally included in the rates frozen in the **CG&E** transition plan. These new rates were applied to non–residential customers beginning January 1, 2005 and will be applied to residential customers beginning January 1, 2006.

- **Generation Rate Reduction:** The existing five percent generation rate reduction required by statute for residential customers implemented under **CG&E's** 2000 plan will end on December 31, 2005.

- **Transmission Cost Recovery:** Transmission cost recovery mechanisms were established beginning January 1, 2005 for non–residential customers and will be established beginning January 1, 2006 for residential customers. The transmission cost recovery mechanisms are designed to permit **CG&E** to recover Midwest Independent Transmission System Operator, Inc. charges, all Federal Energy Regulatory Commission (FERC) approved transmission costs, and all congestion costs allocable to retail ratepayers that are provided service by **CG&E**.

- **Distribution Cost Recovery: CG&E** will have the ability to defer certain capital–related distribution costs from July 1, 2004 through December 31, 2005 with recovery from non–residential customers to be provided through a rider beginning January 1, 2006 through December 31, 2010.

CG&E had also filed an electric distribution base rate case for residential and non–residential customers to be effective January 1, 2005. Under the terms of the RSP described previously, **CG&E** withdrew this base rate case and, in February 2005, **CG&E** filed a new distribution base rate case with rates to become effective January 1, 2006. The requested amount of the increase is $78 million.

In March 2005, the Ohio Consumers' Counsel asked the Ohio Supreme Court to overturn the RSP. We expect the court to decide the case before January 1, 2006; however, at this time we cannot predict the outcome of this matter.

(iii) ULH&P Gas Rate Case

In 2002, the Kentucky Public Service Commission (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 costs would be recovered through a tracking mechanism for an initial three year period, with the possibility of renewal up to ten years. To date, we have capitalized $56 million in costs associated with the accelerated gas main replacement program through this tracking mechanism. The tracking mechanism allows **ULH&P** to recover depreciation costs and rate of return annually over the life of the deferred assets. Through June 30, 2005, **ULH&P** has recovered $7.5 million under this tracking mechanism. The Kentucky Attorney General has appealed to the Franklin Circuit Court the KPSC's approval of the tracking mechanism and the new tracking mechanism rates. 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. **ULH&P** is requesting approval to continue the tracking mechanism in addition to its request for a $14 million increase in base rates, which is a seven percent increase in current retail gas rates. **ULH&P** expects that the KPSC will issue its decision by the fourth quarter of 2005.

(iv) Gas Distribution Plant

In June 2003, the PUCO approved an amended settlement agreement between **CG&E** and the PUCO Staff in a gas distribution safety case arising out of a gas leak at a service head–adapter (SHA) style riser on **CG&E's** distribution system. The amended settlement agreement required **CG&E** to expend a minimum of $700,000 to replace SHA risers by December 31, 2003, and to file a comprehensive plan addressing all SHA risers on its distribution system. **CG&E** filed a comprehensive plan with the PUCO in December 2004 providing for replacement of approximately 5,000 risers in 2005 with continued monitoring thereafter. **CG&E** estimates the replacement cost of these risers will not be material. In April 2005, the PUCO issued an order closing this case. The PUCO issued a separate order opening a statewide investigation into riser leaks in gas pipeline systems throughout Ohio. At this time, **Cinergy** and **CG&E** cannot predict the outcome or the impact of the statewide investigation.

(c) *Other*

(i) Energy Market Investigations

In August 2003, **Cinergy**, along with Cinergy Marketing & Trading, LP (Marketing & Trading) and 37 other companies, were named as defendants in civil litigation filed as a purported class action on behalf of all persons who purchased and/or sold New York Mercantile Exchange natural gas futures and options contracts between January 1, 2000, and December 31, 2002. The complaint alleges that improper price reporting caused damages to the class. Two similar lawsuits have subsequently been filed, and these three lawsuits have been consolidated for pretrial purposes. The plaintiffs filed a consolidated class action complaint in January 2004. **Cinergy's** motion to dismiss was granted in September 2004 leaving only Marketing & Trading in the lawsuit. We believe this action against Marketing & Trading is without merit and intend to defend this lawsuit vigorously.

Cinergy continues to provide various Assistant United States Attorneys with information with respect to their investigations into energy market practices. We understand that we are neither a target nor are we under investigation by the Department of Justice in relation to any of these communications.

At this time, we do not believe the outcome of these investigations and litigation will have a material impact on **Cinergy's** financial position or results of operations.

(ii) Synthetic Fuel Production

Cinergy produces from two facilities synthetic fuel that qualifies for tax credits (through 2007) in accordance with Section 29 of the Internal Revenue Code (IRC) if certain requirements are satisfied.

Cinergy's sale of synthetic fuel has generated $271 million in tax credits through June 30, 2005. The Internal Revenue Service (IRS) is currently auditing **Cinergy** for the 2002 and 2003 tax years and has recently challenged certain other taxpayers' Section 29 tax credits. While we cannot predict whether the IRS will challenge our Section 29 tax credits, we expect the IRS will evaluate the various key requirements for claiming our Section 29 credits related to synthetic fuel. If the IRS challenges our Section 29 tax credits related to synthetic fuel, and such challenges were successful, this could result in the disallowance of up to all $271 million in previously claimed Section 29 tax credits for synthetic fuel produced by the applicable **Cinergy** facilities and a loss of our ability to claim future Section 29 tax credits for synthetic fuel produced by such facilities. We believe that we operate in conformity with all the necessary requirements to be allowed such tax credits under Section 29. Upon consummation of the pending merger of Duke and **Cinergy**, the synthetic fuel produced by one of **Cinergy's** facilities pursuant to the existing commercial arrangement would cease to qualify for the Section 29 credit. **Cinergy** is evaluating a transaction for the disposition of a portion of the affected facility that **Cinergy** believes would enable the fuel produced by the facility to continue to qualify for credit under IRC Section 29. In the event a suitable transaction is not achieved, **Cinergy** anticipates that its production of synthetic fuel at the affected facility would be suspended upon consummation of the pending merger with Duke.

Section 29 also provides for a phase–out of the credit based on the average price of crude oil during a calendar year. The phase–out is based on a prescribed calculation and definition of crude oil prices. Based on current crude oil prices, we do not currently expect a material negative impact on our ability to recognize the projected benefit of Section 29 tax credits in 2005.

(iii) FirstEnergy Lawsuit

FirstEnergy has filed a lawsuit in the Court of Common Pleas in Summit County, Ohio against **Cinergy** with respect to a transaction between **Cinergy** and a subsidiary of FirstEnergy, relating to a joint venture company, Avon Energy Partners Holdings (Avon). In 1999, the FirstEnergy subsidiary acquired **Cinergy's** share of Avon which it subsequently sold to a third party. The original transaction documents included an indemnity by **Cinergy** with respect to a certain investment owned by Avon. FirstEnergy claims that this indemnity was triggered by its sale of Avon to a third party, and is seeking to recover $15 million from **Cinergy**. The case is currently in discovery. **Cinergy** intends to defend this lawsuit vigorously. At this time, we cannot predict the outcome of this matter.

(iv) Guarantees

In the ordinary course of business, **Cinergy** enters into various agreements providing financial or performance assurances to third parties on behalf of certain unconsolidated subsidiaries and joint ventures. These agreements are entered into primarily to support or enhance the creditworthiness otherwise attributed to these entities on a stand–alone basis, thereby facilitating the extension of sufficient credit to accomplish their intended commercial purposes. The guarantees have various termination dates, from short–term (less than one year) to open–ended.

In many cases, the maximum potential amount of an outstanding guarantee is an express term, set forth in the guarantee agreement, representing the maximum potential obligation of **Cinergy** under that guarantee (excluding, at times, certain legal fees to which a guaranty beneficiary may be entitled). In those cases where there is no maximum potential amount expressly set forth in the guarantee agreement, we calculate the maximum potential amount by considering the terms of the guaranteed transactions, to the extent such amount is estimable.

Cinergy had guaranteed borrowings by individuals under the Director, Officer, and Key Employee Stock Purchase Program. Under these guarantees, **Cinergy** would have been obligated to pay the debt's principal and any related interest in the event of an unexcused breach of a guaranteed payment obligation by certain directors, officers, and key employees. This program terminated pursuant to its terms during the first quarter of 2005 and as of March 31, 2005, all borrowings had been repaid by the participants.

Cinergy Corp. has also provided performance guarantees on behalf of certain unconsolidated subsidiaries and joint ventures. These guarantees support performance under various agreements and instruments (such as construction contracts, operation and maintenance agreements, and energy service agreements). **Cinergy Corp.** may be liable in the event of an unexcused breach of a guaranteed performance obligation by an unconsolidated subsidiary. **Cinergy Corp.** has estimated its maximum potential liability to be $52 million under these guarantees as of June 30, 2005. **Cinergy Corp.** may also have recourse to third parties for claims required to be paid under certain of these guarantees. The majority of these guarantees expire at the completion of the underlying performance agreement, the majority of which expire from 2016 to 2019.

Cinergy has entered into contracts that include indemnification provisions as a routine part of its business activities. Examples of these contracts include purchase and sale agreements and operating agreements. In general, these provisions indemnify the counterparty for matters such as breaches of representations and warranties and covenants contained in the contract. In some cases, particularly with respect to purchase and sale agreements, the potential liability for certain indemnification obligations is capped, in whole or in part (generally at an aggregate amount not exceeding the sale price), and subject to a deductible amount before any payments would become due. In other cases (such as indemnifications for willful misconduct of employees in a joint venture), the maximum potential liability is not estimable given that the magnitude of any claims under those indemnifications would be a function of the extent of damages actually incurred. **Cinergy** has estimated the maximum potential liability, where estimable, to be $103 million under these indemnification provisions. The termination period for the majority of matters provided by indemnification provisions in these types of agreements generally ranges from 2005 to 2009.

We believe the likelihood that **Cinergy** would be required to perform or otherwise incur any significant losses associated with any or all of the guarantees described in the preceding paragraphs is remote.

10. Financial Information by Business Segment

As discussed in the 2004 10–K, we conduct operations through our subsidiaries, and manage through the following three reportable segments:

- Regulated Business Unit (Regulated);
- Commercial Business Unit (Commercial); and
- Power Technology and Infrastructure Services Business Unit (Power Technology and Infrastructure).

Regulated consists of **PSI's** regulated generation and transmission and distribution operations, and **CG&E** and its subsidiaries' regulated electric and gas transmission and distribution systems. Regulated plans, constructs, operates, and maintains **Cinergy's** transmission and distribution systems and delivers gas and electric energy to consumers. Regulated also earns revenues from wholesale customers primarily by these customers transmitting electric power through **Cinergy's** transmission system. These businesses are subject to cost of service rate making where rates to be charged to customers are based on prudently incurred costs over a test period plus a reasonable rate of return.

Commercial manages our wholesale generation and energy marketing and trading activities. Commercial also performs energy risk management activities, provides customized energy solutions and is responsible for all of our international operations.

Power Technology and Infrastructure primarily manages Cinergy Ventures, LLC (Ventures), **Cinergy's** venture capital subsidiary. Ventures identifies, invests in, and integrates new energy technologies into **Cinergy's** existing businesses, focused primarily on operational efficiencies and clean energy technologies. In addition, Power Technology and Infrastructure manages our investments in other energy infrastructure and telecommunication service providers.

Following are the financial results by business unit. Certain prior year amounts have been reclassified to conform to the current presentation.

Financial results by business unit for the quarters ended June 30, 2005, and June 30, 2004, are as indicated below.

	Cinergy Business Units					
	Regulated	Commercial	Power Technology and Infrastructure	Total	Reconciling Eliminations(1)	Consolidated
			(in millions)			
Quarter ended June 30, 2005						
Operating revenues						
External customers	**$ 706**	**$ 408**	**$ —**	**$ 1,114**	**$ —**	**$ 1,114**
Intersegment revenues	**2**	**38**	**—**	**40**	**(40)**	**—**
Gross margins						
Electric	**434**	**168**	**—**	**602**	**—**	602(3)
Gas	**44**	**(20)**	**—**	**24**	**—**	24(4)
Segment profit (loss)(2)	**50**	**3**	**(2)**	**51**	**—**	**51**
Quarter ended June 30, 2004						
Operating revenues						
External customers	$ 688	$ 366	$ —	$ 1,054	$ —	$ 1,054
Intersegment revenues	7	52	—	59	(59)	—
Gross margins						
Electric	396	175	—	571	—	571(3)
Gas	44	17	—	61	—	61(4)
Segment profit (loss)(2)	35	31	(7)	59	—	59

(1) The Reconciling Eliminations category eliminates the intersegment revenues of Commercial and Regulated.

(2) Management utilizes segment profit (loss), after taxes, to evaluate segment performance.

(3) Electric gross margin is calculated as *Electric operating revenues* less *Fuel, emission allowances, and purchased power* expense from the Condensed Consolidated Statements of Income.

(4) Gas gross margin is calculated as *Gas operating revenues* less *Gas purchased* expense from the Condensed Consolidated Statements of Income.

Financial results by business unit for year to date June 30, 2005, and June 30, 2004, are as indicated below.

	Cinergy Business Units					
	Regulated	Commercial	Power Technology and Infrastructure	Total	Reconciling Eliminations(1)	Consolidated
			(in millions)			
Year to Date June 30, 2005						
Operating revenues						
External customers	**$ 1,618**	**$ 841**	**$ —**	**$ 2,459**	**$ —**	**$ 2,459**
Intersegment revenues	**14**	**83**	**—**	**97**	**(97)**	**—**
Gross margins						
Electric	**876**	**347**	**—**	**1,223**	**—**	**1,223**(3)
Gas	**142**	**(14)**	**—**	**128**	**—**	**128**(4)
Segment profit (loss)(2)	**125**	**49**	**(6)**	**168**	**—**	**168**
Year to Date June 30, 2004						
Operating revenues						
External customers	$ 1,600	$ 742	$ —	$ 2,342	$ —	$ 2,342
Intersegment revenues	31	102	—	133	(133)	—
Gross margins						
Electric	802	334	—	1,136	—	1,136(3)
Gas	148	40	—	188	—	188(4)
Segment profit (loss)(2)	115	76	(29)	162	—	162

(1) The Reconciling Eliminations category eliminates the intersegment revenues of Commercial and Regulated.

(2) Management utilizes segment profit (loss), after taxes, to evaluate segment performance.

(3) Electric gross margin is calculated as *Electric operating revenues* less *Fuel, emission allowances, and purchased power* expense from the Condensed Consolidated Statements of Income.

(4) Gas gross margin is calculated as *Gas operating revenues* less *Gas purchased* expense from the Condensed Consolidated Statements of Income.

Total segment assets at June 30, 2005, and December 31, 2004, are as indicated below:

	Cinergy Business Units				
	Regulated	Commercial	Power Technology and Infrastructure	Total	Consolidated
	(in millions)				
Total segment assets at June 30, 2005	**$ 9,137**	**$ 5,990**	**$ 131**	**$ 15,258**	**$ 15,258**
Total segment assets at December 31, 2004	$ 9,097	$ 5,746	$ 139	$ 14,982	$ 14,982

11. Earnings Per Common Share (EPS)

A reconciliation of EPS – basic to EPS – diluted is presented below for the quarters ended June 30, 2005 and 2004:

		Income	Shares		EPS
		(in thousands, except per share amounts)			
Quarter Ended June 30, 2005					
EPS – basic:	**$**	**50,708**	**198,492**	**$**	**0.25**
Effect of dilutive securities:					
Common stock options			**671**		
Directors' compensation plans			**146**		
Contingently issuable common stock			**132**		
EPS – diluted:	**$**	**50,708**	**199,441**	**$**	**0.25**
Quarter Ended June 30, 2004					
EPS – basic:	$	58,504	180,236	$	0.33
Effect of dilutive securities:					
Common stock options			574		
Directors' compensation plans			155		
Contingently issuable common stock			471		
Stock purchase contracts			841		
EPS – diluted:	$	58,504	182,277	$	0.32

Options to purchase shares of common stock are excluded from the calculation of EPS – diluted, if they are considered to be anti–dilutive. Share amounts of 1.4 million and 1.2 million were excluded from the EPS – diluted calculation for the quarters ended June 30, 2005 and 2004, respectively.

Also excluded from the EPS – diluted calculation for the quarter ended June 30, 2004 are 10.0 million shares, issuable pursuant to the stock purchase contracts issued by **Cinergy Corp.** in December 2001 associated with the preferred trust securities transaction. As discussed in the 2004 10–K, in January and February 2005, **Cinergy Corp.** issued a total of 9.2 million shares of common stock associated with these preferred stock securities.

A reconciliation of EPS – basic to EPS – diluted is presented below for the year to date June 30, 2005 and 2004:

		Income	Shares		EPS
		(in thousands, except per share amounts)			
Year to Date June 30, 2005					
EPS – basic:	**$**	**168,064**	**197,066**	**$**	**0.85**
Effect of dilutive securities:					
Common stock options			**652**		
Directors' compensation plans			**146**		
Contingently issuable common stock			**66**		
Stock purchase contracts			**145**		
EPS – diluted:	**$**	**168,064**	**198,075**	**$**	**0.85**
Year to Date June 30, 2004					
EPS – basic:	$	161,519	179,749	$	0.90

Effect of dilutive securities:				
Common stock options			702	
Directors' compensation plans			155	
Contingently issuable common stock			523	
Stock purchase contracts			977	
EPS – diluted:	$	161,519	182,106	$ 0.89

Options to purchase shares of common stock are excluded from the calculation of EPS – diluted, if they are considered to be anti–dilutive. Share amounts of 1.4 million and 1.2 million were excluded from the EPS – diluted calculation for the year to date June 30, 2005 and 2004, respectively.

Also excluded from the EPS – diluted calculation for the year to date June 30, 2004 are 9.9 million shares issuable pursuant to the stock purchase contracts issued by **Cinergy Corp.** in December 2001 associated with the preferred trust securities transaction. As discussed in the 2004 10–K, in January and February 2005, **Cinergy Corp.** issued a total of 9.2 million shares of common stock associated with these preferred stock securities.

12. Transfer and Acquisition of Generating Assets

(a) Transfer of Generating Assets to ULH&P

The KPSC and the FERC have approved **ULH&P's** planned 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, and associated transactions. **ULH&P** is currently seeking approval of the transaction in a proceeding before the Securities and Exchange Commission (SEC), wherein the Ohio Consumers' Counsel has intervened in opposition. The transfer, which will be at net book value, will not affect current electric rates for **ULH&P's** customers, as power will be provided under the same terms as under the current wholesale power contract with **CG&E** through December 31, 2006. Assuming receipt of SEC approval, we would anticipate the transfer to take place in the third quarter of 2005.

(b) Wheatland Generating Facility Acquisition

On May 6, 2005, we signed a definitive agreement with subsidiaries of Allegheny Energy, Inc. whereby, subject to the terms and upon satisfaction of the conditions to closing provided in the purchase agreement, **PSI** and/or **CG&E** had the right to acquire the 512–megawatt Wheatland generating facility for approximately $100 million. The Wheatland facility, located in Knox County, Indiana, has four natural gas–fired simple cycle combustion turbines and is directly connected to the **Cinergy** transmission system. In June and August 2005, respectively, the FERC and IURC approved the acquisition and the Department of Justice and Federal Trade Commission completed their review of the transaction pursuant to the notification requirements of the Hart–Scott–Rodino Antitrust Improvements Act. We have determined that **PSI** will acquire 100% of the Wheatland facility. Its output will be used to bolster the reserve margins on the **PSI** system. **Cinergy** expects to close the acquisition in August 2005.

13. Pending Merger

On May 8, 2005, **Cinergy Corp.** entered into an agreement and plan of merger with Duke, a North Carolina corporation, whereby **Cinergy Corp.** will be merged with Duke. Under the merger agreement, each share of **Cinergy Corp.** Common Stock will be converted into 1.56 shares of the newly formed company, Duke Energy Holding Corp.

The merger agreement has been approved by both companies' Boards of Directors. Consummation of the merger is subject to customary conditions, including, among others, the approval of the shareholders of both companies and the approvals of various regulatory authorities.

Immediately following consummation of the merger, former **Cinergy** shareholders will own approximately 24 percent of Duke Energy Holding's common stock. Paul Anderson, Duke's CEO and Chairman of the Board will remain Chairman of the combined company and Jim Rogers, **Cinergy's** President, CEO and Chairman of the Board, will become the President and Chief Executive Officer of the combined company. The new Duke Energy Holding board will be comprised of 10 members appointed by Duke and five members appointed by **Cinergy**.

The merger will be recorded using the purchase method of accounting whereby the total purchase price of approximately $9 billion will be allocated to **Cinergy's** identifiable tangible and intangible assets acquired and liabilities assumed based on their fair values as of the closing of the merger.

The merger is expected to close in 2006, however the actual timing is contingent on several approvals including: FERC, state regulatory commissions of Ohio, Indiana, Kentucky, North Carolina, and South Carolina, and shareholders of each company. The following regulatory filings have been made in June and July of 2005:

- In June 2005, Duke and **Cinergy** filed an application with the PUCO for approval of a change in control with respect to **CG&E** and to modify certain accounting procedures to defer certain merger–related costs. We expect that the PUCO will set a procedural schedule in the third quarter of 2005.

- In June 2005, **PSI** filed a petition with the IURC concerning, among other things, certain merger–related affiliate agreements, the sharing of merger–related benefits with customers, and deferred accounting of certain merger–related costs. A pre–hearing conference has been scheduled for August 2005 and a procedural schedule will be set at that time.

- In August 2005, Duke and **Cinergy** filed an application with the KPSC seeking approval of a transfer and acquisition of control of **ULH&P**. A procedural schedule has not yet been set.

- In July 2005, Duke and **Cinergy** filed an application with the FERC requesting approval of the merger and the subsequent internal restructuring and consolidation of the merged company to establish a more efficient corporate structure.

- In July 2005, Duke filed applications with the respective state utility regulatory agencies in both North and South Carolina. The application filed with the North Carolina Utility Commission requests both the authorization to enter into a business combination transaction and the approval of various affiliate agreements. The application filed with the Public Service Commission of South Carolina requests authorization to enter into a business combination.

The pending merger agreement also provides that Duke and **Cinergy** will use their reasonable best efforts to transfer five generating stations located in the Midwest from Duke to **CG&E**. This transfer will require regulatory approval by the FERC and there can be no guarantee that such approval will be obtained or will be obtained on terms or with conditions acceptable to Duke, **Cinergy**, and Duke Energy Holding. Duke intends to effectuate the transfer as an equity infusion into **CG&E** at book value. In conjunction with the transfer, Duke and **CG&E** intend to enter into a financial arrangement to eliminate any potential cash shortfalls that may result from owning and operating the assets. At this time, we cannot predict the outcome of this matter.

The merger agreement contains certain termination rights for both Duke and **Cinergy**, and further provides that, upon termination of the merger agreement under specified circumstances, a party would be required to pay the other party's fees and expenses in an amount not to exceed \$35 million and/or a termination fee of \$300 million in the case of a fee payable by **Cinergy** to Duke or a termination fee of \$500 million in the case of a fee payable by Duke to **Cinergy**; provided that any termination fee payable will be reduced by any amount of any fees and expenses previously reimbursed by such party.

In May, a purported shareholder class action was filed in the Court of Common Pleas in Hamilton County, Ohio against **Cinergy** and each of the members of the Board of Directors. The lawsuit alleges that the defendants breached their duties of due care and loyalty to shareholders by agreeing to the merger agreement between Duke and **Cinergy** and is seeking to either enjoin or amend the terms of the merger. **Cinergy** and the individual defendants filed a motion to dismiss this lawsuit in July. We believe this lawsuit is without merit and **Cinergy** intends to defend this lawsuit vigorously in court. We are unable to predict whether resolution of this matter will impact our pending merger.

Although Management believes that this merger should close in 2006, the actual timing of this transaction could be delayed or the merger could be terminated by the inability to obtain one or more of the required approvals.

In light of the impending repeal of the Public Utility Holding Company Act, as amended (PUHCA), effective February 2006, the merger will no longer require SEC authorization under PUHCA. For further details, see "Energy Bill" in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources."

In this report **Cinergy** (which includes **Cinergy Corp.** and all of our regulated and non–regulated subsidiaries) is, at times, referred to in the first person as "we," "our," or "us."

CAUTIONARY STATEMENTS REGARDING FORWARD–LOOKING INFORMATION

This document includes forward–looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward–looking statements are based on management's beliefs and assumptions. These forward–looking statements are identified by terms and phrases such as "anticipate", "believe", "intend", "estimate", "expect", "continue", "should", "could", "may", "plan", "project", "predict", "will", and similar expressions.

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 materially from those indicated in any forward–looking statement include, but are not limited to:

- Factors affecting operations, such as:

  (1) unanticipated weather conditions;

  (2) unscheduled generation outages;

  (3) unusual maintenance or repairs;

  (4) unanticipated changes in costs, including costs of coal and emission allowances;

  (5) environmental incidents; and

  (6) electric transmission or gas pipeline system constraints.

- Legislative and regulatory initiatives and legal developments.

- Additional competition in electric or gas markets and continued industry consolidation.

- Financial or regulatory accounting principles including costs of compliance with existing and future environmental requirements.

- Changing market conditions and other factors related to physical energy and financial trading activities.

- The performance of projects undertaken by our non–regulated businesses 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.

- The Regulatory approval process for the Duke Energy Corporation and **Cinergy** pending merger could delay the consummation of the pending merger or impose conditions that could materially impact the combined company.

- Business uncertainties, contractual restrictions, and the potential inability to attract and retain key personnel due to the pending merger.

We undertake no obligation to update the information contained herein

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In this report, **Cinergy** (which includes **Cinergy Corp.** and all of its regulated and non–regulated subsidiaries) is, at times, referred to in the first person as "we," "our," or "us."

The following discussion should be read in conjunction with the accompanying financial statements and related notes included elsewhere in this report and the combined Form 10–K for the year ended December 31, 2004 (2004 10–K). We have reclassified certain prior–year amounts in the financial statements of **Cinergy**, The Cincinnati Gas & Electric Company (**CG&E**), PSI Energy, Inc. (**PSI**), and The Union Light, Heat and Power Company (**ULH&P**) to conform to current presentation. The following discussions of results are not necessarily indicative of the results to be expected in any future period.

PENDING MERGER

On May 8, 2005, **Cinergy Corp.** entered into an agreement and plan of merger with Duke Energy Corporation (Duke), a North Carolina corporation, whereby **Cinergy Corp.** will be merged with Duke. Under the merger agreement, each share of **Cinergy Corp.** Common Stock will be converted into 1.56 shares of the newly formed company, Duke Energy Holding Corp.

The merger agreement has been approved by both companies' Boards of Directors. Consummation of the merger is subject to customary conditions, including, among others, the approval of the shareholders of both companies and the approvals of various regulatory authorities.

Immediately following consummation of the merger, former **Cinergy** shareholders will own approximately 24 percent of Duke Energy Holding's common stock. Paul Anderson, Duke's CEO and Chairman of the Board will remain Chairman of the combined company and Jim Rogers, **Cinergy's** President, CEO and Chairman of the Board, will become the President and Chief Executive Officer of the combined company. The new Duke Energy Holding board will be comprised of 10 members appointed by Duke and five members appointed by **Cinergy**.

The merger is expected to close in 2006, however the actual timing is contingent on several approvals including: Federal Energy Regulatory Commission (FERC), state regulatory commissions of Ohio, Indiana, Kentucky, North Carolina, and South Carolina, and shareholders of each company. The following regulatory filings have been made in June and July of 2005:

- In June 2005, Duke and **Cinergy** filed an application with the Public Utilities Commission of Ohio (PUCO) for approval of a change in control with respect to **CG&E** and to modify certain accounting procedures to defer certain merger–related costs. We expect that the PUCO will set a procedural schedule in the third quarter of 2005.

- In June 2005, **PSI** filed a petition with the Indiana Utility Regulatory Commission (IURC) concerning, among other things, certain merger–related affiliate agreements, the sharing of merger–related benefits with customers, and deferred accounting of certain merger–related costs. A pre–hearing conference has been scheduled for August 2005 and a procedural schedule will be set at that time.

- In August 2005, Duke and **Cinergy** filed an application with the Kentucky Public Service Commission (KPSC) seeking approval of a transfer and acquisition of control of **ULH&P**. A procedural schedule has not yet been set.

- In July 2005, Duke and **Cinergy** filed an application with the FERC requesting approval of the merger and the subsequent internal restructuring and consolidation of the merged company to establish a more efficient corporate structure.

- In July 2005, Duke filed applications with the respective state utility regulatory agencies in both North and South Carolina. The application filed with the North Carolina Utility Commission requests both the authorization to enter into a business combination transaction and the approval of various affiliate agreements. The application filed with the Public Service Commission of South Carolina requests authorization to enter into a business combination.

The pending merger agreement also provides that Duke and **Cinergy** will use their reasonable best efforts to transfer five generating stations located in the Midwest from Duke to **CG&E**. This transfer will require regulatory approval by the FERC and there can be no guarantee that such approval will be obtained or will be obtained on terms or with conditions acceptable to Duke, **Cinergy**, and Duke Energy Holding. Duke intends to effectuate the transfer as an equity infusion into **CG&E** at book value. In conjunction with the transfer, Duke and **CG&E** intend to enter into a financial arrangement to eliminate any potential cash shortfalls that may result from owning and operating the assets. At this time, we cannot predict the outcome of this matter.

The merger agreement contains certain termination rights for both Duke and **Cinergy**, and further provides that, upon termination of the merger agreement under specified circumstances, a party would be required to pay the other party's fees and expenses in an amount not to exceed $35 million and/or a termination fee of $300 million in the case of a fee payable by **Cinergy** to Duke or a termination fee of $500 million in the case of a fee payable by Duke to **Cinergy**; provided that any termination fee payable will be reduced by any amount of any fees and expenses previously reimbursed by such party.

Although Management believes that this merger should close in 2006, the actual timing of this transaction could be delayed or the merger could be terminated by the inability to obtain one or more of the required approvals.

In light of the impending repeal of the Public Utility Holding Company Act, as amended (PUHCA), effective February 2006, the merger will no longer require The Securities and Exchange Commission (SEC) authorization under PUHCA. For further details, see "Energy Bill" in "Liquidity and Capital Resources."

EXECUTIVE SUMMARY

In Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A), we explain our general operating environment, as well as our results of operations, liquidity, capital resources, future expectations/trends, market risk sensitive instruments, and accounting matters. Specifically, we discuss the following:

- factors affecting current and future operations;
- why results changed from period to period;
- potential sources of cash for future capital expenditures; and
- how these items affect our overall financial condition.

Organization

Cinergy Corp., a Delaware corporation organized in 1993, owns all outstanding common stock of **CG&E** and **PSI**, both of which are public utilities. As a result of this ownership, we are considered a utility holding company. Because we are a holding company with material utility subsidiaries operating in multiple states, we are registered with and are subject to regulation by the SEC under the PUHCA. For a discussion of the pending PUHCA Repeal, see "Energy Bill" in "Liquidity and Capital Resources." Our other principal subsidiaries are Cinergy Services, Inc. (Services) and Cinergy Investments, Inc. (Investments).

CG&E, an Ohio corporation organized in 1837, is a combination electric and gas public utility company that provides service in the southwestern portion of Ohio and, through **ULH&P**, in nearby areas of Kentucky. **CG&E** is responsible for the majority of our power marketing and trading activity. **CG&E's** principal subsidiary, **ULH&P**, a Kentucky corporation organized in 1901, provides electric and gas service in northern Kentucky.

PSI, an Indiana corporation organized in 1942, is a vertically integrated and regulated electric utility that provides service in north central, central, and southern Indiana.

The following table presents further information related to the operations of our domestic utility companies **CG&E**, **PSI**, and **ULH&P** (our utility operating companies):

	Principal Line(s) of Business
CG&E and subsidiaries	• Generation, transmission, distribution, and sale of electricity • Sale and/or transportation of natural gas • Electric commodity marketing and trading operations
PSI	• Generation, transmission, distribution, and sale of electricity
ULH&P(1)	• Transmission, distribution, and sale of electricity

- Sale and transportation of natural gas

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(1) See Note 12 of the "Notes to Condensed Financial Statements" in "Item 1. Financial Statements" for further discussion of the possible transfer of generation assets.

Services is a service company that provides our subsidiaries with a variety of centralized administrative, management, and support services. Investments holds most of our non–regulated, energy–related businesses and investments, including natural gas marketing and trading operations (which are primarily conducted through Cinergy Marketing & Trading, LP, one of its subsidiaries).

Financial Highlights

Net income for **Cinergy** for the quarter and six months ended June 30, 2005, and 2004 was as follows:

	Cinergy			
	2005	2004	Change	% Change
	(in millions)			
Quarter ended June 30	**$ 51**	$ 59	$ (8)	(14)%
Six months ended June 30	**$ 168**	$ 162	$ 6	4%

Quarterly Highlights

The decrease in net income was primarily due to the following factors:

- A decrease in the Commercial Business Unit's (Commercial) gas gross margins which reflects trading strategies employed in the second quarter of 2005 that resulted in negative margins;
- Increases in *Operation and maintenance* expenses including costs related to the pending Duke–**Cinergy** merger and labor expenses; and
- A decrease in gross margins on power marketing, trading, and origination contracts.

These decreases were partially offset by increases in rate tariff adjustments resulting from **PSI's** 2004 base retail electric rate increase and the implementation of **CG&E's** rate stabilization plan (RSP) in January 2005.

For further information, see "2005 Quarterly Results of Operations – **Cinergy**".

Year to Date Highlights

The increase in net income was primarily due to the following factors:

- Increases in rate tariff adjustments resulting from **PSI's** 2004 base retail electric rate increase and the implementation of **CG&E's** RSP in January 2005; and
- An increase in electric gross margins relating to certain activities in our asset optimization business. This increase was comprised of increases in margins from the sale of emission allowances partially offset by unrealized losses on forward coal and power contracts.

These increases were partially offset by:

- A decrease in Commercial's gas gross margins which primarily reflects trading strategies employed in the second quarter of 2005 that resulted in negative margins; and
- Increases in *Operation and maintenance* expense primarily due to regulatory asset amortization, expenses associated with the pending Duke–**Cinergy** merger, and increased operating expenses for non–regulated subsidiaries.

For further information, see "2005 Year to Date Results of Operations – **Cinergy**".

Forward–looking Challenges and Risks

Merger Challenges and Risks

The pending merger between Duke and **Cinergy** presents significant challenges. The integration of the two companies will be complex and time–consuming, due to the size and complexity of each organization. The principal challenges will be integrating the combined regulated electric utility operations, combining each of the unregulated wholesale power generation businesses and combining the energy marketing and trading businesses. All of these businesses are complex, and some of the business units are dispersed. Such efforts could also divert management's focus and resources from other strategic opportunities during the integration process. The pending merger is subject to approvals of numerous governmental agencies and approval of the shareholders of both companies, all of which are discussed in more detail in "Pending Merger." The approval process could delay consummation of the pending merger, impose conditions that could materially impact the combined company, or cause the merger to be abandoned. Both companies will incur significant transaction and merger–related integration costs in connection with the merger. Additionally, we will be subject to business uncertainties and contractual restrictions while the merger is pending which could adversely affect our businesses. Although both companies intend to take steps to reduce any adverse affects, these uncertainties may impair our ability to attract and retain key personnel until the merger is consummated and for a period of time thereafter, and could cause customers, suppliers and others that deal with us to seek to change existing business relationships.

Environmental Challenges

Cinergy faces many uncertainties with regard to future environmental legislation and the impact of this legislation on our generating assets and our decisions to construct new assets. In March 2005, the Environmental Protection Agency (EPA) finalized two rulemakings that will require significant reductions in sulfur dioxide (SO_2), nitrogen oxides (NO_X), and mercury emissions from power plants. Numerous states, environmental organizations, industry groups, including some of which **Cinergy** is a member, and individual companies have challenged various portions of both rules. Additionally, multi–emissions reductions legislation is still being discussed in the Senate, although the outcome of these discussions is still highly uncertain at this time. Presently, greenhouse gas (GHG) emissions, which principally consist of carbon dioxide (CO_2), are not regulated, and while several legislative proposals have been introduced in Congress to reduce utility GHG emissions, none have been passed. Nevertheless, we anticipate a mandatory program to reduce GHG emissions will exist in the future. In 2004, **Cinergy's** utility operating companies began an environmental construction program to reduce overall plant emissions that is estimated to cost approximately $1.8 billion over the next five years. We believe that our construction program optimally balances these uncertainties and provides a level of emission reduction that will be required and/or economical to **Cinergy** under a variety of possible regulatory outcomes. See "Environmental Issues" in "Liquidity and Capital Resources" for further information.

Midwest Independent Transmission System Operator, Inc. (Midwest ISO) Energy Markets

Effective April 1, 2005 the Midwest ISO began operating under the Energy Markets Tariff (sometimes referred to as a Locational Marginal Pricing (LMP) market or MISO Day 2 market). The implementation of an LMP market introduced new scheduling requirements, new products for mitigating transmission congestion risks, and new pricing points for the purchase and sale of power. We have been operating under the Energy Markets Tariff since April 2005 and continue to work with the Midwest ISO to monitor the implementation of the new market. See "Midwest ISO Energy Markets" in "Future Expectations/Trends" for further details regarding these new markets.

Rising Coal and Emission Allowance Prices

The prices of coal and SO_2 emission allowances increased dramatically in 2004, as compared to 2003, and have continued to increase in 2005. Contributing to the increases in coal and SO_2 prices have been (1) increases in demand for electricity, (2) environmental regulation, and (3) decreases in the number of suppliers of coal from prior years. **CG&E's** RSP allows for recovery of fuel and emission allowance expenses effective January 1, 2005 for retail non–residential customers in Ohio. As part of the RSP, we will begin recovering these costs from residential customers in Ohio effective January 1, 2006. We continue to recover these costs from **PSI** retail customers through previously established rate recovery mechanisms. To the extent that these increased fuel and SO_2 prices are not offset by regulatory recovery or increases in the market price of power for wholesale transactions, they will negatively impact ongoing earnings. The impact of these price increases on earnings in 2005 is discussed in more detail in "2005 Quarterly Results of Operations" and "2005 Year to Date Results of Operations".

2005 QUARTERLY RESULTS OF OPERATIONS – CINERGY

Given the dynamics of our business, which include regulatory revenues with directly offsetting expenses and commodity trading operations for which results are primarily reported on a net basis, we have concluded that a discussion of our results on a gross margin basis is most appropriate. Electric gross margins represent electric operating revenues less the related direct costs of fuel, emission allowances, and purchased power. Gas gross margins represent gas operating revenues less the related direct cost of gas purchased. Within each of these areas, we will discuss the key drivers of our results. Gross margins for **Cinergy** for the Regulated Business Unit (Regulated) and Commercial for the quarters ended June 30, 2005, and 2004 were as follows:

	Cinergy							
	Regulated				Commercial			
	2005	2004	Change	% Change	2005	2004	Change	% Change
	(in millions)							
Electric gross margin(1)	**$ 434**	$ 396	$ 38	10 %	**$ 168**	$ 175	$ (7)	(4)%
Gas gross margin(2)	**44**	44	—	—	**(20)**	17	(37)	N/M

(1) Electric gross margin is calculated as *Electric operating revenues* less *Fuel, emission allowances, and purchased power* expense from the Condensed Consolidated Statements of Income.

(2) Gas gross margin is calculated as *Gas operating revenues* less *Gas purchased expense* from the Condensed Consolidated Statements of Income.

N/M Not meaningful to an understanding of the change.

Cooling degree days and heating degree days are metrics commonly used in the utility industry as a measure of the impact weather has on results of operations. Cooling degree days and heating degree days in **Cinergy's** service territory for the quarters ended June 30, 2005, and 2004 were as follows:

	Cinergy			
	2005	2004	Change	% Change
Cooling degree days(1)	**337**	335	2	1 %
Heating degree days(2)(3)	**239**	236	3	1

(1) Cooling degree days are the differences between the average temperature for each day and 65 degrees, assuming the average temperature is greater than 65 degrees.

(2) Heating degree days are the differences between the average temperature for each day and 59 degrees, assuming the average temperature is less than 59 degrees.

(3) Beginning in January 2005, we modified our heating degree days base temperature from 65 degrees to 59 degrees to more accurately reflect current consumer behavior. Prior year amounts have been updated to reflect this change.

The change in cooling degree days and heating degree days did not have a material effect on **Cinergy's** gross margins for the period.

Regulated

Gross Margins

The 10 percent increase in Regulated's electric gross margins was primarily due to the following factors:

- A $30 million increase resulting primarily from a higher price received per megawatt hour (MWh) due to **PSI's** 2004 base retail electric rate increase; and
- A $17 million increase in **PSI's** non–retail margins, primarily resulting from reduced fuel expense reflecting adjustments to **PSI's** cost of synthetic fuel.

Partially offsetting these increases was a decline of $11 million reflecting rate reductions associated with a property tax adjustment for **PSI**.

Commercial

Gross Margins

The four percent decrease in Commercial's electric gross margins was due, in part, to a $6 million decrease in gross margins on power marketing, trading, and origination contracts.

Commercial's retail margins were relatively flat for the quarter ended June 30, 2005, as compared to 2004. Rate increases from the RSP provided a $13 million increase in margins. However, this was offset by fuel, emission allowance and purchased power cost increases related to fixed price residential customers of approximately $11 million.

Commercial's other non–retail margins were relatively flat for the quarter. We actively manage our non–regulated generation portfolio through a mix of real–time and forward sales of power and the corresponding purchase of fuel (primarily coal) and emission allowances. When power is sold forward, we typically purchase the fuel and emission allowances required to produce the power, thereby locking in our eventual margin at the time of delivery. The market values of these commodities change independently over time. At times, the value of the fuel and emission allowances becomes greater than that of the output of electricity. In these instances, we will purchase forward power to be used to deliver against forward power sales, and in turn sell the fuel and/or emission allowances.

During the second quarter of 2005, we recognized margins of $35 million more than the comparable period in 2004 as a result of selling emission allowances which were no longer needed to meet our non–retail forward power sales commitments. This gain reflects significant increases in prices of SO_2 emission allowances throughout much of 2004 and into early 2005. Based on projected generation, we have sufficient fuel and emission allowances to meet our non–retail forward power sales commitments over the next several years, and we will continue to evaluate and optimize our generation resources to produce the best economic returns for these assets.

Gains from the sale of emission allowances were largely offset by the following:

- A $4 million decline due to timing differences in revenue recognition between certain components of our generation portfolio. Emission allowances and the majority of fuel contracts typically follow the accrual method of accounting. However, generally accepted accounting principles (GAAP) requires that certain forward purchases of coal and forward sales of power (those classified as derivatives) use the mark–to–market (MTM) method of accounting. This differing accounting treatment for the various components of the generation portfolio can lead to volatility in reported results. Our gross margins reflect $8 million of unrealized losses in the second quarter of 2005 and $4 million of unrealized losses in the comparable period in 2004 (representing a $4 million change quarter on quarter) as a result of forward purchases of coal and forward sales of power and the use of MTM accounting.

- Lower margins from non–retail power sales caused by a decline in volumes and lower margins per MWh, which reflects higher fuel costs.

Commercial's gas gross margins decreased, as compared to the same period last year due to the following factors:

- A $35 million decrease which reflects trading strategies employed in the second quarter of 2005 that resulted in negative margins; and

- A $5 million decrease due to timing differences in revenue recognition between physical storage activities and the associated derivative contracts that hedge the physical storage. These agreements with pipelines to store natural gas and deliver in a future period with higher prices (typically winter) follow the accrual method of accounting. However, the derivative contracts hedging the gas are required under GAAP to be accounted for under the MTM method of accounting. The differing accounting treatments can lead to volatility in reported results. Our quarter–to–date gross margins reflect $6 million of unrealized losses in 2005 and $1 million of unrealized losses in 2004 (representing a $5 million change quarter on quarter) as a result of derivative contracts and the use of MTM accounting.

Other Operating Revenues and Costs of Fuel Resold

The 60 percent increase in *Other Operating Revenues* was primarily due to the following factors:

- A $32 million increase in Commercial's revenues from coal origination resulting from increases in coal prices and the number of coal origination contracts. Coal origination includes contract structuring and marketing of physical coal; and
- A $15 million increase in Commercial's revenues from the sale of synthetic fuel.

Costs of fuel resold includes Commercial's costs of coal origination activities and the production of synthetic fuel. These costs have increased in 2005, which is consistent with the increases in the associated revenues as previously discussed.

The following explanations correspond with the line items on the Condensed Consolidated Statements of Income for **Cinergy**. However, only the line items that varied significantly from prior periods are discussed.

Other Operating Expenses

	Cinergy			
	2005	2004	Change	% Change
	(in millions)			
Operation and maintenance	$ **351**	$ 332	$ 19	6 %
Depreciation	**131**	114	17	15
Taxes other than income taxes	**65**	65	—	—

Operation and Maintenance

The six percent increase in *Operation and maintenance* expense was primarily due to the following factors:

- Increased labor expenses of $13 million primarily resulting from severance payments partially offset by a decrease of $5 million in employee incentive costs;
- Expenses of $11 million related to the pending Duke–**Cinergy** merger;
- An increase of $6 million in costs associated with environmental litigation; and
- Increased regulatory asset amortization of $4 million related to **CG&E's** Regulatory Transition Charge (RTC).

These increases were partially offset by $12 million of costs incurred in 2004 associated with the continuous improvement initiative and a $5 million decrease in maintenance expenses, primarily generation and distribution related.

Depreciation

The 15 percent increase in *Depreciation* expense was primarily due to (a) higher depreciation rates, as a result of changes in useful lives of production assets and an increased rate for cost of removal, (b) recovery of deferred depreciation costs, and (c) the addition of depreciable plant for pollution control equipment, all of which are recovered from ratepayers.

Miscellaneous Income (Expense) – Net

The increase in *Miscellaneous Income (Expense) – Net* was primarily due to $7 million in impairment charges recognized in the second quarter of 2004 related to investments in Power Technology and Infrastructure.

Income Taxes

The effective income tax rate decreased for the quarter ended June 30, 2005, as compared to 2004. The decrease was primarily a result of an increase in the amount of estimated annual tax credits associated with the production and sale of synthetic fuel. **Cinergy's** 2005 effective tax rate is expected to be approximately 23 percent.

2005 QUARTERLY RESULTS OF OPERATIONS – CG&E

Summary of Results

Net income for **CG&E** for the quarters ended June 30, 2005, and 2004 was as follows:

	CG&E and subsidiaries			
	2005	2004	Change	% Change
	(in millions)			
Net income	**$ 53**	$ 56	$ (3)	(5)%

The decrease in net income was primarily due to the following factors:

- Increases in *Operation and maintenance* expenses including costs related to the pending Duke–**Cinergy** merger; and
- A decrease in margins on power marketing, trading, and origination contracts.

These decreases were partially offset by an increase in rate tariff adjustments resulting from the implementation of **CG&E's** RSP in January 2005.

Gross Margins

Gross margins for **CG&E** for the quarters ended June 30, 2005, and 2004 were as follows:

	CG&E and subsidiaries			
	2005	2004	Change	% Change
	(in millions)			
Electric gross margin(1)	**$ 305**	$ 306	$ (1)	—%
Gas gross margin(2)	**44**	43	1	2

(1) Electric gross margin is calculated as *Electric operating revenues* less *Fuel, emission allowances, and purchased power* expense from the Condensed Consolidated Statements of Income.

(2) Gas gross margin is calculated as *Gas operating revenues* less *Gas purchased* expense from the Condensed Consolidated Statements of Income.

Cooling degree days and heating degree days in **CG&E's** service territory for the quarters ended June 30, 2005, and 2004 were as follows:

	CG&E and subsidiaries			
	2005	2004	Change	% Change
Cooling degree days(1)	**340**	327	13	4 %
Heating degree days(2)(3)	**224**	243	(19)	(8)

(1) Cooling degree days are the differences between the average temperature for each day and 65 degrees, assuming the average temperature is greater than 65 degrees.

(2) Heating degree days are the differences between the average temperature for each day and 59 degrees, assuming the average temperature is less than 59 degrees.

(3) Beginning in January 2005, we modified our heating degree days base temperature from 65 degrees to 59 degrees to more accurately reflect current consumer behavior. Prior year amounts have been updated to reflect this change.

The change in cooling degree days and heating degree days did not have a material effect on **CG&E's** gross margins for the period.

Electric Gross Margins

CG&E's electric gross margins were relatively flat for the quarter ended June 30, 2005, as compared to 2004.

CG&E's gross margins on power marketing, trading, and origination contracts decreased $6 million in the quarter.

CG&E's retail margins were relatively flat for the quarter ended June 30, 2005, as compared to 2004. Rate increases from the RSP provided a $13 million increase in margins. However, this was offset by fuel, emission allowance and purchased power cost increases related to fixed price residential customers of approximately $11 million.

CG&E's other non–retail margins were up slightly during the quarter. We actively manage our non–regulated generation portfolio through a mix of real–time and forward sales of power and the corresponding purchase of fuel (primarily coal) and emission allowances. When power is sold forward, we typically purchase the fuel and emission allowances required to produce the power, thereby locking in our eventual margin at the time of delivery. The market values of these commodities change independently over time. At times, the value of the fuel and emission allowances becomes greater than that of the output of electricity. In these instances, we will purchase forward power to be used to deliver against forward power sales, and in turn sell the fuel and/or emission allowances.

During the second quarter of 2005, we recognized margins of $35 million more than the comparable period in 2004 as a result of selling emission allowances which were no longer needed to meet our non–retail forward power sales commitments. This gain reflects significant increases in prices of SO_2 emission allowances throughout much of 2004 and into early 2005. Based on projected generation, we have sufficient fuel and emission allowances to meet our non–retail forward power sales commitments over the next several years, and we will continue to evaluate and optimize our generation resources to produce the best economic returns for these assets.

Gains from the sale of emission allowances were largely offset by the following:

- A $4 million decline due to timing differences in revenue recognition between certain components of our generation portfolio. Emission allowances and the majority of fuel contracts typically follow the accrual method of accounting. However, GAAP requires that certain forward purchases of coal and forward sales of power (those classified as derivatives) use the MTM method of accounting. This differing accounting treatment for the various components of the generation portfolio can lead to volatility in reported results. Our gross margins reflect $8 million of unrealized losses in the second quarter of 2005 and $4 million of unrealized losses in the comparable period in 2004 (representing a $4 million change quarter on quarter) as a result of forward purchases of coal and forward sales of power and the use of MTM accounting.

- Lower margins from non–retail power sales caused by a decline in volumes and lower margins per MWh, which reflects higher fuel costs.

Other Operating Revenues and Costs of Fuel Resold

The increase in *Other Operating Revenues* was due to a $38 million increase in revenues from coal origination resulting from increases in coal prices and the number of coal origination contracts. This increase includes $12 million of sales to non–regulated affiliates.

Costs of fuel resold represents the costs of coal origination activities. These costs have increased in 2005, which is consistent with the increase in the associated revenues as previously discussed.

The following explanations correspond with the line items on the Condensed Consolidated Statements of Income for **CG&E**. However, only the line items that varied significantly from prior periods are discussed.

Other Operating Expenses

	CG&E and subsidiaries			
	2005	**2004**	**Change**	**% Change**
	(in millions)			
Operation and maintenance	**$ 172**	$ 150	$ 22	15 %
Depreciation	**45**	46	(1)	(2)
Taxes other than income taxes	**53**	50	3	6

Operation and Maintenance

The 15 percent increase in *Operation and maintenance* expense was primarily due to the following factors:

- Increased expenses of $8 million related to the pending Duke–**Cinergy** merger;
- Increased regulatory asset amortization of $4 million related to **CG&E's** RTC; and
- Increased labor expenses of $3 million primarily resulting from severance payments partially offset by a decrease in employee incentive costs.

Income Taxes

The effective income tax rate decreased for the quarter ended June 30, 2005, as compared to 2004. The decrease was primarily a result of a change in Ohio law to phase–out the Ohio franchise tax. The phase–out of the Ohio franchise tax resulted in the elimination of state income tax deferrals under GAAP thus reducing the effective income tax rate during the period. See "Ohio Taxes" in "Future Expectation/Trends" for additional information.

2005 QUARTERLY RESULTS OF OPERATIONS – PSI

Summary of Results

Net income for **PSI** for the quarters ended June 30, 2005, and 2004 was as follows:

	PSI			
	2005	2004	Change	% Change
	(in millions)			
Net income	**$ 43**	$ 25	$ 18	72 %

The increase in net income was primarily due to the impact of **PSI's** 2004 base retail electric rate increase.

Electric Gross Margins

Gross margins for **PSI** for the quarters ended June 30, 2005, and 2004 were as follows:

	PSI			
	2005	2004	Change	% Change
	(in millions)			
Electric gross margin(1)	**$ 295**	$ 260	$ 35	13%

(1) Electric gross margin is calculated as *Electric operating revenues* less *Fuel, emission allowances, and purchased power* expense from the Condensed Consolidated Statements of Income.

Cooling degree days and heating degree days in **PSI's** service territory for the quarters ended June 30, 2005, and 2004 were as follows:

	PSI			
	2005	2004	Change	% Change
Cooling degree days(1)	**333**	342	(9)	(3)%
Heating degree days(2)(3)	**254**	228	26	11

(1) Cooling degree days are the differences between the average temperature for each day and 65 degrees, assuming the average temperature is greater than 65 degrees.

(2) Heating degree days are the differences between the average temperature for each day and 59 degrees, assuming the average temperature is less than 59 degrees.

(3) Beginning in January 2005, we modified our heating degree days base temperature from 65 degrees to 59 degrees to more accurately reflect current consumer behavior. Prior year amounts have been updated to reflect this change.

The change in cooling degree days and heating degree days did not have a material effect on **PSI's** gross margins for the period.

The 13 percent increase in **PSI's** electric gross margins was primarily due to the following factors:

- A $30 million increase resulting primarily from a higher price received per MWh due to **PSI's** 2004 base retail electric rate increase; and
- A $17 million increase in non-retail margins, primarily resulting from reduced fuel expense reflecting adjustments to **PSI's** cost of synthetic fuel.

Partially offsetting these increases was a decline of $11 million reflecting rate reductions associated with a property tax adjustment. This decline is partially offset by a reduction in property tax expense, as discussed further below.

The following explanations correspond with the line items on the Condensed Consolidated Statements of Income for **PSI**. However, only the line items that varied significantly from prior periods are discussed.

Other Operating Expenses

	PSI			
	2005	2004	Change	% Change
	(in millions)			
Operation and maintenance	$ **122**	$ 123	$ (1)	(1)%
Depreciation	**66**	55	11	20
Taxes other than income taxes	**10**	15	(5)	(33)

Depreciation

The 20 percent increase in *Depreciation* expense was primarily due to (a) higher depreciation rates, as a result of changes in useful lives of production assets and an increased rate for cost of removal, (b) recovery of deferred depreciation costs, and (c) the addition of depreciable plant for pollution control equipment, all of which are recovered from ratepayers.

Taxes other than Income Taxes

The 33 percent decrease in *Taxes other than income taxes* expense was primarily due to the settlement of various property tax matters.

Miscellaneous Income – Net

The increase in *Miscellaneous Income – Net* was primarily due to an increase in the rate for allowance for equity funds used during construction and reimbursements from **PSI's** insurance carriers for costs of investigating, preventing, mitigating, and remediating damage to property and paying claims related to MGP sites.

Interest Expense

The 24 percent increase in *Interest Expense* was primarily due to an increase in average long–term debt outstanding and increases in variable interest rates. This expense was partially offset by interest income received on restricted deposits obtained through these incremental borrowings, which is recorded in *Miscellaneous Income – Net*, associated with the additional long–term debt outstanding.

Income Taxes

The effective income tax rate decreased for the quarter ended June 30, 2005, as compared to June 30, 2004, primarily as a result of an adjustment in the second quarter of 2004 to reflect an increase in the Indiana state income tax provision.

2005 YEAR TO DATE RESULTS OF OPERATIONS – CINERGY

Given the dynamics of our business, which include regulatory revenues with directly offsetting expenses and commodity trading operations for which results are primarily reported on a net basis, we have concluded that a discussion of our results on a gross margin basis is most appropriate. Electric gross margins represent electric operating revenues less the related direct costs of fuel, emission allowances, and purchased power. Gas gross margins represent gas operating revenues less the related direct cost of gas purchased. Within each of these areas, we will discuss the key drivers of our results. Gross margins for **Cinergy** for Regulated and Commercial for the six months ended June 30, 2005, and 2004 were as follows:

	Cinergy							
	Regulated				Commercial			
	2005	2004	Change	% Change	2005	2004	Change	% Change
	(in millions)							
Electric gross margin(1)	$ **876**	$ 802	$ 74	9%	$ **347**	$ 334	$ 13	4%
Gas gross margin(2)	**142**	148	(6)	(4)	**(14)**	40	(54)	N/M

(1) Electric gross margin is calculated as *Electric operating revenues* less *Fuel, emission allowances, and purchased power* expense from the Condensed Consolidated Statements of Income.

(2) Gas gross margin is calculated as *Gas operating revenues* less *Gas purchased* expense from the Condensed Consolidated Statements of Income.

N/M Not meaningful to an understanding of the change.

Cooling degree days and heating degree days are metrics commonly used in the utility industry as a measure of the impact weather has on results of operations. Cooling degree days and heating degree days in **Cinergy's** service territory for the six months ended June 30, 2005, and 2004 were as follows:

	Cinergy			
	2005	2004	Change	% Change
Cooling degree days(1)	**337**	336	1	—%
Heating degree days(2)(3)	**2,320**	2,446	(126)	(5)

(1) Cooling degree days are the differences between the average temperature for each day and 65 degrees, assuming the average temperature is greater than 65 degrees.

(2) Heating degree days are the differences between the average temperature for each day and 59 degrees, assuming the average temperature is less than 59 degrees.

(3) Beginning in January 2005, we modified our heating degree days base temperature from 65 degrees to 59 degrees to more accurately reflect current consumer behavior. Prior year amounts have been updated to reflect this change.

The change in cooling degree days and heating degree days did not have a material effect on **Cinergy's** gross margins for the period.

Regulated

Gross Margins

The nine percent increase in Regulated's electric gross margins was primarily due to the following factors:

- A $68 million increase resulting primarily from a higher price received per MWh due to **PSI's** 2004 base retail electric rate increase; and
- A $14 million increase in **PSI's** non–retail margins, primarily resulting from reduced fuel expense reflecting adjustments to **PSI's** cost of synthetic fuel.

These increases were partially offset by a decline of $11 million reflecting rate reductions associated with a property tax adjustment for **PSI**.

The four percent decrease in Regulated's gas gross margins was primarily due to a decline in non–weather related demand.

Commercial

Gross Margins

The four percent increase in Commercial's electric gross margins was driven primarily by the following factors:

- Retail rate increases from the RSP provided a $25 million increase in margins. This increase was partially offset by fuel, emission allowance and purchased power cost increases of approximately $17 million attributable to our fixed price residential customers. Margins attributable to retail volumes were up slightly during the period, due in part to the return of certain **CG&E** retail customers to full electric service.

- Margins from Commercial's power marketing, trading, and origination contracts increased $6 million during the period.

- Commercial's other non–retail margins were up slightly during 2005, as compared to 2004. We actively manage our non–regulated generation portfolio through a mix of real–time and forward sales of power and the corresponding purchase of fuel (primarily coal) and emission allowances. When power is sold forward, we typically purchase the fuel and emission allowances required to produce the power, thereby locking in our eventual margin at the time of delivery. The market values of these commodities change independently over time. At times, the value of the fuel and emission allowances becomes greater than that of the output of electricity. In these instances, we will purchase forward power to be used to deliver against forward power sales, and in turn sell the fuel and/or emission allowances.

  During 2005, we recognized margins of $66 million more than the comparable period in 2004 as a result of selling emission allowances which were no longer needed to meet our non–retail forward power sales commitments. This gain reflects significant increases in prices of SO_2 emission allowances throughout much of 2004 and into early 2005. Based on projected generation, we have sufficient fuel and emission allowances to meet our non–retail forward power sales commitments over the next several years, and we will continue to evaluate and optimize our generation resources to produce the best economic returns for these assets.

  This gain was offset by the following factors:

  - A $38 million decline due to timing differences in revenue recognition between certain components of our generation portfolio. Emission allowances and the majority of fuel contracts typically follow the accrual method of accounting. However, GAAP requires that certain forward purchases of coal and forward sales of power (those classified as derivatives) use the MTM method of accounting. This differing accounting treatment for the various components of the generation portfolio can lead to volatility in reported results. Our gross margins reflect $32 million of unrealized losses in 2005 and $6 million of unrealized gains in 2004 (representing a $38 million change period to period) as a result of forward purchases of coal and forward sales of power and the use of MTM accounting.

  - Lower margins from non–retail power sales caused by a decline in volumes and lower margins per MWh, which reflects higher fuel costs.

Commercial's gas gross margins decreased, as compared to the same period last year due to the following factors:

- A $34 million decrease which primarily reflects trading strategies employed in the second quarter of 2005 that resulted in negative margins; and
- An $18 million decrease due to timing differences in revenue recognition between physical storage activities and the associated derivative contracts that hedge the physical storage. These agreements with pipelines to store natural gas and deliver in a future period with higher prices (typically winter) follow the accrual method of accounting. However, the derivative contracts hedging the gas are required under

GAAP to be accounted for under the MTM method of accounting. The differing accounting treatments can lead to volatility in reported results. Our year–to–date gross margins reflect $17 million of unrealized losses in 2005 and $1 million of unrealized gains in 2004 (representing an $18 million change period to period) as a result of derivative contracts and the use of MTM accounting.

Other Operating Revenues and Costs of Fuel Resold

The 45 percent increase in *Other Operating Revenues* was primarily due to the following factors:

- A $58 million increase in Commercial's revenues from coal origination resulting from increases in coal prices and the number of coal origination contracts; and
- A $26 million increase in Commercial's revenues from the sale of synthetic fuel.

Partially offsetting these increases was a $13 million decrease in revenues from non–regulated energy service subsidiaries.

Costs of fuel resold includes Commercial's costs of coal origination activities and the production of synthetic fuel. These costs have increased in 2005, which is consistent with the increases in the associated revenues as previously discussed.

The following explanations correspond with the line items on the Condensed Consolidated Statements of Income for **Cinergy**. However, only the line items that varied significantly from prior periods are discussed.

Other Operating Expenses

	Cinergy			
	2005	**2004**	**Change**	**% Change**
		(in millions)		
Operation and maintenance	$ **683**	$ 643	$ 40	6 %
Depreciation	**257**	219	38	17
Taxes other than income taxes	**144**	147	(3)	(2)

Operation and Maintenance

The six percent increase in *Operation and maintenance* expense was primarily due to the following factors:

- Increased labor expenses of $16 million primarily resulting from severance payments partially offset by a decrease of $10 million in employee incentive costs;
- Increased regulatory asset amortization of $12 million related to **CG&E's** RTC;

- Expenses of $11 million related to the pending Duke–**Cinergy** merger;
- A $6 million increase in operation expenses for non–regulated service subsidiaries, including those that started operations, or became fully consolidated, during or after the second quarter of 2004; and
- Increased expenses of $6 million related to environmental litigation.

These increases were partially offset by expenses of $12 million incurred in 2004 associated with the continuous improvement initiative.

Depreciation

The 17 percent increase in *Depreciation* expense was primarily due to (a) higher depreciation rates, as a result of changes in useful lives of production assets and an increased rate for cost of removal, (b) recovery of deferred depreciation costs, and (c) the addition of depreciable plant for pollution control equipment, all of which are recovered from ratepayers.

Equity in Earnings of Unconsolidated Subsidiaries

The 83 percent increase in *Equity in Earnings of Unconsolidated Subsidiaries* is primarily due to $5 million in equity in earnings of a cogeneration project that became fully operational in April of 2004.

Miscellaneous Income (Expense) – Net

The increase in *Miscellaneous Income (Expense) – Net* was due to $34 million in impairment charges recognized in the first half of 2004 primarily related to technology investments in Power Technology and Infrastructure.

Income Taxes

The effective income tax rate decreased for the six months ended June 30, 2005, as compared to 2004. The decrease was primarily a result of an increase in the amount of estimated annual tax credits associated with the production and sale of synthetic fuel and the resolution of certain tax matters. **Cinergy's** 2005 effective tax rate is expected to be approximately 23 percent.

2005 YEAR TO DATE RESULTS OF OPERATIONS – CG&E

Summary of Results

Net income for **CG&E** for the six months ended June 30, 2005, and 2004 was as follows:

	CG&E and subsidiaries			
	2005	2004	Change	% Change
	(in millions)			
Net income	$ **138**	$ 133	$ 5	4 %

The increase in net income was primarily due to the following factors:

- An increase in electric gross margins relating to certain activities in our asset optimization business. This increase was comprised of increases in margins from the sale of emission allowances partially offset by unrealized losses on forward coal and power contracts; and
- An increase in rate tariff adjustments resulting from the implementation of **CG&E's** RSP in January 2005.

These increases were partially offset by the increases in *Operation and maintenance* primarily due to increased regulatory asset amortization and expenses associated with the pending Duke–**Cinergy** merger.

Gross Margins

Gross margins for **CG&E** for the six months ended June 30, 2005, and 2004 were as follows:

	CG&E and subsidiaries			
	2005	2004	Change	% Change
	(in millions)			
Electric gross margin(1)	$ **624**	$ 602	$ 22	4%
Gas gross margin(2)	**143**	147	(4)	(3)

(1) Electric gross margin is calculated as *Electric operating revenues* less *Fuel, emission allowances, and purchased power* expense from the Condensed Consolidated Statements of Income.

(2) Gas gross margin is calculated as *Gas operating revenues* less *Gas purchased* expense from the Condensed Consolidated Statements of Income.

Cooling degree days and heating degree days in **CG&E's** service territory for the six months ended June 30, 2005, and 2004 were as follows:

	CG&E and subsidiaries			
	2005	2004	Change	% Change
Cooling degree days(1)	**340**	327	13	4%
Heating degree days(2)(3)	**2,213**	2,386	(173)	(7)

(1) Cooling degree days are the differences between the average temperature for each day and 65 degrees, assuming the average temperature is greater than 65 degrees.

(2) Heating degree days are the differences between the average temperature for each day and 59 degrees, assuming the average temperature is less than 59 degrees.

(3) Beginning in January 2005, we modified our heating degree days base temperature from 65 degrees to 59 degrees to more accurately reflect current consumer behavior. Prior year amounts have been updated to reflect this change.

The change in cooling degree days and heating degree days did not have a material effect on **CG&E's** gross margins for the period.

Electric Gross Margins

The four percent increase in **CG&E's** electric gross margins was driven primarily by the following factors:

- Retail rate increases from the RSP provided a $25 million increase in margins. This increase was partially offset by fuel, emission allowance and purchased power cost increases of approximately $17 million attributable to our fixed price residential customers. Margins attributable to retail volumes were up slightly during the period, due in part to the return of certain retail customers to full electric service.

- Margins from **CG&E's** power marketing, trading, and origination contracts increased $4 million during the period.

- **CG&E's** other non–retail margins were up slightly during 2005, as compared to 2004. We actively manage our non–regulated generation portfolio through a mix of real–time and forward sales of power and the corresponding purchase of fuel (primarily coal) and emission allowances. When power is sold forward, we typically purchase the fuel and emission allowances required to produce the power, thereby locking in our eventual margin at the time of delivery. The market values of these commodities change independently over time. At times, the value of the fuel and emission allowances becomes greater than that of the output of electricity. In these instances, we will purchase forward power to be used to deliver against forward power sales, and in turn sell the fuel and/or emission allowances.

  During 2005, we recognized margins of $66 million more than the comparable period in 2004 as a result of selling emission allowances which were no longer needed to meet our non–retail forward power sales commitments. This gain reflects significant increases in prices of SO_2 emission allowances throughout much of 2004 and into early 2005. Based on projected generation, we have sufficient fuel and emission allowances to meet our non–retail forward power sales commitments over the next several years, and we will continue to evaluate and optimize our generation resources to produce the best economic returns for these assets.

  This gain was offset by the following factors:

  - A $38 million decline due to timing differences in revenue recognition between certain components of our generation portfolio. Emission allowances and the majority of fuel contracts typically follow the accrual method of accounting. However, GAAP requires that certain forward purchases of coal and forward sales of power (those classified as derivatives) use the MTM method of accounting. This differing accounting treatment for the various components of the generation portfolio can lead to volatility in reported results. Our gross margins reflect $32 million of unrealized losses in 2005 and $6 million of unrealized gains in 2004 (representing a $38 million change period to period) as a result of forward purchases of coal and forward sales of power and the use of MTM accounting.

  - Lower margins from non–retail power sales caused by a decline in volumes and lower margins per MWh, which reflects higher fuel costs.

Gas Gross Margins

The three percent decrease in **CG&E's** gas gross margins was primarily due to a decline in non–weather related demand.

Other Operating Revenues and Costs of Fuel Resold

The increase in *Other Operating Revenues* was due to a $71 million increase in revenues from coal origination resulting from increases in coal prices and the number of coal origination contracts. This increase includes $23 million of sales to non–regulated affiliates.

Costs of fuel resold represents the costs of coal origination activities. These costs have increased in 2005, which is consistent with the increase in the associated revenues as previously discussed.

The following explanations correspond with the line items on the Condensed Consolidated Statements of Income for **CG&E**. However, only the line items that varied significantly from prior periods are discussed.

Other Operating Expenses

	CG&E and subsidiaries			
	2005	2004	Change	% Change
		(in millions)		
Operation and maintenance	**$ 334**	$ 300	$ 34	11 %
Depreciation	**90**	90	—	—
Taxes other than income taxes	**112**	114	(2)	(2)

Operation and Maintenance

The 11 percent increase in *Operation and maintenance* expense was primarily due to increased regulatory asset amortization of $12 million related to **CG&E's** RTC and increased expenses of $8 million related to the pending Duke–**Cinergy** merger.

Income Taxes

The effective income tax rate decreased for the six months ended June 30, 2005, as compared to 2004. The decrease was primarily a result of a change in Ohio law to phase–out the Ohio franchise tax. The phase–out of the Ohio franchise tax resulted in the elimination of state income tax deferrals under GAAP thus reducing the effective income tax rate during the period. See "Ohio Taxes" in "Future Expectation/Trends" for additional information.

2005 YEAR TO DATE RESULTS OF OPERATIONS – PSI

Summary of Results

Net income for **PSI** for the six months ended June 30, 2005, and 2004 was as follows:

	PSI			
	2005	2004	Change	% Change
		(in millions)		
Net income	$ **85**	$ 66	$ 19	29%

The increase in net income was primarily due to the impact of **PSI's** 2004 base retail electric rate increase.

Electric Gross Margins

Gross margins for **PSI** for the six months ended June 30, 2005, and 2004 were as follows:

	PSI			
	2005	2004	Change	% Change
		(in millions)		
Electric gross margin(1)	$ **588**	$ 521	$ 67	13%

(1) Electric gross margin is calculated as *Electric operating revenues* less *Fuel, emission allowances, and purchased power* expense from the Condensed Consolidated Statements of Income.

Cooling degree days and heating degree days in **PSI's** service territory for the six months ended June 30, 2005, and 2004 were as follows:

	PSI			
	2005	2004	Change	% Change
Cooling degree days(1)	**333**	344	(11)	(3)%
Heating degree days(2)(3)	**2,426**	2,505	(79)	(3)

(1) Cooling degree days are the differences between the average temperature for each day and 65 degrees, assuming the average temperature is greater than 65 degrees.

(2) Heating degree days are the differences between the average temperature for each day and 59 degrees, assuming the average temperature is less than 59 degrees.

(3) Beginning in January 2005, we modified our heating degree days base temperature from 65 degrees to 59 degrees to more accurately reflect current consumer behavior. Prior year amounts have been updated to reflect this change.

The change in cooling degree days and heating degree days did not have a material effect on **PSI's** gross margins for the period.

The 13 percent increase in **PSI's** electric gross margins was primarily due to the following factors:

- A $68 million increase resulting primarily from a higher price received per MWh due to **PSI's** 2004 base retail electric rate increase; and
- A $14 million increase in non–retail margins, primarily resulting from reduced fuel expense reflecting adjustments to **PSI's** cost of synthetic fuel.

These increases were partially offset by a decline of $11 million reflecting rate reductions associated with a property tax adjustment. This decline is partially offset by a reduction in property tax expense, as discussed further below.

The following explanations correspond with the line items on the Condensed Consolidated Statements of Income for **PSI**. However, only the line items that varied significantly from prior periods are discussed.

Other Operating Expenses

	PSI			
	2005	2004	Change	% Change
	(in millions)			
Operation and maintenance	$ **243**	$ 232	$ 11	5%
Depreciation	**133**	104	29	28
Taxes other than income taxes	**26**	31	(5)	(16)

Operation and Maintenance

The five percent increase in *Operation and maintenance* expense was primarily due to increased expenses of $4 million related to additional amortization of regulatory assets, which were approved for recovery through **PSI's** base retail electric rate case and increased expense of $2 million related to environmental litigation.

Depreciation

The 28 percent increase in *Depreciation* expense was primarily due to (a) higher depreciation rates, as a result of changes in useful lives of production assets and an increased rate for cost of removal, (b) recovery of deferred depreciation costs, and (c) the addition of depreciable plant for pollution control equipment, all of which are recovered from ratepayers.

Taxes other than Income Taxes

The 16 percent decrease in *Taxes other than income taxes* expense was primarily due to the settlement of various property tax matters.

Miscellaneous Income – Net

The increase in *Miscellaneous Income – Net* was primarily due to an increase in the rate for allowance for equity funds used during construction and reimbursements from **PSI's** insurance carriers for costs of investigating, preventing, mitigating, and remediating damage to property and paying claims related to MGP sites.

Interest Expense

The 24 percent increase in *Interest Expense* was primarily due to an increase in average long–term debt outstanding and increases in variable interest rates. This expense was partially offset by interest income received on restricted deposits obtained through these incremental borrowings, which is recorded in *Miscellaneous Income – Net*, associated with the additional long–term debt outstanding. Also contributing to this increase was a decrease in post–in–service carrying costs deferred for recovery due to **PSI's** 2004 base retail electric rate increase.

2005 YEAR TO DATE RESULTS OF OPERATIONS - ULH&P

Summary of Results

The Results of Operations discussion for **ULH&P** is presented only for the six months ended June 30, 2005, in accordance with General Instruction H(2)(a) of Form 10–Q.

Electric and gas gross margins and net income for **ULH&P** for the six months ended June 30, 2005, and 2004 were as follows:

	ULH&P			
	2005	2004	Change	% Change
	(in millions)			
Electric gross margin(1)	$ **32**	$ 34	$ (2)	(6)%
Gas gross margin(2)	**26**	26	—	—
Net income	**6**	11	(5)	(45)

(1) Electric gross margin is calculated as *Electric operating revenues* less *Electricity purchased from parent company for resale* expense from the Condensed Statements of Income.

(2) Gas gross margin is calculated as *Gas operating revenues* less *Gas purchased* expense from the Condensed Statements of Income.

The six percent decrease in electric gross margins was due, in part, to milder weather during 2005. Gas gross margins remained flat as an increase in rate tariff adjustments associated with the gas main replacement program and the demand–side management program, which encourages efficient customer gas usage, was partially offset by a decline in non–weather related demand.

The 45 percent decrease in net income for the quarter was partially due to the decreased electric gross margins as previously discussed. Also contributing to the decrease were higher operation and maintenance costs associated with transmission of electricity and the demand–side management program. Partially offsetting this decrease was a decline in income taxes primarily as a result of a reduction of the Kentucky corporate tax rate from 8.25 percent to seven percent and the resolution of certain tax matters. The Kentucky corporate tax rate is expected to decrease to six percent effective January 1, 2007.

LIQUIDITY AND CAPITAL RESOURCES

Capital Requirements

Environmental Issues

Environmental Protection Agency Regulations

In March 2005, the EPA issued the Clean Air Interstate Rule (CAIR) which would require states to revise their State Implementation Plan (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 $SO_2$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. At the same time, the EPA issued the Clean Air Mercury Rule (CAMR) which requires reductions in mercury emissions from coal–fired power plants. The final regulation also adopts a two–phase cap and trade approach that requires mercury emissions to be cut by 70 percent by 2018. State SIPs must comply with the prescribed reduction levels under CAIR and CAMR; however, the states have the ability to introduce more stringent requirements if desired. Under both CAIR and 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. In August 2005, the EPA proposed a Federal Implementation Plan (FIP) to act as a backstop to ensure that states implement the CAIR in a timely manner. If a state fails to develop a CAIR SIP, the EPA intends to finalize the FIP in time to implement CAIR for the state by the CAIR deadlines. Numerous states, environmental organizations, industry groups, including some of which **Cinergy** is a member, and individual companies have challenged various portions of both rules. Those challenges are currently pending in the Federal Circuit Court for the District of Columbia. At this time we cannot predict the outcome of these matters.

Over the 2005–2009 time period, we expect to spend approximately $1.8 billion to reduce mercury, SO_2, and NO_X emissions. These estimates 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 60 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. See (b)(*i*) for more details. **CG&E** would receive partial recovery of depreciation and financing costs related to environmental compliance projects for 2005–2008 through its recently approved rate stabilization plan (RSP). See (b)(*ii*) for more details.

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 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.

Clear Skies Legislation

President Bush has proposed environmental legislation that would combine a series of Clean Air Act (CAA) requirements, including the recent mercury, SO_2, and NO_X reduction regulations for coal–fired power plants with a legislative solution that includes trading and specific emissions reductions and timelines to meet those reductions. The President's "Clear Skies Initiative" would seek an overall 70 percent reduction in emissions from power plants over a phased–in reduction schedule beginning in 2010 and continuing through 2018. When the Clear Skies Initiative was stalled in Congress, the EPA finalized the CAIR and CAMR regulations to accomplish Clear Skies' goals within the existing framework of the CAA. Clear Skies has been reintroduced in the Senate in 2005, but its prospects for passage are uncertain in the current session. At this time we cannot predict whether this or any multi–emissions bill will be passed.

Energy Bill

A comprehensive energy bill (the Energy Policy Act of 2005) passed Congress July 22, 2005 and has been sent to President Bush for signature, which is expected on August 8, 2005. The bill, among other things, repeals PUHCA effective six months after the bill's enactment (i.e., February 2006), amends certain provisions of the Federal Power Act and the Public Utility Regulatory Policies Act of 1978, and expands FERC's authority to review mergers and acquisitions. Pursuant to the terms of the bill, **Cinergy's** pending merger with Duke would be grandfathered under FERC's existing authority. At this time, we are still analyzing the bill to determine its impact on our financial position or results of operations.

Environmental Lawsuits

We are currently involved in the following lawsuits which are discussed in more detail in Note 9(a) of the "Notes to Condensed Financial Statements" in "Item 1. Financial Statements." An unfavorable outcome of any of these lawsuits could have a material impact on our liquidity and capital resources.

- CAA Lawsuit
- CO_2 Lawsuit
- Selective Catalytic Reduction Units at Gibson Station
- Zimmer Station Lawsuit
- Manufactured Gas Plant Sites
- Asbestos Claims Litigation

Pension and Other Postretirement Benefits

Cinergy maintains qualified defined benefit pension plans covering substantially all United States employees meeting certain minimum age and service requirements. Plan assets consist of investments in equity and debt securities. 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 (ERISA). Although mitigated by strong performance in 2003 and 2004, ongoing retiree payments and the decline in market value of the investment portfolio in 2002 reduced the assets held in trust to satisfy plan obligations. Additionally, continuing low long-term interest rates have increased the liability for funding purposes. As a result of these events, our near term funding targets have increased substantially. **Cinergy** has adopted a five-year plan to reduce, or eliminate, the unfunded pension obligation initially measured as of January 1, 2003. This unfunded obligation will be recalculated as of January 1 of each year in the five-year plan. Because this unfunded obligation is the difference between the liability determined actuarially on an ERISA basis and the fair value of plan assets as of January 1, 2003, the liability determined by this calculation is different than the pension liability calculated for accounting purposes reported on **Cinergy's** Condensed Consolidated Balance Sheets.

Cinergy's minimum required contributions in calendar year 2004 totaled $16 million. Actual contributions in 2004 were $117 million, reflecting additional discretionary contributions of $101 million under the aforementioned five–year plan. Due to the significant 2004 and previous calendar year contributions, **Cinergy's** minimum required contributions in calendar year 2005 are expected to be zero. Should **Cinergy** continue funding under the five–year plan, discretionary contributions are expected to be $102 million in 2005, which is an increase from the $72 million disclosed in the 2004 10–K. This $30 million increase is primarily the result of a change in the retirement age assumption which increased the near–term funding estimates. Actual contributions for the six months ended June 30, 2005 were zero. **Cinergy** may consider making discretionary contributions in 2006 and future periods; however, at this time, we are unable to determine the amount of those contributions. Estimated contributions fluctuate based on changes in market performance of plan assets and actuarial assumptions. Absent the occurrence of interim events that could materially impact these targets, we will update our expected target contributions annually as the actuarial funding valuations are completed and make decisions about future contributions at that time.

Other Investing Activities

Our ability to invest in growth initiatives is limited by certain legal and regulatory requirements, including the PUHCA. For a discussion of the pending PUHCA Repeal, see "Energy Bill" in "Liquidity and Capital Resources." The PUHCA limits the types of non–utility businesses in which **Cinergy** and other registered holding companies under the PUHCA can invest as well as the amount of capital that can be invested in permissible non–utility businesses. Also, the timing and amount of investments in the non–utility businesses is dependent on the development and favorable evaluations of opportunities. Under the PUHCA restrictions, we are allowed to invest, or commit to invest, in certain non–utility businesses, including:

- Exempt Wholesale Generators (EWG) and Foreign Utility Companies (FUCO)

    An EWG is an entity, certified by the Federal Energy Regulatory Commission (FERC), devoted exclusively to owning and/or operating, and selling power from one or more electric generating facilities. An EWG whose generating facilities are located in the United States is limited to making only wholesale sales of electricity. An entity claiming status as an EWG must provide notification thereof to the SEC under the PUHCA.

    A FUCO is a company all of whose utility assets and operations are located outside the United States and which are used for the generation, transmission, or distribution of electric energy for sale at retail or wholesale, or the distribution of gas at retail. A FUCO may not derive any income, directly or indirectly, from the generation, transmission, or distribution of electric energy for sale or the distribution of gas at retail within the United States. An entity claiming status as a FUCO must provide notification thereof to the SEC under the PUHCA.

    In June 2005, the SEC issued an order under PUHCA authorizing **Cinergy** to invest (including by way of guarantees) an aggregate amount in EWGs and FUCOs equal to the sum of (1) our average consolidated retained earnings from time to time plus (2) $2 billion through the earlier of (a) the closing of the pending Duke–**Cinergy** merger or (b) June 23, 2006. As of June 30, 2005, we had invested or committed to invest $0.7 billion in EWGs and FUCOs, leaving available investment capacity under the order of $2.9 billion.

- Qualifying Facilities and Energy–Related Non–utility Entities

    SEC regulations under the PUHCA permit **Cinergy** and other registered holding companies to invest and/or guarantee an amount equal to 15 percent of consolidated capitalization (consolidated capitalization is the sum of *Notes payable and other short–term obligations*, *Long–term debt* (including amounts due within one year), Cumulative Preferred Stock of Subsidiaries, and Total Common Stock Equity) in domestic qualifying cogeneration and small power production plants (qualifying facilities) and certain other domestic energy–related non–utility entities. At June 30,

2005, we had invested and/or guaranteed $1.0 billion of the $1.5 billion available. In August 2004, **Cinergy** filed an application with the SEC requesting authority under the PUHCA to increase its investment and/or guarantee authority by $2 billion above the current authorized amount. In light of our existing unused capacity, together with the pending repeal of PUHCA and the pending merger with Duke, **Cinergy** withdrew this application in the third quarter of 2005.

- Energy–Related Assets

Cinergy has been granted SEC authority under the PUHCA to invest up to $1 billion in non–utility Energy–Related Assets within the United States, Canada, and Mexico. Energy–Related Assets include natural gas exploration, development, production, gathering, processing, storage and transportation facilities and equipment, liquid oil reserves and storage facilities, and associated assets, facilities and equipment, but would exclude any assets, facilities, or equipment that would cause the owner or operator thereof to be deemed a public utility company. As of June 30, 2005, we did not have any investments in these Energy–Related Assets.

- Infrastructure Services Companies

In July 2005, the SEC issued an order under the PUHCA authorizing **Cinergy** to invest up to $100 million (including existing investments and guarantees) through June 30, 2008 in companies that derive or will derive substantially all of their operating revenues from the sale of Infrastructure Services including:

- Design, construction, retrofit, and maintenance of utility transmission and distribution systems;
- Installation and maintenance of natural gas pipelines, water and sewer pipelines, and underground and overhead telecommunications networks; and
- Installation and servicing of meter reading devices and related communications networks, including fiber optic cable.

At June 30, 2005, we had invested $30 million in Infrastructure Services companies.

Guarantees

On June 23, 2005, the SEC issued an order under the PUHCA authorizing **Cinergy Corp.** to provide guarantees in an aggregate amount not to exceed $3.0 billion. For a discussion of the pending PUHCA Repeal, see "Energy Bill" in "Liquidity and Capital Resources." As of June 30, 2005, we had $756 million outstanding under the guarantees issued, of which 97 percent represents guarantees of obligations reflected on **Cinergy's** Condensed Consolidated Balance Sheets. The amount outstanding represents **Cinergy Corp.'s** guarantees of liabilities and commitments of its consolidated subsidiaries, unconsolidated subsidiaries, and joint ventures.

See Note 9(c)(*iv*) of the "Notes to Condensed Financial Statements" in "Item 1. Financial Statements" for a discussion of guarantees in accordance with Financial Accounting Standards Board Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (Interpretation 45). Interpretation 45 requires disclosure of maximum potential liabilities for guarantees issued on behalf of unconsolidated subsidiaries and joint ventures and under indemnification clauses in various contracts. The Interpretation 45 disclosure differs from the PUHCA restrictions in that it requires a calculation of maximum potential liability, rather than actual amounts outstanding; it excludes guarantees issued on behalf of consolidated subsidiaries; and it includes potential liabilities under indemnification clauses.

Marketing & Trading Liquidity Risks

Cinergy has certain contracts in place, primarily with trading counterparties, that require the issuance of collateral in the event our debt ratings are downgraded below investment grade. Based upon our June 30, 2005 trading portfolio, if such an event were to occur, **Cinergy** would be required to issue up to $403 million in collateral related to its gas and power trading operations, of which $157 million is related to **CG&E**.

Capital Resources

Cinergy, **CG&E**, **PSI**, and **ULH&P** meet their current and future capital requirements through a combination of funding sources including, but not limited to, internally generated cash flows, tax–exempt bond issuances, capital lease and operating lease structures, the securitization of certain asset classes, short–term bank borrowings, issuance of commercial paper, and issuances of long–term debt and equity. Funding decisions are based on market conditions, market access, relative pricing information, borrowing duration and current versus forecasted cash needs. **Cinergy**, **CG&E**, **PSI**, and **ULH&P** are committed to maintaining balance sheet health, responsibly managing capitalization, and maintaining adequate credit ratings. **Cinergy**, **CG&E**, **PSI**, and **ULH&P** believe that they have adequate financial resources to meet their future needs.

Sale of Accounts Receivable

CG&E, **PSI**, and **ULH&P** have an agreement with Cinergy Receivables Company, LLC (Cinergy Receivables), an affiliate, to sell, on a revolving basis, nearly all of the retail accounts receivable and related collections of **CG&E**, **PSI**, and **ULH&P**. Cinergy Receivables funds its purchases with borrowings from commercial paper conduits that obtain a security interest in the receivables. This program accelerates the collection of cash for **CG&E**, **PSI**, and **ULH&P** related to these retail receivables. **Cinergy Corp.** does not consolidate Cinergy Receivables because it meets the requirements to be accounted for as a qualifying special purpose entity (SPE).

Notes Payable and Other Short–term Obligations

We are required to secure authority to issue short–term debt from the SEC under the PUHCA and from the Public Utilities Commission of Ohio (PUCO). The SEC under the PUHCA regulates the issuance of short–term debt by **Cinergy Corp.**, **PSI**, and **ULH&P**. The PUCO has regulatory jurisdiction over the issuance of short–term debt by **CG&E**. For a discussion of the pending PUHCA Repeal, see "Energy Bill" in "Liquidity and Capital Resources."

	Short–term Regulatory Authority June 30, 2005	
	Authority	Outstanding
	(in millions)	
Cinergy Corp.	$ 4,000 (1)	$ 547
CG&E and subsidiaries	665 (2)	232
PSI	600	78
ULH&P	65 (2)	19

(1) In June 2005, the SEC issued an order under PUHCA authorizing **Cinergy** to increase its total capitalization (excluding *retained earnings* and *accumulated other comprehensive income (loss)*), which may be any combination of debt and equity securities, by $4 billion over the September 30, 2004 levels. Outside this requirement, **Cinergy Corp.** is not subject to specific regulatory debt authorizations.

(2) In December 2004, **Cinergy** and **ULH&P** requested approval from the SEC for an increase in **ULH&P's** authority from $65 million to $150 million to coincide with the completion of its pending transaction with **CG&E** in which **ULH&P** will acquire interests in three of **CG&E's** electric generating stations. At this time, we are unable to predict whether the SEC will approve this request.

For the purposes of quantifying regulatory authority, short–term debt includes revolving credit line borrowings, uncommitted credit line borrowings, intercompany money pool obligations, and commercial paper.

Cinergy Corp.'s short–term borrowings consist primarily of unsecured revolving lines of credit and the sale of commercial paper. **Cinergy Corp.'s** $2 billion revolving credit facilities and $1.5 billion commercial paper program also support the short–term borrowing needs of **CG&E**, **PSI**, and **ULH&P**. In addition, **Cinergy Corp.**, **CG&E**, and **PSI** maintain uncommitted lines of credit. These facilities are not firm sources of capital but rather informal agreements to lend money, subject to availability, with pricing determined at the time of advance. The following table summarizes our *Notes payable and other short–term obligations* and *Notes payable to affiliated companies*:

	Short–term Borrowings June 30, 2005				
	Established Lines	Outstanding	Unused	Standby Liquidity(1)	Available Revolving Lines of Credit
			(in millions)		
Cinergy					
Cinergy Corp.					
Revolving lines(2)	$ 2,000	$ —	$ 2,000	$ 558	$ 1,442
Uncommitted lines	40	—	40		
Commercial paper(3)		547			
Utility operating companies					
Uncommitted lines	75	—	75		
Pollution control notes		248			
Non–regulated subsidiaries					
Revolving lines(4)	162	40	122	—	122
Short–term debt		5			
Pollution control notes		25			
Cinergy Total		$ 865			$ 1,564
CG&E and subsidiaries					
Uncommitted lines	$ 15	$ —	$ 15		
Pollution control notes		112			
Money pool		232			
CG&E Total		$ 344			
PSI					
Uncommitted lines	$ 60	$ —	$ 60		
Pollution control notes		136			
Money pool		78			
PSI Total		$ 214			
ULH&P					
Money pool		$ 19			
ULH&P Total		$ 19			

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(1) Standby liquidity is reserved against the revolving lines of credit to support the commercial paper program and outstanding letters of credit (currently $547 million and $11 million, respectively).

(2) Consists of a three–year $1 billion facility and a five–year $1 billion facility. The three–year facility was entered into in April 2004 and matures in April 2007. The five–year facility was entered into in December 2004, matures in December 2009, and contains $500 million sublimits each for **CG&E** and **PSI**.

(3) **Cinergy Corp.'s** commercial paper program limit is $1.5 billion. The commercial paper program is supported by **Cinergy Corp.'s** revolving lines of credit.

(4) Of the $162 million, $150 million relates to a three–year senior revolving credit facility that Cinergy Canada, Inc. entered into in December 2004 and matures in December 2007.

At June 30, 2005, **Cinergy Corp.** had $1.4 billion remaining unused and available capacity relating to its $2 billion revolving credit facilities. These revolving credit facilities include the following:

Credit Facility	Expiration	Established Lines	Outstanding and Committed	Unused and Available
			(in millions)	
Five–year senior revolving	December 2009			
Direct borrowing			$ —	
Commercial paper support			—	
Total five–year facility(1)		$ 1,000	—	$ 1,000
Three–year senior revolving	April 2007			
Direct borrowing			—	
Commercial paper support			547	
Letter of credit support			11	
Total three–year facility		1,000	558	442
Total Credit Facilities		$ 2,000	$ 558	$ 1,442

(1) **CG&E** and **PSI** each have $500 million borrowing sublimits on this facility.

In our credit facilities, **Cinergy Corp.** has covenanted to maintain:

- a consolidated net worth of $2 billion; and
- a ratio of consolidated indebtedness to consolidated total capitalization not in excess of 65 percent.

As part of **CG&E's** $500 million sublimit under the $1 billion five–year credit facility, **CG&E** has covenanted to maintain:

- a consolidated net worth of $1 billion; and
- a ratio of consolidated indebtedness to consolidated total capitalization not in excess of 65 percent.

As part of **PSI's** $500 million sublimit under the $1 billion five–year credit facility, **PSI** has covenanted to maintain:

- a consolidated net worth of $900 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 facilities 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.

The latter two events, however, are subject to dollar–based materiality thresholds. As of June 30, 2005, **Cinergy**, **CG&E**, and **PSI** are in compliance with all of their debt covenants.

Long–term Debt

We are required to secure authority to issue long–term debt from the SEC under the PUHCA and the state utility commissions of Ohio, Kentucky, and Indiana. For a discussion of the pending PUHCA Repeal, see "Energy Bill" in "Liquidity and Capital Resources." The SEC under the PUHCA regulates the issuance of long–term debt by **Cinergy Corp.** The respective state utility commissions regulate the issuance of long–term debt by our utility operating companies.

A current summary of our long–term debt authorizations at June 30, 2005, was as follows:

	Authorized	Used	Available
		(in millions)	
Cinergy Corp.			
PUHCA total capitalization(1)	$ 4,000	$ 305	$ 3,695
CG&E and subsidiaries(2)			
State Public Utility Commissions	$ 575	$ —	$ 575
State Public Utility Commission – Tax–Exempt	250	94	156
PSI			
State Public Utility Commission	$ 500	$ —	$ 500
State Public Utility Commission – Tax–Exempt(3)	250	—	250
ULH&P			
State Public Utility Commission(4)	$ 75	$ —	$ 75

(1) In June 2005, the SEC issued an order under **PUHCA** authorizing **Cinergy** to increase its total capitalization (excluding *retained earnings* and *accumulated other comprehensive income (loss)*), which may be any combination of debt and equity securities, by $4 billion over the September 30, 2004 levels. Outside this requirement, Cinergy Corp. is not subject to specific regulatory debt authorizations.

(2) Includes amounts for **ULH&P**.

(3) In June 2005, the Indiana Utility Regulatory Commission (IURC) granted **PSI** financing authority to borrow the proceeds from the issuance and sale of up to $250 million principal amount of tax exempt securities through December 31, 2005.

(4) In April 2005, the Kentucky Public Service Commission (KPSC) granted **ULH&P** financing authority to issue and sell up to $500 million principal amount of secured and unsecured debt; enter into inter–company promissory notes up to an aggregate principal amount of $200 million; and borrow up to a maximum of $200 million aggregate principal amount of tax–exempt debt through December 31, 2006. This authority is contingent upon the pending transaction with **CG&E** in which **ULH&P** will acquire interests in three of **CG&E's** electric generating stations.

Cinergy Corp. has an effective shelf registration statement with the SEC relating to the issuance of up to $750 million in any combination of common stock, preferred stock, stock purchase contracts or unsecured debt securities, of which $323 million remains available for issuance. **CG&E** has an effective shelf registration statement with the SEC relating to the issuance of up to $800 million in any combination of unsecured debt securities, first mortgage bonds, or preferred stock, all of which remains available for issuance. **PSI** has an effective shelf registration statement with the SEC relating to the issuance of up to $800 million in any combination of unsecured debt securities, first mortgage bonds, or preferred stock, all of which remains available for issuance. **ULH&P** has an effective shelf registration statement with the SEC for the issuance of up to $75 million in unsecured debt securities, $35 million of which remains available for issuance. **ULH&P** also has an effective shelf registration statement with the SEC relating to the issuance of up to $40 million in first mortgage bonds, of which $20 million remains available for issuance.

Off–Balance Sheet Arrangements

As discussed in the 2004 10–K, **Cinergy** uses off–balance sheet arrangements from time to time to facilitate financing of various projects. **Cinergy's** primary off–balance sheet arrangement involves the sale of accounts receivable to a qualifying SPE.

In 2001, **Cinergy Corp.** issued $316 million notional amount of combined securities, a component of which was stock purchase contracts. These contracts obligated the holder to purchase common shares of **Cinergy Corp.** stock by February 2005. In January and February 2005, the stock purchase contracts were settled, resulting in the issuance of common stock that is recorded on **Cinergy's** Condensed Consolidated Balance Sheets as Common Stock Equity.

Securities Ratings

As of June 30, 2005, the major credit rating agencies rated our securities as follows:

	Fitch(1)	Moody's(2)	S&P(3)
Cinergy Corp.			
Corporate Credit	BBB+	Baa2	BBB+
Senior Unsecured Debt	BBB+	Baa2	BBB
Commercial Paper	F–2	P–2	A–2
Preferred Trust Securities	BBB+	Baa2	BBB
CG&E			
Senior Secured Debt	A–	A3	A–
Senior Unsecured Debt	BBB+	Baa1	BBB
Junior Unsecured Debt	BBB	Baa2	BBB–
Preferred Stock	BBB	Baa3	BBB–
Commercial Paper	F–2	P–2	Not Rated
PSI			
Senior Secured Debt	A–	A3	A–
Senior Unsecured Debt	BBB+	Baa1	BBB
Junior Unsecured Debt	BBB	Baa2	BBB–
Preferred Stock	BBB	Baa3	BBB–
Commercial Paper	F–2	P–2	Not Rated
ULH&P			
Senior Unsecured Debt	BBB+	Baa1	BBB

(1) Fitch Ratings (Fitch)

(2) Moody's Investors Service (Moody's)

(3) Standard & Poor's Ratings Services (S&P)

The highest investment grade credit rating for Fitch is AAA, Moody's is Aaa1, and S&P is AAA.

The lowest investment grade credit rating for Fitch is BBB–, Moody's is Baa3, and S&P is BBB–.

On May 10, 2005, S&P placed its ratings of **Cinergy Corp.** and its subsidiaries, on CreditWatch with negative implications. This action was in response to the announcement of the pending merger of Duke and **Cinergy** and the uncertainty around the final details of the transaction. Fitch has affirmed its existing ratings, noting that it anticipates the combined entity to achieve a credit profile similar to that of **Cinergy**. Moody's has also affirmed its ratings, anticipating that no incremental debt will be issued as a result of the merger. See "Pending Merger" for a further discussion of the transaction.

A security rating is not a recommendation to buy, sell, or hold securities. These securities ratings may be revised or withdrawn at any time, and each rating should be evaluated independently of any other rating.

Equity

As discussed in the 2004 10–K, in January and February 2005, **Cinergy Corp.** issued a total of 9.2 million shares of common stock pursuant to certain stock purchase contracts that were issued as a component of combined securities in December 2001. Net proceeds from the transaction of $316 million were used to reduce short–term debt.

Cinergy issues new **Cinergy Corp.** common stock shares to satisfy obligations under certain of its employee stock plans and the Cinergy Corp. Direct Stock Purchase and Dividend Reinvestment Plan. During the six months ended June 30, 2005, **Cinergy** issued 1.9 million shares under these plans.

In June 2005, **Cinergy Corp.** contributed $200 million in capital to **PSI**. The capital contribution was used to repay short–term indebtedness and is consistent with supporting **PSI's** current credit ratings.

FUTURE EXPECTATIONS/TRENDS

In the "Future Expectations/Trends" section, we discuss developments in the electric and gas industry and other matters. Each of these discussions will address the current status and potential future impact on our financial position or results of operations.

Electric Industry

Regulatory Outlook

Ohio

The pending merger agreement between Duke and **Cinergy** provides that both Duke and **Cinergy** will use their reasonable best efforts to transfer five generating stations located in the Midwest from Duke to **CG&E**. This transfer will require regulatory approval by the FERC and there can be no guarantee that such approval will be obtained or will be obtained on terms or with conditions acceptable to Duke, **Cinergy**, and Duke Energy Holding. Duke intends to effectuate the transfer as an equity infusion into **CG&E** at book value. In conjunction with the transfer, Duke and **CG&E** intend to enter into a financial arrangement to eliminate any potential cash shortfalls that may result from owning and operating the assets. At this time, we cannot predict the outcome of this matter.

Kentucky

The KPSC and the FERC have approved **ULH&P's** planned 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, and associated transactions. **ULH&P** is currently seeking approval of the transaction in a proceeding before the Securities and Exchange Commission (SEC), wherein the Ohio Consumers' Counsel has intervened in opposition. The transfer, which will be at net book value, will not affect current electric rates for **ULH&P's** customers, as power will be provided under the same terms as under the current wholesale power contract with **CG&E** through December 31, 2006. Assuming receipt of SEC approval, we would anticipate the transfer to take place in the third quarter of 2005.

Indiana

On May 6, 2005, we signed a definitive agreement with subsidiaries of Allegheny Energy, Inc. whereby, subject to the terms and upon satisfaction of the conditions to closing provided in the purchase agreement, **PSI** and/or **CG&E** had the right to acquire the 512–megawatt Wheatland generating facility for approximately $100 million. The Wheatland facility, located in Knox County, Indiana, has four natural gas–fired simple cycle combustion turbines and is directly connected to the **Cinergy** transmission system. In June and August 2005, respectively, the FERC and IURC approved the acquisition and the Department of Justice and Federal Trade Commission completed their review of the transaction pursuant to the notification requirements of the Hart–Scott–Rodino Antitrust Improvements Act. We have determined that **PSI** will acquire 100% of the Wheatland facility. Its output will be used to bolster the reserve margins on the **PSI** system. **Cinergy** expects to close the acquisition in August 2005.

FERC and Midwest ISO

Midwest ISO Energy Markets

The Midwest ISO is a regional transmission organization established in 1998 as a non–profit organization which maintains functional control over the combined transmission systems of its members, including **Cinergy**. In March 2004, the Midwest ISO filed with the FERC proposed changes to its existing transmission tariff to add terms and conditions to implement a centralized economic dispatch platform supported by a Day–Ahead and Real–Time Energy Market design, including Locational Marginal Pricing (LMP) and Financial Transmission Rights (FTRs)

(Energy Markets Tariff). The FERC has issued orders that, among other things, conditionally approve the start–up of the Energy Markets Tariff which occurred April 1, 2005. The FERC issued orders in response to requests for rehearing on certain matters in the FERC's original orders. **Cinergy**has appealed the FERC orders to a federal appeals court.

Specifically, the Energy Markets Tariff manages system reliability through the use of a market–based congestion management system and includes a centralized dispatch platform, the intent of which is to dispatch the most economic resources to meet load requirements reliably and efficiently in the Midwest ISO region, which covers a large portion of 15 Midwestern states and one Canadian province. The Energy Markets Tariff uses LMP (i.e., the energy price for the next MW may vary throughout the Midwest ISO market based on transmission congestion and energy losses), and the allocation or auction of FTRs, which are instruments that hedge against congestion costs occurring in the Day–Ahead market. The Energy Markets Tariff also includes market monitoring and mitigation measures as well as a resource adequacy proposal, that proposes both an interim solution for participants providing and having access to adequate generation resources and a proposal to develop a long–term solution to resource adequacy concerns. The Midwest ISO performs a day–ahead unit commitment and dispatch forecast for all resources in its market and also performs the real–time resource dispatch for resources under its control on a five minute basis. The **Cinergy** utility operating companies will seek to recover costs that they incur related to the Energy Markets Tariff. We have been operating under the Energy Markets Tariff since April 2005. We continue to work with the Midwest ISO to monitor the implementation of the new market and at this time we do not believe it will have a material impact on our results of operations or financial position.

Global Climate Change

Presently, GHG emissions, which principally consist of CO_2, are not regulated, and while several legislative proposals have been introduced in Congress to reduce utility GHG emissions, none have been passed. Nevertheless, we anticipate a mandatory program to reduce GHG emissions will exist in the future. We expect that any regulation of GHGs will impose costs on **Cinergy.** Depending on the details, any GHG regulation could mean:

- Increased capital expenditures associated with investments to improve plant efficiency or install CO_2 emission reduction technology (to the extent that such technology exists) or construction of alternatives to coal generation;
- Increased operation and maintenance expense;
- Our older, more expensive generating stations may operate fewer hours each year because the addition of CO_2 costs could cause their generation to be less economic; and
- Increased expenses associated with the purchase of CO_2 emission allowances, should such an emission allowances market be created.

We would plan to seek recovery of the costs associated with a GHG program in rate regulated states where cost recovery is permitted.

In September 2003, **Cinergy** announced a voluntary GHG management commitment to reduce its GHG emissions during the period from 2010 through 2012 by five percent below our 2000 level, maintaining those levels through 2012. **Cinergy** expects to spend $21 million between 2004 and 2010 on projects to reduce or offset its GHG emissions. **Cinergy** is committed to supporting the President's voluntary initiative, addressing shareholder interest in the issue, and building internal expertise in GHG management and GHG markets. Our voluntary commitment includes the following:

- Measuring and inventorying company–related sources of GHG emissions;

- Identifying and pursuing cost–effective GHG emission reduction and offsetting activities;
- Funding research of more efficient and alternative electric generating technologies;
- Funding research to better understand the causes and consequences of climate change;
- Encouraging a global discussion of the issues and how best to manage them; and
- Participating in discussions to help shape the policy debate.

Cinergy is also studying the feasibility of constructing a commercial integrated coal gasification combined cycle (IGCC) generating station. The IGCC plant would be expected to run more efficiently than traditionally constructed coal–fired generation and would thus contribute fewer CO_2 tons per megawatt of electricity produced.

Other Matters

Synthetic Fuel Production

Cinergy produces from two facilities synthetic fuel that qualifies for tax credits (through 2007) in accordance with Section 29 of the Internal Revenue Code (IRC) if certain requirements are satisfied.

Cinergy's sale of synthetic fuel has generated $271 million in tax credits through June 30, 2005. The Internal Revenue Service (IRS) is currently auditing **Cinergy** for the 2002 and 2003 tax years and has recently challenged certain other taxpayers' Section 29 tax credits. While we cannot predict whether the IRS will challenge our Section 29 tax credits, we expect the IRS will evaluate the various key requirements for claiming our Section 29 credits related to synthetic fuel. If the IRS challenges our Section 29 tax credits related to synthetic fuel, and such challenges were successful, this could result in the disallowance of up to all $271 million in previously claimed Section 29 tax credits for synthetic fuel produced by the applicable **Cinergy** facilities and a loss of our ability to claim future Section 29 tax credits for synthetic fuel produced by such facilities. We believe that we operate in conformity with all the necessary requirements to be allowed such tax credits under Section 29. Upon consummation of the pending merger of Duke and **Cinergy**, the synthetic fuel produced by one of **Cinergy's** facilities pursuant to the existing commercial arrangement would cease to qualify for the Section 29 credit. **Cinergy** is evaluating a transaction for the disposition of a portion of the affected facility that **Cinergy** believes would enable the fuel produced by the facility to continue to qualify for credit under IRC Section 29. In the event a suitable transaction is not achieved, **Cinergy** anticipates that its production of synthetic fuel at the affected facility would be suspended upon consummation of the pending merger with Duke.

Section 29 also provides for a phase–out of the credit based on the average price of crude oil during a calendar year. The phase–out is based on a prescribed calculation and definition of crude oil prices. Based on current crude oil prices, we do not currently expect a material negative impact on our ability to recognize the projected benefit of Section 29 tax credits in 2005.

Ohio Taxes

The Ohio legislature has approved sweeping changes to Ohio's tax law which will phase out the Ohio corporate franchise tax over five years. The franchise tax will be replaced by a "Commercial Activity Tax", a tax imposed on gross receipts. We do not expect the tax law changes to have a material impact on our cash flows. The phase–out of the Ohio franchise tax resulted in the elimination of state income tax deferrals under GAAP thus reducing the effective income tax rate for the current quarter. However, we do not expect these changes to have a material impact on our results of operations or financial position going forward over the remainder of the phase–out period.

MARKET RISK SENSITIVE INSTRUMENTS

Energy Commodities Sensitivity

The transactions associated with Commercial's energy marketing and trading activities and substantial investment in generation assets give rise to various risks, including price risk. Price risk represents the potential risk of loss from adverse changes in the market price of electricity or other energy commodities. As Commercial continues to develop its energy marketing and trading business, its exposure to movements in the price of electricity and other energy commodities may become greater. As a result, we may be subject to increased future earnings volatility.

As discussed in the 2004 10–K, Commercial's energy marketing and trading activities principally consist of Marketing & Trading's natural gas marketing and trading operations and **CG&E's** power marketing and trading operations.

Changes in Fair Value

The changes in fair value of the energy risk management assets and liabilities for **Cinergy** and **CG&E** for the six months ended June 30, 2005 and 2004 are presented in the table below.

	Change in Fair Value			
	June 30, 2005		June 30, 2004	
	Cinergy(1)	CG&E	Cinergy(1)	CG&E
	(in millions)			
Fair value of contracts outstanding at the beginning of the year	**$ 82**	**$ 36**	$ 41	$ 20
Changes in fair value attributable to changes in valuation techniques and assumptions(2)	**(3)**	**(3)**	—	—
Other changes in fair value(3)	**(31)**	**5**	103	49
Option premiums paid/(received)	**14**	**11**	(3)	2
Contracts settled	**(74)**	**(39)**	(76)	(28)
Fair value of contracts outstanding at end of period	**$ (12)**	**$ 10**	$ 65	$ 43

(1) The results of **Cinergy** also include amounts related to non–registrants.

(2) Represents changes in fair value recognized in income, caused by changes in assumptions used in calculating fair value or changes in modeling techniques.

(3) Represents changes in fair value recognized in income, primarily attributable to fluctuations in price. This amount includes both realized and unrealized gains on energy trading contracts.

The following are the balances at June 30, 2005 and 2004 of our energy risk management assets and liabilities:

	June 30, 2005		June 30, 2004	
	Cinergy(1)	CG&E	Cinergy(1)	CG&E
	(in millions)			
Energy risk management assets – current	**$ 352**	**$ 228**	$ 425	$ 156
Energy risk management assets – non–current	**307**	**135**	138	58
Energy risk management liabilities – current	**371**	**219**	384	134
Energy risk management liabilities – non–current	**300**	**134**	114	37
	$ (12)	**$ 10**	$ 65	$ 43

(1) The results of **Cinergy** also include amounts related to non–registrants.

The following table presents the expected maturity of the energy risk management assets and liabilities as of June 30, 2005 for **Cinergy** and **CG&E**:

Source of Fair Value(1)	Fair Value of Contracts at June 30, 2005 Maturing				
	Within 12 months	12–36 months	36–60 months	Thereafter	Total Fair Value
			(in millions)		
Cinergy(2)					
Prices actively quoted	$ (27)	$ 4	$ —	$ —	$ (23)
Prices based on models and other valuation methods(3)	9	(2)	5	(1)	11
Total	$ (18)	$ 2	$ 5	$ (1)	$ (12)
CG&E					
Prices actively quoted	$ 6	$ (1)	$ —	$ —	$ 5
Prices based on models and other valuation methods(3)	2	(3)	4	2	5
Total	$ 8	$ (4)	$ 4	$ 2	$ 10

(1) While liquidity varies by trading regions, active quotes are generally available for two years for standard electricity transactions and three years for standard gas transactions. Non–standard transactions are classified based on the extent, if any, of modeling used in determining fair value. Long–term transactions can have portions in both categories depending on the length.

(2) The results of Cinergy also include amounts related to non–registrants.

(3) A substantial portion of these amounts include option values.

Generation Portfolio Risks

Cinergy optimizes the value of its non–regulated portfolio. The portfolio includes generation assets (power and capacity), fuel, and emission allowances and we manage all of these components as a portfolio. We use models that forecast future generation output, fuel requirements, and emission allowance requirements based on forward power, fuel and emission allowance markets. The component pieces of the portfolio are bought and sold based on this model in order to manage the economic value of the portfolio. With the issuance of Statement of Financial Accounting Standards No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities* (Statement 149), most forward power transactions from management of the portfolio are accounted for at fair value. The other component pieces of the portfolio are typically not subject to Statement 149 and are accounted for using the accrual method, where changes in fair value are not recognized. As a result, we are subject to earnings volatility via MTM gains or losses from changes in the value of the contracts accounted for using fair value. A hypothetical $1.00 per MWh increase or decrease consistently applied to all forward power prices would have resulted in an increase or decrease in fair value of these contracts of approximately $5.2 million as of June 30, 2005. See "2005 Quarterly Results of Operations" and "2005 Year to Date Results of Operations" for further discussion of the impact on current quarter and year to date results.

Energy Trading Credit Risk

Cinergy's extension of credit for energy marketing and trading is governed by a Corporate Credit Policy. Written guidelines approved by **Cinergy's** Risk Policy Committee document the management approval levels for credit limits, evaluation of creditworthiness, and credit risk mitigation procedures. **Cinergy** analyzes net credit exposure and establishes credit reserves based on the counterparties' credit rating, payment history, and length of the outstanding obligation. Exposures to credit risks are monitored daily by the Corporate Credit Risk function, which is independent of all trading operations. Energy commodity prices can be extremely volatile and the market can, at times, lack liquidity. Because of these issues, credit risk for energy commodities is generally greater than with other commodity trading.

The following tables provide information regarding **Cinergy's** and **CG&E's** exposure on energy trading contracts as of June 30, 2005. The tables include accounts receivable and energy risk management assets, which are net of accounts payable and energy risk management liabilities with the same counterparties when we have the right of offset. The credit collateral shown in the following tables includes cash and letters of credit.

Cinergy(1)

Rating	Total Exposure Before Credit Collateral	Credit Collateral	Net Exposure	Percentage of Total Net Exposure	Number of Counterparties Greater than 10% of Total Net Exposure	Net Exposure of Counterparties Greater than 10% of Total Net Exposure(4)
			(in millions)			
Investment Grade(2)	$ 713	$ 126	$ 587	83%	—	$ —
Internally Rated–Investment Grade(3)	127	42	85	12	—	—
Non–Investment Grade	44	30	14	2	—	—
Internally Rated–Non–Investment Grade	49	30	19	3	—	—
Total	$ 933	$ 228	$ 705	100%	—	$ —

(1) Includes amounts related to non–registrants.

(2) Includes counterparties rated Investment Grade or the counterparties' obligations are guaranteed or secured by an Investment Grade entity.

(3) Counterparties include a variety of entities, including investor–owned utilities, privately held companies, cities and municipalities. **Cinergy** assigns internal credit ratings to all counterparties within our credit risk portfolio, applying fundamental analytical tools. Included in this analysis is a review of (but not limited to) counterparty financial statements with consideration given to off–balance sheet obligations and assets, specific business environment, access to capital, and indicators from debt and equity capital markets.

(4) Exposures, positive or negative, with counterparties that are related to one another are not aggregated when no right of offset exists and as a result, credit is extended and evaluated on a separate basis.

CG&E

Rating	Total Exposure Before Credit Collateral	Credit Collateral	Net Exposure	Percentage of Total Net Exposure	Number of Counterparties Greater than 10% of Total Net Exposure	Net Exposure of Counterparties Greater than 10% of Total Net Exposure(3)
			(in millions)			
Investment Grade(1)	$ 223	$ 73	$ 150	79%	2	$ 48
Internally Rated–Investment Grade(2)	30	—	30	16	—	—
Non–Investment Grade	12	9	3	2	—	—
Internally Rated–Non–Investment Grade	18	12	6	3	—	—

Total	$ 283	$ 94	$ 189	100%	2	$ 48

(1) Includes counterparties rated Investment Grade or the counterparties' obligations are guaranteed or secured by an Investment Grade entity.

(2) Counterparties include various cities and municipalities.

(3) Exposures, positive or negative, with counterparties that are related to one another are not aggregated when no right of offset exists and as a result, credit is extended and evaluated on a separate basis.

ACCOUNTING MATTERS

Critical Accounting Estimates

Preparation of financial statements and related disclosures in compliance with GAAP requires the use of assumptions and estimates regarding future events, including the likelihood of success of particular investments or initiatives, estimates of future prices or rates, legal and regulatory challenges, and anticipated recovery of costs. Therefore, the possibility exists for materially different reported amounts under different conditions or assumptions. We consider an accounting estimate to be critical if: 1) the accounting estimate requires us to make assumptions about matters that were reasonably uncertain at the time the accounting estimate was made, and 2) changes in the estimate are reasonably likely to occur from period to period.

Cinergy's 2004 10–K includes a discussion of accounting policies that are critical to the presentation of **Cinergy's** financial position and results of operations. These include:

- Fair Value Accounting for Energy Marketing and Trading;
- Regulatory Accounting;
- Income Taxes;
- Contingencies;
- Impairment of Long–Lived Assets; and
- Impairment of Unconsolidated Investments.

Accounting Changes

Asset Retirement Obligations

In March 2005, the Financial Accounting Standards Board (FASB) issued Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (Interpretation 47), an interpretation of Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* (Statement 143). Statement 143 requires recognition of legal obligations associated with the retirement or removal of long–lived assets at the time the obligations are incurred. Interpretation 47 clarifies that a conditional asset retirement obligation (which occurs when the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity) is a legal obligation within the scope of Statement 143. As such, the fair value of a conditional asset retirement obligation must be recognized as a liability when incurred if the liability's fair value can be reasonably estimated. Interpretation 47 also clarifies when sufficient information exists to reasonably estimate the fair value of an asset retirement obligation.

Cinergy will adopt Interpretation 47 on December 31, 2005. Upon adoption of Interpretation 47 **Cinergy** will recognize the impact, if any, of additional liabilities for conditional asset retirement obligations as a cumulative effect of a change in accounting principle. We have begun evaluating the impact of adopting this new interpretation and are currently unable to predict whether the implementation of this accounting standard will be material to our financial position or results of operations.

Share–Based Payment

In December 2004, the FASB issued a replacement of Statement of Financial Accounting Standards No. 123, *Accounting for Stock–Based Compensation* (Statement 123), *Statement of Financial Accounting Standards No. 123 (revised 2004), Share–Based Payment* (Statement 123R). This standard will require, among other things, accounting for all stock–based compensation arrangements under the fair value method.

In 2003, we prospectively adopted accounting for our stock–based compensation plans using the fair value recognition provisions of Statement 123, as amended by Statement of Financial Accounting Standards No. 148, *Accounting for Stock–Based Compensation–Transition and Disclosure*, for all employee awards granted or with terms modified on or after January 1, 2003. Therefore, the impact of implementation of Statement 123R on stock options within our stock–based compensation plans is not expected to be material. Statement 123R contains certain provisions that will modify the accounting for various stock–based compensation plans other than stock options. We are in the process of evaluating the impact of this new standard on these plans. **Cinergy** will adopt Statement 123R on January 1, 2006.

Income Taxes

In October 2004, the American Jobs Creation Act (AJCA) was signed into law. The AJCA includes a one–time deduction of 85 percent of certain foreign earnings that are repatriated, as defined in the AJCA. Based on our analysis, we do not believe that repatriation pursuant to this provision will have a material impact on our financial position or results of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

This information is provided in, and incorporated by reference from, the "Market Risk Sensitive Instruments" section in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations".

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are our controls and other procedures that are designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 (Exchange Act) is recorded, processed, summarized, and reported, within the time periods specified by the Securities and Exchange Commission's (SEC) rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we have evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2005, and, based upon this evaluation, our chief executive officer and chief financial officer have concluded that these controls and procedures are effective in providing reasonable assurance that information requiring disclosure is recorded, processed, summarized, and reported within the timeframe specified by the SEC's rules and forms.

Changes in Internal Control Over Financial Reporting

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we have evaluated changes in our internal control over financial reporting (as such term is defined in Rules 13a–15(f) and 15d–15(f) under the Exchange Act) during the fiscal quarter ended June 30, 2005.

On April 1, 2005, the Midwest Independent Transmission System Operation, Inc. (Midwest ISO), as ordered by the Federal Energy Regulatory Commission, implemented the Day–Ahead and Real–time Energy Markets design including Locational Marginal Pricing and Financial Transmission Rights (Energy Markets Tariff). As a result, **Cinergy** acquired and implemented changes to software systems and processes to facilitate implementation of the Midwest ISO Energy Markets Tariff, which included software designed to communicate commercial bids and offers with the Midwest ISO on an hourly basis and which is connected to **Cinergy's** market transaction system. The information communicated between the Midwest ISO and **Cinergy** is utilized by the Midwest ISO to produce and reconcile daily settlement statements submitted to **Cinergy**. **Cinergy** also modified other systems and processes to accommodate changes emanating from the Energy Markets Tariff implementation.

Effective April 1, 2005, **Cinergy** transitioned to a new finance and accounting system which contains new processes and tools that are designed to create more efficiency in gathering and reporting **Cinergy** financial data, provide greater transparency of financial data for reporting and compliance, and improve the consistency of how data is reported, thus aiding financial analysis and decision–making.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

CLEAN AIR ACT (CAA) 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**, The Cincinnati Gas & Electric Company (**CG&E**), and PSI Energy, Inc. (**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 State Implementation Plan (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 Environmental Protection Agency (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 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. In addition, three northeast states and two environmental groups have intervened in the case. The case is currently in discovery and is set for trial by jury commencing in February 2006.

In March 2000, the United States also filed in the United States District Court for the Southern District of Ohio an amended complaint in a separate lawsuit alleging violations of the CAA relating to PSD, NSR, and Ohio SIP requirements regarding various generating stations, including a generating station operated by Columbus Southern Power Company (CSP) and jointly–owned by CSP, The Dayton Power and Light Company (DP&L), and **CG&E**. The EPA is seeking injunctive relief and civil penalties of up to $27,500 per day for each violation. This suit is being defended by CSP. In April 2001, the United States District Court for the Southern District of Ohio in that case ruled that the Government and the intervening plaintiff environmental groups cannot seek monetary damages for alleged violations that occurred prior to November 3, 1994; however, they are entitled to seek injunctive relief for such alleged violations. Neither party appealed that decision. This matter was heard in trial in July 2005. A decision is expected by the end of 2005.

In addition, **Cinergy** and **CG&E** have been informed by DP&L that in June 2000, the EPA issued a Notice of Violation (NOV) to DP&L for alleged violations of PSD, NSR, and Ohio SIP requirements at a station operated by DP&L and jointly–owned by DP&L, CSP, and **CG&E**. The NOV indicated the EPA may (1) issue an order requiring compliance with the requirements of the Ohio SIP, or (2) bring a civil action seeking injunctive relief and civil penalties of up to $27,500 per day for each violation. In September 2004, Marilyn Wall and the Sierra Club brought a lawsuit against **CG&E**, DP&L and CSP for alleged violations of the CAA at this same generating station.

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.

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. **Cinergy** intends to defend these lawsuits vigorously in court and filed motions to dismiss with the other defendants in September 2004. We are not able to predict whether resolution of these matters would have a material effect on our financial position or results of operations.

SELECTIVE CATALYTIC REDUCTION UNITS (SCR) AT GIBSON STATION

In May 2004, SCRs and other pollution control equipment became operational at Units 4 and 5 of **PSI's** Gibson Station in accordance with compliance deadlines under the nitrogen oxide SIP Call. In June and July 2004, Gibson Station temporarily shut down the equipment on these units due to a concern that portions of the plume from those units' stacks appeared to break apart and descend to ground level, at certain times, under certain weather conditions. As a result, and, working with the City of Mt. Carmel, Illinois, Illinois EPA, Indiana Department of Environmental Management (IDEM), EPA, and the State of Illinois, we developed a protocol regarding the use of the SCRs while we explored alternatives to address this issue. After the protocol was finalized, the Illinois Attorney General brought an action in Wabash County Circuit Court against **PSI** seeking a preliminary injunction to enforce the protocol. In August 2004, the court granted that preliminary injunction. **PSI** is appealing that decision to the Fifth District Appellate Court, but we cannot predict the ultimate outcome of that appeal or of the underlying action by the Illinois Attorney General.

In April 2005, we completed the installation of a permanent control system to address this issue. The new control system will support all five Gibson generating units. We will seek recovery of any related capital as well as increased emission allowance expenditures through the regulatory process. We do not believe costs related to resolving this matter will have a material impact on our financial position or results of operations.

ZIMMER STATION LAWSUIT

In November 2004, a citizen of the Village of Moscow, Ohio, the town adjacent to **CG&E's** Zimmer Station, brought a purported class action in the United States District Court for the Southern District of Ohio seeking monetary damages and injunctive relief against **CG&E** for alleged violations of the CAA, the Ohio SIP, and Ohio laws against nuisance and common law nuisance. **CG&E** filed a motion to dismiss the lawsuit on primarily procedural grounds and we intend to defend against these claims vigorously. The plaintiffs have filed a number of additional notices of intent to sue and two lawsuits raising claims similar to those in the original claim. At this time, we cannot predict whether the outcome of this matter will have a material impact on our financial position or results of operations.

MANUFACTURED GAS PLANT (MGP) SITES

Coal tar residues, related hydrocarbons, and various metals have been found in at least 22 sites that **PSI** or its predecessors previously owned and sold in a series of transactions with Northern Indiana Public Service Company (NIPSCO) and Indiana Gas Company, Inc. (IGC). The 22 sites are in the process of being studied and will be remediated, if necessary. In 1998 NIPSCO, IGC, and **PSI** entered into Site Participation and Cost Sharing Agreements to allocate liability and responsibilities between them. The IDEM oversees investigation and cleanup of all of these sites. Thus far, **PSI** has primary responsibility for investigating, monitoring and, if necessary, remediating nine of these sites. In December 2003, **PSI** entered into a voluntary remediation plan with the state of Indiana, providing a formal framework for the investigation and cleanup of the sites.

In April 1998, **PSI** filed suit in Hendricks County in the state of Indiana against its general liability insurance carriers. **PSI** sought a declaratory judgment to obligate its insurance carriers to (1) defend MGP claims against **PSI** and compensate **PSI** for its costs of investigating, preventing, mitigating, and remediating damage to property and paying claims related to MGP sites; or (2) pay **PSI's** cost of defense. **PSI** settled, in principle, its claims with all but one of the insurance carriers in January 2005 prior to commencement of the trial. With respect to the lone insurance carrier, a jury returned a verdict against **PSI** in February 2005. **PSI** has appealed this decision. At the present time, **PSI** cannot predict the outcome of this litigation, including the outcome of the appeal.

PSI has accrued costs related to investigation, remediation, and groundwater monitoring for those sites where such costs are probable and can be reasonably estimated. We will continue to investigate and remediate the sites as outlined in the voluntary remediation plan. As additional facts become known and investigation is completed, we will assess whether the likelihood of incurring additional costs becomes probable. Until all investigation and remediation is complete, we are unable to determine the overall impact on our financial position or results of operations.

CG&E and **ULH&P** have performed site assessments on certain of their sites where we believe MGP activities have occurred at some point in the past and have found no imminent risk to the environment. At the present time, **CG&E** and **ULH&P** cannot predict whether investigation and/or remediation will be required in the future at any of these sites.

ASBESTOS CLAIMS LITIGATION

CG&E and **PSI** have been named as defendants or co–defendants in lawsuits related to asbestos at their electric generating stations. Currently, there are approximately 120 pending lawsuits. In these lawsuits, plaintiffs claim to have been exposed to asbestos–containing products in the course of their work at the **CG&E** and **PSI** generating stations. The plaintiffs further claim that as the property owner of the generating stations, **CG&E** and **PSI** should be held liable for their injuries and illnesses based on an alleged duty to warn and protect them from any asbestos exposure. A majority of the lawsuits to date have been brought against **PSI**. The impact on **CG&E's** and **PSI's** financial position or results of operations of these cases to date has not been material.

Of these lawsuits, one case filed against **PSI** has been tried to verdict. The jury returned a verdict against **PSI** in the amount of approximately $500,000 on a negligence claim and a verdict for **PSI** on punitive damages. **PSI** appealed this decision up to the Indiana Supreme Court. In July 2005, the Indiana Supreme Court upheld the jury's verdict. In addition, **PSI** has settled a number of other lawsuits for amounts, which neither individually nor in the aggregate, are material to **PSI's** financial position or results of operations. We are currently evaluating the effect of the Indiana Supreme Court's ruling on our existing docket of cases.

At this time, **CG&E** and **PSI** are not able to predict the ultimate outcome of these lawsuits or the impact on **CG&E's** and **PSI's** financial position or results of operations.

MERGER LAWSUIT

In May, a purported shareholder class action was filed in the Court of Common Pleas in Hamilton County, Ohio against **Cinergy** and each of the members of the Board of Directors. The lawsuit alleges that the defendants breached their duties of due care and loyalty to shareholders by agreeing to the merger agreement between Duke and **Cinergy** and is seeking to either enjoin or amend the terms of the merger. **Cinergy** and the individual defendants filed a motion to dismiss this lawsuit in July. We believe this lawsuit is without merit and **Cinergy** intends to defend this lawsuit vigorously in court. We are unable to predict whether resolution of this matter will impact our pending merger.

DUNAVAN WASTE SUPERFUND SITE

In July 2005, **PSI** received notice from the EPA that it has been identified as a de minimus potentially responsible party under the Comprehensive Environmental Response, Compensation, and Liability Act at the Dunavan Waste Oil Site in Oakwood, Vermilion County, Illinois. At this time, **PSI** does not have any further information regarding the scope of potential liability associated with this matter.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The number of shares (or units) provided in the table below represent shares exchanged in connection with employee option exercises and shares purchased by the plan trustee on behalf of the 401(k) Excess Plan.

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
April 1 – April 30	—	$ —	—	—
May 1 – May 31	49,118	$ 41.59	—	—
June 1 – June 30	5,721	$ 44.16	—	—

ITEM 6. EXHIBITS

The documents listed below are being furnished or filed on behalf of **Cinergy Corp.**, The Cincinnati Gas & Electric Company (**CG&E**), PSI Energy, Inc. (**PSI**), and The Union Light, Heat and Power Company (**ULH&P**). Exhibits not identified as previously furnished or filed are furnished or filed herewith:

Exhibit Designation	Registrant	Nature of Exhibit	Previously Filed as Exhibit to:
Additional Exhibits			
2–a	**Cinergy Corp.**	Agreement and Plan of Merger by and among Duke Energy Corporation, **Cinergy Corp.**, Deer Holding Corp., Deer Acquisition Corp. and Cougar Acquisition Corp., dated May 8, 2005	**Cinergy Corp.** Form 8–K, filed May 10, 2005
2–b	**Cinergy Corp.**	Amendment No. 1 to the Agreement and Plan of Merger	
10–ffff	**Cinergy Corp.**	Retirement and Consulting Agreement and Waiver and Release Agreement, dated May 5, 2005, between **Cinergy Corp.** and William J. Grealis	**Cinergy Corp.** March 31, 2005 Form 10–Q
10–gggg	**Cinergy Corp.**	Employment Agreement Term Sheet, James E. Rogers, dated May 8, 2005, by Duke Energy Corporation, **Cinergy Corp.**, Deer Holding Corp., and James E. Rogers	**Cinergy Corp.** Form 8–K, filed May 10, 2005
10–hhhh	**Cinergy Corp.**	Form of Amendment to Employment Agreement	**Cinergy Corp.** Form 8–K, filed May 10, 2005
10–iiiii	**Cinergy Corp.**	Separation Agreement and Waiver and Release Agreement, dated July 8, 2005, between Cinergy Services, Inc. and R. Foster Duncan	**Cinergy Corp.** Form 8–K, filed July 8, 2005
10–jjjj	**Cinergy Corp.**	Amendment to Employment Agreement, effective May 24, 2005, between Cinergy Services, Inc. and Michael J. Cyrus	**Cinergy Corp.** Form 8–K, filed July 8, 2005
10–kkkk	**CG&E** **PSI**	Asset Purchase Agreement by and among PSI Energy, Inc. and The Cincinnati Gas & Electric Company and Allegheny Energy Supply Company, LLC, Allegheny Energy Supply Wheatland Generating Facility, LLC and Lake Acquisition Company, L.L.C., dated as of May 6, 2005	
Certificates			
31–a	**Cinergy Corp.** **CG&E** **PSI** **ULH&P**	Certification by James E. Rogers pursuant to Rule 13a–14(a)/15d–14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes–Oxley Act of 2002.	
31–b	**Cinergy Corp.** **CG&E** **PSI** **ULH&P**	Certification by James L. Turner pursuant to Rule 13a–14(a)/15d–14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes–Oxley Act of 2002.	
32–a	**Cinergy Corp.** **CG&E** **PSI** **ULH&P**	Certification by James E. Rogers pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes–Oxley Act of 2002.	
32–b			

Cinergy Corp. **CG&E** **PSI** **ULH&P**	Certification by James L. Turner pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes–Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, each of the Registrants has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CINERGY CORP.

THE CINCINNATI GAS & ELECTRIC COMPANY

PSI ENERGY, INC.

THE UNION LIGHT, HEAT AND POWER COMPANY

Registrants

Date: August 4, 2005

/s/ Lynn J. Good

Lynn J. Good
(duly authorized officer
and
principal accounting officer)

Exhibit 2.b

EXECUTION COPY

AMENDMENT NO. 1

TO THE

AGREEMENT AND PLAN OF MERGER

This AMENDMENT NO. 1 (this "Amendment"), dated as of July 11, 2005, to the Agreement and Plan of Merger, dated as of May 8, 2005 (the "Merger Agreement"), by and among Duke Energy Corporation, a North Carolina corporation ("Duke"), Cinergy Corp., a Delaware corporation ("Cinergy"), Duke Energy Holding Corp., a Delaware corporation (formerly Deer Holding Corp.) (the "Company"), Deer Acquisition Corp., a North Carolina corporation ("Merger Sub A"), and Cougar Acquisition Corp., a Delaware corporation ("Merger Sub B").

WHEREAS, Section 7.03 of the Merger Agreement provides for the amendment of the Merger Agreement in accordance with the terms set forth therein; and

WHEREAS, the parties hereto desire to amend the Merger Agreement as set forth below;

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements set forth herein and for good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, and intending to be legally bound hereby, the parties hereto do hereby agree as follows:

ARTICLE I

DEFINITIONS

Section 1.1 Definitions; References. Unless otherwise specifically defined herein, each term used herein shall have the meaning assigned to such term in the Merger Agreement. Each reference to "hereof," "herein," "hereunder," "hereby" and "this Agreement" shall, from and after the date hereof, refer to the Merger Agreement as amended by this Amendment.

ARTICLE II

AMENDMENTS TO MERGER AGREEMENT

Section 2.1 Amendments to Merger Agreement. The Merger Agreement shall be amended as follows:

(a) Section 2.02(b) of the Agreement is hereby amended by inserting the following sentence as the final sentence of the section:

“Notwithstanding anything to the contrary hereinbefore, subject to applicable law, the parties intend that the Company will implement a direct registration system at Closing, and if such direct registration system is implemented by the Company at such time, all shares of Company Common Stock shall be in uncertificated book–entry form unless a physical certificate is requested by such holder."

(b) Section 2.02(e)(i) of the Agreement is hereby amended by inserting the following sentences as the final sentences of the section:

"Notwithstanding the foregoing, Duke and Cinergy shall use reasonable best efforts to cause the Duke Energy InvestorDirect Choice Plan (the "Duke DRIP") and the Cinergy Corp. Direct Stock Purchase and Dividend Reinvestment Plan (the "Cinergy DRIP") to be rolled over into a dividend reinvestment plan to be established and implemented by the Company on or prior to the Closing Date. In connection with such roll–over, fractional shares of Company Common Stock will be issued to the participants in each of the Duke DRIP and the Cinergy DRIP in accordance with Section 2.01."

(c) Section 2.02(l) of the Agreement is hereby amending by inserting the following to the end of such section:

"provided, however, that Duke and Cinergy shall use reasonable best efforts so that uncertificated shares of Duke Common Stock held in the Duke DRIP and uncertificated shares of Cinergy Common Stock held in the Cinergy DRIP shall be exchanged for uncertificated shares of Company Common Stock in accordance with Section 2.01 and shall be held in a dividend reinvestment plan to be established and implemented by the Company on or prior to the Closing Date, in accordance with Section 2.02(e)(i)."

ARTICLE III

MISCELLANEOUS

Section 3.1 No Further Amendment. Except as expressly amended hereby, the Merger Agreement is in all respects ratified and confirmed and all the terms, conditions, and provisions thereof shall remain in full force and effect. This Amendment is limited precisely as written and shall not be deemed to be an amendment to any other term or condition of the Merger Agreement or any of the documents referred to therein.

Section 3.2 Effect of Amendment. This Amendment shall form a part of the Merger Agreement for all purposes, and each party thereto and hereto shall be bound hereby. From and after the execution of this Amendment by the parties hereto, any reference to the Merger Agreement shall be deemed a reference to the Merger Agreement as amended hereby.

Section 3.3 Governing Law. This Amendment shall be governed by, and construed in accordance with, the laws of the State of New York, regardless of the laws that might otherwise govern under applicable principles of conflict of laws.

Section 3.4 Separability Clause. In case any one or more of the provisions contained in this Amendment should be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected, impaired, prejudiced or disturbed thereby.

Section 3.5 Counterparts. This Amendment may be simultaneously executed in several counterparts, and all such counterparts executed and delivered, each as an original, shall constitute one and the same instrument.

Section 3.6 Headings. The descriptive headings of the several Articles of this Amendment were formulated, used and inserted in this Amendment for convenience only and shall not be deemed to affect the meaning or construction of any of the provisions hereof.

[Signature Page Follows]

IN WITNESS WHEREOF, Duke, Cinergy, the Company, Merger Sub A and Merger Sub B have caused this Agreement to be signed by their respective officers thereunto duly authorized, all as of the date first written above.

DUKE ENERGY CORPORATION

By: ______________________
Name:
Title:

CINERGY CORP.

By: ______________________
Name:
Title:

DUKE ENERGY HOLDING CORP.

By: ______________________
Name:
Title:

DEER ACQUISITION CORP.

By: ______________________
Name:
Title:

COUGAR ACQUISITION CORP.

By: ______________________
Name:
Title:

Exhibit 10.kkkk

EXECUTION COPY

ASSET PURCHASE AGREEMENT

BY AND AMONG

PSI ENERGY, INC.

AND

THE CINCINNATI GAS & ELECTRIC COMPANY

(AS BUYERS)

AND

ALLEGHENY ENERGY SUPPLY COMPANY, LLC,

ALLEGHENY ENERGY SUPPLY WHEATLAND

GENERATING FACILITY, LLC

AND

LAKE ACQUISITION COMPANY, L.L.C.

(AS SELLER PARTIES)

DATED AS OF MAY 6, 2005

TABLE OF CONTENTS

SCHEDULES

ASSET PURCHASE AGREEMENT

ASSET PURCHASE AGREEMENT (this "Agreement"), dated as of May 6, 2005, by and among PSI Energy, Inc., an Indiana corporation ("PSI Energy"), and The Cincinnati Gas & Electric Company, an Ohio corporation ("CG&E" and, together with PSI Energy, collectively, the "Buyers"), and Allegheny Energy Supply Wheatland Generating Facility, LLC, a Delaware limited liability company and a wholly owned subsidiary of AESC ("Wheatland LLC"), Lake Acquisition Company, L.L.C., a Delaware limited liability company and a wholly owned subsidiary of AESC ("Lake LLC" and, together with Wheatland LLC, each, individually, a "Seller" and, collectively, the "Sellers"), and Allegheny Energy Supply Company, LLC, a Delaware limited liability company ("AESC" and, together with the Sellers, the "Seller Parties").

WITNESSETH

WHEREAS, Wheatland LLC owns, among other things, a 508–MW (nominal rating) natural gas–fired generating facility located in Wheatland, Indiana (the "Wheatland Facility") and certain other assets associated therewith, and Lake LLC owns certain real property relating to the Wheatland Facility; and

WHEREAS, the Buyers desire to purchase and assume, and the Sellers desire to sell and convey, certain assets and liabilities relating to the Wheatland Facility, upon the terms and subject to the conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants, representations, warranties and agreements hereinafter set forth, the parties hereto agree as follows:

ARTICLE I
DEFINITIONS

1.1. Definitions.

(a) As used in this Agreement, the following terms have the meanings specified in this Section 1.1(a). For capitalized terms used in this Agreement but not defined in this subsection (a), see subsection (b).

(1) "Affiliate" has the meaning set forth in Rule 12b–2 of the General Rules and Regulations promulgated under the Exchange Act.

(2) "Allegheny Marks" means the names and marks "Allegheny Energy" and "Allegheny" together with all derivations and variations thereof, and the Allegheny Energy, Inc. corporate logo, together with all derivations or variations thereof.

(3) "Ancillary Agreements" means the Deeds, the Bill of Sale, the Assignment and Assumption Agreement, the Sellers Confidentiality Agreement and any other instruments of sale, transfer, conveyance, assignment or assumption as may be required to convey the Acquired Assets in accordance with this Agreement.

(4) "Assignment and Assumption Agreement" means the agreement between the Buyers and the Seller Parties pursuant to which, among other things, the Seller Parties shall assign, and the Buyers shall assume, the Assumed Contracts, in substantially the form attached hereto as Exhibit A.

(5) "Bill of Sale" means the bill of sale by which the title to the personal property included in the Acquired Assets shall be conveyed by the Sellers to the Buyers, in substantially the form attached hereto as Exhibit B.

(6) "Business Day" means any day other than Saturday, Sunday and any day that is a legal holiday or a day on which banking institutions in New York City are authorized by Law or other governmental action to close.

(7) "Buyers' Representatives" means the accountants, employees, officers, directors, counsel, environmental consultants, financial advisors and other authorized representatives of the Buyers and their Affiliates.

(8) "COBRA" means the Consolidated Omnibus Reconciliation Act of 1985, as amended, and any similar applicable state Law.

(9) "Code" means the Internal Revenue Code of 1986, as amended.

(10) "Commercially Reasonable Efforts" means efforts that are reasonable for a prudent business enterprise in circumstances similar to those of the performing party, but that do not require the performing party to expend funds other than expenditures that are customary and reasonable in transactions of the kind and nature contemplated by this Agreement in order for the performing party to satisfy its obligations under this Agreement.

(11) "Confidentiality Agreement" means that certain Confidentiality Agreement dated as of October 6, 2004, between Cinergy Corp. and AESC, including any amendments or waivers thereto.

(12) "Credit Agreement" means that certain Amended and Restated Credit Agreement dated as of October 28, 2004, among AESC, the Lenders and Loan Parties referred to therein, Citicorp North America, Inc., as Administrative Agent, and Citibank, N.A., as Collateral Agent and Intercreditor Agent.

(13) "Deeds" means special warranty deeds, duly executed by Wheatland LLC and Lake LLC and duly acknowledged, which convey to the Buyers (i) fee simple title to the Owned Real Property and (ii) all of the right, title and interest of the Sellers in and to the Other Real Property Interests, subject, in each case, only to the Permitted Encumbrances, and which shall be in substantially the form attached hereto as Exhibit C and otherwise in a form suitable for recording.

(14) "Due Diligence Materials" means (i) all due diligence materials provided for review or distributed in written or digital form by the Seller Parties or the Seller Parties' Representatives to the Buyers or the Buyers' Representatives, (ii) all written, oral or electronic answers to questions provided by the Seller Parties or the Seller Parties' Representatives to the

Buyers or the Buyers' Representatives, and (iii) all materials contained in data rooms or privately–accessible internet sites established by the Seller Parties for purposes of providing due diligence materials to the Buyers or the Buyers' Representatives.

(15) "Emission Allowances" means (i) "Allowance," as that term is defined in 40 CFR § 72.2, and (ii) "NO_x Allowance," as that term is defined in 326 Indiana Administrative Code § 10–4–2(37), in each case, as such terms are defined as of the date hereof.

(16) "Encumbrances" means any mortgages, pledges, liens, security interests, conditional and installment sale agreements, charges, restrictions on transfer, proxies and voting or other similar agreements, claims and other legal and equitable encumbrances, limitations, title or survey matters and restrictions of any nature whatsoever.

(17) "Environmental Laws" means all Laws that relate to pollution or protection of the environment (including, without limitation, ambient air, surface water, groundwater, land, surface and subsurface strata) or human health and safety relating to Hazardous Substance exposure including, without limitation, Laws which relate to Releases or threatened Releases of Hazardous Substances or otherwise relate to the manufacture, processing, distribution, use, treatment, storage, Release, transport or handling of Hazardous Substances.

(18) "ERISA" means the Employee Retirement Income Security Act of 1974, as amended, and the rules and regulations promulgated thereunder.

(19) "Exchange Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

(20) "Existing Debt Documents" means, collectively, (i) the Credit Agreement dated as of March 8, 2004, among Allegheny Energy, Inc., the Lenders and the Lender Parties referred to therein, and Citicorp North America, Inc., as Administrative Agent, (ii) the Credit Agreement, (iii) the Amendment Agreement dated as of October 28, 2004, among AESC, the other Grantors referred to therein, Citibank, N.A., as Collateral Agent, Intercreditor Agent and Depository Bank, and Citicorp North America, Inc., as Administrative Agent, (iv) the Amendment Agreement dated as of March 8, 2004, among AESC, the other Grantors referred to therein, Citibank, N.A., as Collateral Agent, Intercreditor Agent and Depository Bank, and Citicorp North America, Inc., as Administrative Agent, (v) the Security and Intercreditor Agreement, (vi) the Refinancing Indenture referred to in the Security and Intercreditor Agreement, and (vii) other documents, instruments and agreements executed and delivered in connection with or otherwise relating to the foregoing agreements, including any mortgages, deeds of trust, security agreements, financing statements, pledge agreements and other documents creating or evidencing Encumbrances securing the indebtedness or other obligations under the foregoing.

(21) "Extraordinary Capital Expenditures" means the aggregate amount of all funds actually expended or Liabilities actually incurred (other than such as constitute Assumed Liabilities) by the Seller Parties on capital expenditures associated with the Wheatland Facility or the Site during the period beginning on the date hereof and ending on the Closing Date, but only to the extent such funds were expended, in whole or in part, as required by any change in

Law or as required by any Governmental Entity or quasi regulatory agency, including, without limitation, any independent system operator.

(22) "FERC" means the Federal Energy Regulatory Commission.

(23) "Federal Power Act" means the Federal Power Act, as amended, and the rules and regulations promulgated thereunder.

(24) "Final Order" shall mean action by the relevant Governmental Entity which has not been reversed, stayed, enjoined, set aside, annulled or suspended (without regard to any waiting period prescribed by Law other than waiting periods under the HSR Act).

(25) "FIRPTA Affidavit" means the Foreign Investment in Real Property Tax Act Certification and Affidavit, in substantially the form attached hereto as Exhibit D.

(26) "Good Utility Practice" means any of the practices, methods and acts engaged in and approved by a significant portion of the independent electric power generation industry during the relevant time period that, in the exercise of reasonable judgment in light of the applicable manufacturer's recommendations and the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with good business practices, reliability, safety and expedition. Good Utility Practice is intended to consist of practices, methods or acts generally accepted in the region where the Wheatland Facility is located, and is not intended to be limited to optimum practices, methods or acts to the exclusion of all others.

(27) "Governmental Entity" means any federal, state or local court, governmental or regulatory authority, agency, commission, body or other governmental entity.

(28) "Hazardous Substances" means any chemicals, materials or substances defined as or included in the definition of "hazardous substances," "hazardous wastes," "hazardous materials," "restricted hazardous materials," "extremely hazardous substances," "toxic substances," "contaminants" or "pollutants" or words of similar meaning or substance found in any Environmental Law, or any petroleum and all derivatives thereof or synthetic substitutes therefor, and any asbestos or asbestos–containing material.

(29) "Holding Company Act" means the Public Utility Holding Company Act of 1935, as amended, and the rules and regulations promulgated thereunder.

(30) "HSR Act" means the Hart–Scott–Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations promulgated thereunder.

(31) "Improvements" means all buildings, structures (including all step–up transformers, transmission facilities and lines and gas handling and storage facilities), improvements, machinery, equipment, fixtures and construction in progress, including all piping, cables and similar equipment forming part of the mechanical, electrical, plumbing or HVAC infrastructure of any building, structure or equipment, located on the Site, including all generating units located on and affixed to the Wheatland Facility.

(32) "Income Tax Return" means a Tax Return for any Tax based upon or calculated in whole or in part with respect to net income, gain or profits.

(33) "Indebtedness" means (i) all indebtedness for borrowed money or for the deferred purchase price of property or services (other than current trade Liabilities incurred in the ordinary course of business and payable in accordance with customary practices), (ii) any other indebtedness that is evidenced by a note, bond, debenture or similar instrument, (iii) all obligations under financing leases, (iv) all obligations in respect of acceptances issued or created, (v) all Liabilities secured by any lien on any property, and (vi) all guarantee obligations.

(34) "Independent Accounting Firm" means an independent accounting firm (which may not be the auditors of any party hereto or any of their Affiliates) of national or regional reputation mutually appointed by the Seller Parties and the Buyers.

(35) "Information Memorandum" means that certain Information Memorandum regarding the Facility, dated September, 2004, and any supplements or amendments thereto to the extent provided to the Buyers or the Buyers' Representatives.

(36) "Inventories" means any fuel inventories, materials, spare parts, consumable supplies and chemical and gas inventories located at the Wheatland Facility, in transit to the Wheatland Facility, owned by the Sellers or held by the Sellers.

(37) "Knowledge" means, with respect to an individual, that, with respect to a particular fact or other matter, such individual is actually aware of such fact or other matter. With respect to the Seller Parties, "Knowledge" means the Knowledge of any of the Persons listed on Schedule 1.1(a)(37)(A) (and any individual who, after the date hereof, replaces any such person's employment position). With respect to the Buyers, "Knowledge" means the Knowledge of any of the Persons listed on Schedule 1.1(a)(37)(B) (and any individuals who, after the date hereof, replaces any such person's employment position).

(38) "Lake Owned Real Property" means the real property described in Schedule 5.8 and designated therein as the "Lake Real Property", together with all rights, privileges, interests, easements and appurtenances now or hereafter belonging or in any way pertaining to such real property (including, without limitation, any mineral rights) and any Improvements located thereon.

(39) "Laws" means any applicable federal, state or local law, common law, statute, code, ordinance, rule, regulation, judgment, order, injunction, decree, arbitration award, agency requirement, license or permit of any Governmental Entity.

(40) "Liabilities" means any debts, liabilities, commitments or obligations of any kind, character or nature whatsoever.

(41) "Maintenance Expenditures" means those maintenance expenditures that are identified on Schedule 7.1(a)(xiii).

(42) "Material Adverse Effect" means (i) any change or changes in, or effect on, the Wheatland Facility (excluding the Excluded Assets and the Excluded Liabilities) that is,

or in the aggregate are, materially adverse to the business, assets, operations or conditions (financial or otherwise) of the Wheatland Facility, or (ii) any change or changes in, or effect on, the Sellers (excluding the Excluded Assets and the Excluded Liabilities), taken as a whole, that is, or in the aggregate are, reasonably likely to prevent, materially delay or impair any of the Seller Parties' ability to consummate the transactions contemplated by this Agreement. "Material Adverse Effect", however, does not include any effect that is attributable to any of the following: (a) any change or effect generally affecting the international, national or regional electric generating, transmission or distribution industry as a whole, (b) any change or effect resulting from changes in the international, national or regional wholesale or retail markets for electric power, (c) any change or effect resulting from changes in the national or regional markets for the type of fuel used at the Wheatland Facility, (d) any change or effect resulting from changes in the international, national or regional electric transmission or distribution systems, (e) any change or effect resulting from changes in the general national or regional economic or financial conditions, (f) any change or effect resulting from changes in Laws or in industry standards, or (g) any change or effect that is cured to the reasonable satisfaction of the Buyers before the earlier of the Closing or the termination of this Agreement pursuant to Section 10.1; except, in the cases of clauses (a) through (f) above, for such changes or events which materially disproportionately impact the Sellers or the Acquired Assets.

(43) "Off–Site Location" means any location other than the Owned Real Property.

(44) "Other Real Property Interests" means the easements, rights–of–way and other interests in real property identified in Schedule 5.8 and designated therein as the "Other Real Property Interests."

(45) "Owned Real Property" means, collectively, the Wheatland Owned Real Property and the Lake Owned Real Property.

(46) "Permitted Encumbrances" means (i) those exceptions to title listed in Schedule 5.8 as of the date hereof, (ii) liens for Taxes or other governmental charges or assessments not yet due and delinquent or the validity of which is being contested in good faith by appropriate proceedings, (iii) mechanics', carriers', workers', repairers' and other similar liens and rights arising or incurred in the ordinary course of business for amounts not yet due and payable or the validity of which is being contested in good faith by appropriate proceedings, (iv) zoning, entitlement, conservation restrictions and other land use and environmental regulations by any Governmental Entities, and (v) such other Encumbrances which would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect.

(47) "Person" means an individual, a partnership, a limited liability company, a joint venture, a corporation, a trust, an unincorporated organization, an association, a joint stock company, any other business entity, and a Governmental Entity or a department or agency thereof.

(48) "Release" means a release, spill, leak, discharge, disposal of, pumping, pouring, emitting, emptying, injecting, leaching, dumping or escape into or through the environment.

(49) "Response Actions" means those activities defined in section 101(25) of the Comprehensive Environmental Response Compensation and Liability Act, 42 U.S.C. § 9601(25).

(50) "Retained Environmental Liabilities" means the following Liabilities: (i) Liabilities for Response Actions to the extent required to address the Release of Hazardous Substances occurring at or from the Owned Real Property on or before the Closing Date; (ii) Liabilities for loss of life, injury to persons or property, or damage to natural resources to the extent arising in connection with the Release of Hazardous Substances on, at or from the Owned Real Property on or before the Closing Date; (iii) Liabilities arising in connection with any Hazardous Substances that were disposed of at, or transported by or on behalf of either of the Sellers to, any Off-Site Location on or before the Closing Date; or (iv) Liabilities for any violation or alleged violation of or noncompliance with any Environmental Law by the Sellers or their Affiliates or predecessor owners of the Wheatland Facility or the Owned Real Property on or prior to the Closing Date, including any fines and penalties and the costs of correcting such violations or non-compliance with applicable Environmental Law. "Retained Environmental Liabilities" shall not include any of the following Liabilities: (a) Liabilities for Response Actions arising in connection with Releases of Hazardous Substances at or from the Wheatland Facility or the Owned Real Property specifically authorized by, and in compliance with, any Environmental Permits; (b) any costs for decommissioning of any equipment or facilities; (c) costs for upgrades to pollution control or other equipment required by changes in applicable Environmental Laws that impose compliance deadlines after the Closing Date; (d) Liabilities arising in connection with any Releases of Hazardous Substances, or the disposal of Hazardous Substances, on, at or from the Owned Real Property, initially occurring after the Closing Date; (e) Liabilities arising in connection with any transportation or disposal of Hazardous Substances from the Wheatland Facility or the Owned Real Property to any Off-Site Location which occurs after the Closing Date; or (f) Liabilities for any violation or alleged violation of or noncompliance with any Environmental Law by the Buyers or their Affiliates, in connection with the ownership or operation of the Acquired Assets, which occurs after the Closing Date.

(51) "SEC" means the Securities and Exchange Commission.

(52) "Securities Act" means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

(53) "Security and Intercreditor Agreement" means that certain Amended and Restated Security and Intercreditor Agreement among AESC, the other Grantors referred to therein, Citibank, N.A., as Collateral Agent, Intercreditor Agent and Depository Bank, Citicorp North America, Inc., as Administrative Agent, and Law Debenture Trust Company of New York, as Indenture Trustee, dated February 21, 2003, as amended and restated in its entirety on March 8, 2004, and as further amended and restated in its entirety on October 28, 2004.

(54) "Seller Parties' Representatives" means the accountants, employees, officers, directors, counsel, environmental consultants, financial advisors and other authorized representatives of any of the Seller Parties and their Affiliates.

(55) "Site" means, collectively, the Owned Real Property and the Other Real Property Interests.

(56) "Subsidiary" means any corporation, partnership, limited liability company or other entity in which any Person has direct or indirect equity or ownership interest that represents fifty percent (50%) or more of the aggregate equity or ownership interest in such entity, or has the power to vote or direct the voting of sufficient securities to elect a majority of the directors or governors.

(57) "Taxes" means all taxes, charges, fees, levies, duties, customs, tariffs, imports, penalties, assessments or other obligations of the same or of a similar nature to any of the foregoing imposed by any federal, state or local or foreign taxing authority, including, without limitation, income or profits, excise, property, sales, transfer, franchise, payroll, withholding, unemployment, severance, use, ad valorem, gross receipts, business license, occupation, stamp, environmental, workers' compensation, social security or other taxes, including any interest, penalties or additions attributable thereto, whether disputed or not.

(58) "Tax Return" means any return, declaration, claim for refund, report, information return or other document (including any related or supporting information) supplied to or required to be filed with any taxing authority with respect to Taxes.

(59) "Transferring Employee Records" means all personnel files related to the Sellers' Employees that pertain to (i) seniority histories and (ii) salary and benefit information, but only to the extent disclosure of such information is permitted by Law.

(60) "Wheatland Owned Real Property" means the real property described in Schedule 5.8 and designated therein as the "Wheatland Real Property", together with all rights, privileges, interests, easements and appurtenances now or hereafter belonging or in any way pertaining to such real property (including, without limitation, any mineral rights) and any Improvements located thereon.

(b) Each of the following terms has the meaning specified in the Section set forth opposite such term:

Term	Section
Acquired Assets	2.1(b)
AESC Transferred Assets	2.1(a)
Assumed Contracts	2.1(b)(iv)
Assumed Liabilities	2.3
Bankruptcy and Equity Exception	5.2
Benefit Plans	5.12(a)
Buyers' Benefit Plans	7.10(c)
Buyers Indemnified Party	9.1(a)
Buyers–Initiated Start–Up	7.18(a)
Buyers Required Regulatory Approvals	6.3(b)
Capital Expenditures Statement	3.2(b)

Term	Section
Closing	4.1
Closing Date	4.1
CPCN	6.3(b)
Direct Claim	9.2(c)
Environmental Permits	5.10(a)(i)
ERISA Affiliate	5.12(a)
Excluded Assets	2.2
Excluded Liabilities	2.4
FERC	5.5
FERC Approvals	6.3(b)
Final Extraordinary Capital Expenditures Amount	3.2(c)
GAAP	3.2(a)
Indemnifiable Loss	9.1(a)
Indemnifying Party	9.1(d)
Indemnitee	9.1(c)
Indiana Settlement Agreement	6.3(c)
Intellectual Property	5.20
IRS	5.12(a)
IURC	5.4(b)
Leases	5.8(f)
Material Contracts	5.13(a)
Notice of Disagreement	3.2(c)
Permits	5.15(a)
Prior Welfare Plans	7.10(b)
Proposed Acquisition Transaction	7.15
Property Taxes	3.4(a)(i)
Purchase Price	3.1
Replacement Welfare Plans	7.10(b)
Reviewing Parties	7.16(f)
Sellers Confidentiality Agreement	7.2(b)
Sellers' Employees	5.11
Sellers Indemnified Party	9.1(b)
Sellers–Initiated Start–Up	7.18(b)
Sellers Required Regulatory Approvals	5.4(b)
Support Obligations	7.6(d)
Survey	4.3(o)
Termination Date	10.1(b)
Third Party Claim	9.2(a)
Title Company	4.3(n)
Title Policy	4.3(n)
Transfer Taxes	7.9(a)
Wheatland Facility	Recitals

(c) Unless otherwise specified, any period measured in days shall be measured in calendar days rather than Business Days.

ARTICLE II
PURCHASE AND SALE

2.1. Purchase and Sale.

(a) Upon the terms and subject to the conditions set forth in this Agreement, at the Closing, AESC will sell, transfer, convey, assign and deliver to the Buyers, and the Buyers will purchase, acquire and assume from AESC, (i) all of the rights of AESC under the contracts and Leases identified in Schedule 2.1(a)(i) to the extent they pertain to the Wheatland Facility, including, without limitation, any right to receive payment, any right to receive goods and services and any right to assert claims and take other rightful actions in respect of breaches, defaults and other violations of such contracts and Leases, and (ii) the vehicles identified on Schedule 2.1(a)(ii) (collectively, the "AESC Transferred Assets").

(b) Upon the terms and subject to the conditions set forth in this Agreement, at the Closing, the Sellers will sell, transfer, convey, assign and deliver to the Buyers, and the Buyers will purchase, acquire and assume from the Sellers, all of the Sellers' right, title and interest in and to the properties and assets that are owned by the Sellers (tangible or intangible, including goodwill), wherever located, including, without limitation, the Sellers' right, title and interest in and to the following assets (collectively, together with the AESC Transferred Assets, the "Acquired Assets"):

(i) the Site and the Wheatland Facility;

(ii) the machinery, equipment, Inventories, furniture, boats, vehicles and other personal property owned by the Sellers and located at or in transit to the Wheatland Facility (including, without limitation, the step-up transformers and the items of personal property described in Schedule 2.1(b)(ii) and all applicable warranties against manufacturers or vendors, to the extent that such warranties are transferable without further action by the Sellers, and all items of personal property due under applicable warranties), in each case as in existence on the Closing Date;

(iii) to the extent transferable, all Permits and Environmental Permits set forth in Schedule 2.1(b)(iii);

(iv) all of the rights of the Sellers under the Material Contracts and Leases set forth in Schedule 2.1(b)(iv) and any similar contracts or leases entered into, in accordance with Section 7.1(a), after the date hereof and prior to the Closing Date (collectively, together with the contracts and Leases included within the definition of AESC Transferred Assets, the "Assumed Contracts"), including, without limitation, any right to receive payment, any right to receive goods and services and any right to assert claims and take other rightful actions in respect of breaches, defaults and other violations of the Assumed Contracts;

(v) all books, records, manuals, regulatory documents, real estate documents, engineering designs, blueprints, as-built plans, specifications, procedures, studies, reports and equipment repair, safety, maintenance or service records, lists of present and former suppliers, lists of present and former customers, and other such materials (in any form or medium) of the Sellers, including the Transferring Employee Records;

(vi) all rights in and to any causes of action, lawsuits, judgments, claims and demands of any nature available to or being pursued by or on behalf of the Sellers, whether arising by way of counterclaim or otherwise;

(vii) except for prepaid expenses and deposits of the Sellers attributable to any Excluded Assets or Excluded Liabilities, all prepaid expenses, progress payments and deposits of or by the Sellers, rights to receive a prepaid expense, deposit or progress payment, and cash in transit that constitutes a prepaid expense, progress payment or deposit, relating to any Acquired Asset or Assumed Liability;

(viii) subject to Section 7.1(a)(xvi), all Emission Allowances set forth on Schedule 2.1(b)(viii), all Emissions Allowances specifically issued or allocated to the Wheatland Facility by environmental agencies of the United States of America or the State of Indiana with a vintage year of 2005 or later (to the extent not already identified on Schedule 2.1(b)(viii)), and any Emissions Allowance purchased by the Sellers specifically for the Wheatland Facility on or before the date hereof;

(ix) all Intellectual Property and associated licenses, including rights to sue for and remedies against past, present and future infringements thereof, and rights of priority and protection of interests therein under the laws of any jurisdiction worldwide and all tangible embodiments thereof; and

(x) all other assets, rights and interests of the Sellers;

provided, however, that the Acquired Assets shall not include the Excluded Assets.

2.2. Excluded Assets. Notwithstanding any provision herein to the contrary, the Acquired Assets shall exclude the following assets (collectively, the "Excluded Assets"):

(a) all cash, cash equivalents, bank deposits, accounts receivable of the Sellers or with respect to the Wheatland Facility as of the Closing and any Tax receivables of the Sellers;

(b) any refund or credit of Taxes paid by the Seller Parties in respect of the Sellers or the Acquired Assets or for which the Seller Parties are required to reimburse the Buyers, whether such payment is actually received as a refund or as a credit against Taxes payable;

(c) all interests in and to the Allegheny Marks, and the Maximo software license (it being understood that the database information, including historical information, related to the Wheatland Facility used with the Maximo software shall be an Acquired Asset);

(d) all personnel, medical and benefits records of the Seller Parties or their Affiliates, other than Transferring Employee Records;

(e) any amount received after the Closing Date for electricity sold and delivered on or prior to the Closing Date;

(f) those contracts and Leases listed on Schedule 2.2(f);

(g) any asset sold, transferred or otherwise disposed of in accordance with Section 7.1(a)(v); and

(h) all properties and assets of AESC other than the AESC Transferred Assets.

2.3. Assumed Liabilities. On the terms and subject to the conditions set forth herein, from and after the Closing, the Buyers shall assume and satisfy or perform all of the Liabilities of the Seller Parties that relate directly or indirectly to, in respect of, or otherwise arising from the ownership, use or operation of the Acquired Assets (collectively, the "Assumed Liabilities"), including, without limitation, the following Liabilities:

(a) all Liabilities of the Seller Parties arising under the Assumed Contracts in accordance with the terms thereof (other than Liabilities attributable to any failure by any of the Seller Parties prior to or on the Closing Date to comply with the terms thereof);

(b) all Liabilities relating to any Environmental Law other than Retained Environmental Liabilities; and

(c) all Liabilities in respect of Taxes attributable to the Acquired Assets for taxable periods, or portions thereof, beginning after the Closing Date (as prorated under Section 3.4(a)(i) for Taxes described therein), and all Liabilities for Transfer Taxes pursuant to Section 7.9(a);

provided, however, that the Assumed Liabilities shall not include the Excluded Liabilities.

2.4. Excluded Liabilities. Notwithstanding the provisions of Section 2.3, the Buyers shall not assume the following Liabilities (collectively, the "Excluded Liabilities"), which shall remain the exclusive responsibility of the Seller Parties or their Affiliates:

(a) the Retained Environmental Liabilities;

(b) any Liability of the Seller Parties or their Affiliates and predecessors in respect of or otherwise arising from the Excluded Assets, except to the extent caused by the acts or omissions of the Buyers or the Buyers' Representatives or by the Buyers' ownership, lease, maintenance or operation of the Acquired Assets;

(c) any Liability of the Seller Parties or their Affiliates and predecessors arising from the execution, delivery or performance of this Agreement or any Ancillary Agreement or the transactions contemplated hereby or thereby;

(d) any Liability of the Seller Parties or their Affiliates and predecessors under contracts or Leases which are not Assumed Contracts, except to the extent caused by the acts or omissions of the Buyer or the Buyers' Representatives or by the Buyers' ownership, lease, maintenance or operation of the Acquired Assets;

(e) any Liability of the Seller Parties or their Affiliates and predecessors for any fines or penalties imposed by a Governmental Entity resulting from any (i) investigation or proceeding by a Governmental Entity pending on or prior to the Closing Date or (ii) acts or omissions of the Seller Parties or their Affiliates and predecessors on or prior to the Closing Date;

(f) any Liability in respect of Taxes attributable to the Acquired Assets for taxable periods, or portions thereof, ending on or before the Closing Date (as prorated under Section 3.4(a)(i) for Taxes described therein), except for Transfer Taxes pursuant to Section 7.9(a);

(g) any Liability of the Seller Parties or their Affiliates arising from the breach or default by the Seller Parties or their Affiliates, prior to the Closing Date, of any Assumed Contracts or any other contract, license, agreement or personal property lease entered into by any of the Seller Parties or their Affiliates with respect to the Purchased Assets;

(h) any Liability of the Seller Parties or their Affiliates and predecessors relating to any cause of action pending, or threatened in writing, prior to the Closing Date against the Seller Parties or their Affiliates and predecessors or their assets;

(i) any Liabilities relating to any matters identified on Schedule 2.4(i); and

(j) all Liabilities of the Seller Parties for Indebtedness incurred on or prior to the Closing.

2.5. Procedures for Acquired Assets Not Transferable. If any consent required to transfer or assign any of the Assumed Contracts, Permits, Environmental Permits or any other property or rights included in the Acquired Assets cannot be obtained prior to the Closing Date and the Closing occurs, or, if an attempted assignment thereof would be ineffective or would adversely affect the rights of any of the Seller Parties thereunder so that the Buyers would not in fact receive all such rights, this Agreement and the related instruments of transfer shall not constitute an assignment or transfer thereof and the Buyers shall not assume the Seller Parties' obligations with respect thereto. In the event any such consent is not obtained on or prior to the Closing Date, the Seller Parties shall continue to use Commercially Reasonable Efforts to obtain any such consent after the Closing Date until such consent has been obtained. If such efforts are unsuccessful, the Seller Parties and the Buyers will cooperate to achieve a mutually agreeable arrangement under which the Buyers would obtain the benefits and assume the obligations from and after the Closing Date in accordance with this Agreement, including subcontracting, sublicensing or subleasing to the Buyers, or under which the Seller Parties would enforce for the benefit of the Buyers any and all rights of the Seller Parties against a third party thereto, in any case with the Buyers assuming the Seller Parties' obligations to the extent such obligations would have constituted an Assumed Liability if such assignment had occurred on the Closing Date. Each Seller will pay promptly to the Buyers when received all monies received by such Seller after the Closing Date under any such contracts for any claim or right or any benefit arising thereunder to the extent that the Buyers would be entitled thereto pursuant hereto. Nothing in this Section 2.5 shall be deemed to (a) constitute an agreement to exclude from the Acquired Assets any assets described in Section 2.1 or (b) alter the rights or obligations of the Buyers pursuant to Section 7.6 or Section 8.1(c).

ARTICLE III
PURCHASE PRICE

3.1. Purchase Price. Upon the terms and subject to the conditions set forth in this Agreement, at the Closing, in exchange for the Acquired Assets, the Buyers shall pay to the Sellers an amount equal to One Hundred Million Dollars ($100,000,000) (the "Purchase Price") and shall assume the Assumed Liabilities. The parties acknowledge that the Final Extraordinary Capital Expenditures Amount, if any, shall be treated as a post–Closing adjustment to the Purchase Price.

3.2. Possible Purchase Price Adjustment.

(a) Before expending any funds for an Extraordinary Capital Expenditure, (i) the Seller Parties shall give the Buyers written notice of such proposed Extraordinary Capital Expenditure, including supplementary materials explaining the proposed Extraordinary Capital Expenditure and, if applicable, diagrams or technical drawings, and, if requested by the Buyers, reasonable supporting materials supporting the Seller Parties' conclusion that the Extraordinary Capital Expenditure is required by a change in Law or by any Governmental Entity or quasi regulatory agency, at least 10 Business Days prior to the date of the proposed Extraordinary Capital Expenditure, (ii) the Sellers shall consider in good faith the Buyers' reasonable comments on the proposed Extraordinary Capital Expenditure, and (iii) the parties shall have attempted in good faith to agree on the appropriate response to the circumstance that requires the Extraordinary Capital Expenditure. The amount of Extraordinary Capital Expenditures, if any, to be included in the Capital Expenditures Statement and the Final Extraordinary Capital Expenditures Amount shall be reduced, in an amount to be mutually agreed upon by the parties in good faith, to account for the ownership and usage of any project or addition funded by an Extraordinary Capital Expenditure (including, if appropriate, the fair depreciation of such project or addition under United States generally accepted accounting principles ("GAAP") allocable to the period in which the Seller Parties owned the project) by the Seller Parties prior to the Closing Date.

(b) In the event the Seller Parties have incurred an Extraordinary Capital Expenditure in accordance with Section 3.2(a), then within 30 days after the Closing, the Seller Parties will prepare and deliver to the Buyers a statement (the "Capital Expenditures Statement") setting forth the Extraordinary Capital Expenditures, if any, including detailed supporting material. The Buyers agree to cooperate with the Seller Parties in connection with the preparation of the Capital Expenditures Statement and related information, and shall provide to the Seller Parties such books, records and information as may be reasonably requested from time to time.

(c) During the 30-day period following the delivery by the Seller Parties of the Capital Expenditures Statement, the Buyers and the Buyers' Representatives may review such statement. The Seller Parties agree to cooperate with the Buyers in such review and to provide the Buyers with the information used to prepare the Capital Expenditures Statement and any other related information as reasonably requested by the Buyers. The Buyers shall provide any comments or objections they have with respect to the Capital Expenditures Statement to the Seller Parties in writing within such 30-day period (the "Notice of Disagreement"). The Buyers and the Seller Parties shall attempt in good faith to resolve any differences and issues as set forth in the Notice of Disagreement. If no Notice of Disagreement is delivered or the matters set forth in the Notice of Disagreement are so resolved, then the Capital Expenditures Statement, as adjusted for any changes as are agreed upon by the Buyers and the Seller Parties, shall be final and binding upon the Buyers and the Seller Parties and shall constitute the "Final Extraordinary Capital Expenditures Amount." If the matters raised by the Buyers in the Notice of Disagreement cannot be resolved between the Buyers and the Seller Parties within 15 days following delivery by the Buyers of the Notice of Disagreement, the question or questions in dispute shall be promptly submitted to the Independent Accounting Firm, which shall be instructed to determine and report to the parties, within 30 days after receiving such submission, upon such remaining disputed amounts, and such report shall be final, binding and conclusive on the parties hereto with respect to the amounts disputed. Any amount (i) mutually agreed to in writing by the Seller Parties and the Buyers with respect to an amount that was disputed by the Buyers or (ii) finally determined by the Independent Accounting Firm shall be the "Final Extraordinary Capital Expenditures Amount." The fees and disbursements of the Independent Accounting Firm shall be borne equally by the Buyers and the Seller Parties. Notwithstanding any other provision of this Agreement, in no event shall the Final Extraordinary Capital Expenditures Amount exceed $2,000,000.

(d) Within five Business Days after the final determination of the Final Extraordinary Capital Expenditures Amount, if any, the Buyers shall pay to the Seller Parties an amount equal to the Final Extraordinary Capital Expenditures Amount. Any amount paid under this Section 3.2(d) shall be paid with interest for the period commencing on the Closing Date through the date of payment, calculated at the 90-day U.S. treasury bill rate as published in The Wall Street Journal in the "Money Rates" section on the Closing Date, and in cash by federal or other wire transfer of immediately available funds to the bank account or accounts designated by the Seller Parties in writing.

3.3. Allocation of Purchase Price. The Buyers and the Seller Parties shall use Commercially Reasonable Efforts to agree upon an allocation among the Acquired Assets of the portion of the Purchase Price set forth in Section 3.1, together with Assumed Liabilities, consistent with section 1060 of the Code and the treasury regulations thereunder within 180 days of the date of this Agreement but in no event less than 30 days prior to the Closing. Any post-Closing adjustments with respect to the Purchase Price for purchase price allocation purposes shall be jointly made and agreed to within 30 days following the determination of the Final Extraordinary Capital Expenditures Amount in a manner consistent with the allocation determined pursuant to this Section 3.3. In the event the parties are unable to agree upon such an allocation, then the matter shall be resolved in accordance with Section 7.9(f). Each of the Buyers and the Seller

Parties agree to file IRS Form 8594, and all federal, state, local and foreign Tax Returns, in accordance with such agreed allocation. Each of the Buyers and the Seller Parties shall report the transactions contemplated by this Agreement for Tax purposes in a manner consistent with the allocation determined pursuant to this Section 3.3. Each of the Buyers and the Seller Parties agrees to provide each other promptly with any other information reasonably required to complete Form 8594. Each of the Buyers and the Seller Parties shall notify each other in the event of an examination, audit or other proceeding regarding the agreed upon allocation of the Purchase Price.

3.4. Proration.

(a) The Buyers and the Seller Parties agree that those items listed below, to the extent they relate to the Acquired Assets, will be prorated as of the Closing Date, with the Seller Parties liable to the extent such items relate to any time period through the Closing Date, and the Buyers liable to the extent such items relate to periods subsequent to the Closing Date:

(i) any ad valorem taxes imposed on tangible or intangible property ("Property Taxes") shall be prorated based on the number of days in such taxable period up to and including the Closing Date, and on the number of days in such taxable period after the Closing Date, provided that, for purposes of this Agreement, the taxable period of any Property Tax shall be the calendar year during which the statutory assessment date falls (for the avoidance of doubt, the items listed in this Section 3.4(a)(i) include, without limitation, any Property Taxes with respect to the taxable period including the Closing Date, and all prior taxable periods, for which the Seller Parties have not (A) received from the county treasurer a statement of current and delinquent taxes and special assessments, or (B) paid the amount shown as due on such statement);

(ii) any permit, license, registration, or compliance assurance fees with respect to any Permit;

(iii) sewer rents and charges for water, telephone, electricity and other utilities and similar charges of the Sellers; and

(iv) any payment obligations for goods purchased or delivered, or services rendered, including rent under any Leases or leases of personal property that are Assumed Contracts by which either Seller is bound.

(b) In connection with the prorations referred to in (a) above, in the event that actual figures are not available at the Closing Date, the proration shall be based upon the actual Taxes or fees for the preceding year (or appropriate period) for which actual Taxes or fees are available and such Taxes or fees shall be reprorated upon request of either the Seller Parties or the Buyers made within 30 days of the date that the actual amounts become available. The Buyers shall cooperate with the Seller Parties in the prosecution of tax proceedings which have not been completed by the Closing Date. The Seller Parties and the Buyers agree to furnish each other with such documents and other records as may be reasonably requested in order to confirm all adjustment and proration calculations made pursuant to this Section 3.4.

ARTICLE IV
THE CLOSING

4.1. **Time and Place of Closing.** Upon the terms and subject to the satisfaction of the conditions contained in Article VIII of this Agreement, the closing of the purchase and sale of the Acquired Assets contemplated by this Agreement (the "Closing") will take place at Skadden, Arps, Slate, Meagher & Flom LLP, 1440 New York Avenue, N.W., Washington, D.C., at 10:00 A.M. (local time) on such date as the parties may agree, which date is as soon as practicable, but no later than five Business Days following the date on which all of the conditions contained in Article VIII have been satisfied or waived (except for those conditions which by their nature can only be satisfied at the Closing); or at such other place or time as the parties may agree. The date and time at which the Closing actually occurs is hereinafter referred to as the "Closing Date."

4.2. **Payment of Purchase Price.** The Buyers shall pay to the Sellers at the Closing an amount in United States dollars in the aggregate equal to the Purchase Price, by wire transfer of immediately available funds to the bank account or accounts designated by the Sellers, in writing, on or prior to the 2nd Business Day immediately preceding the Closing Date.

4.3. **Deliveries by the Sellers.** At the Closing, the Seller Parties will deliver the following to the Buyers:

(a) the Deeds;

(b) the Bill of Sale, duly executed by the applicable Seller Parties;

(c) the Assignment and Assumption Agreement, duly executed by the applicable Seller Parties, in recordable form if necessary;

(d) each other Ancillary Agreement required to be delivered under this Agreement, duly executed by the applicable Seller Parties;

(e) the FIRPTA Affidavit, duly executed by AESC;

(f) certificates of title for the vehicles and boats which are part of the Acquired Assets, duly executed by the applicable Seller Parties;

(g) all attornment agreements, notices and other documents and instruments required for the assignment or other transfer of any of the Assumed Contracts from the applicable Seller Parties to the Buyers, duly executed by the applicable Seller Parties and, in the case of any leases, upon the reasonable request of the Buyers, in recordable form;

(h) Uniform Commercial Code and other Encumbrance searches with respect to the Acquired Assets, and such duly executed UCC-3 Termination or Partial Release Statements and other releases as may be required to convey the Acquired Assets free and clear of all Encumbrances (except for Permitted Encumbrances) in accordance with this Agreement;

(i) copies of all consents, waivers or approvals obtained by the Sellers with respect to the transfer of the Acquired Assets or the consummation of the transactions contemplated by this Agreement and the Ancillary Agreements, to the extent required under this Agreement or the Ancillary Agreements;

(j) all of the books, records and other materials of the Sellers set forth in Section 2.1(b)(v);

(k) a certificate from an authorized officer of each of the Seller Parties in accordance with Section 8.2(e);

(l) any amounts for which the Seller Parties are liable pursuant to Section 3.4;

(m) any disclosure document required to be delivered in accordance with the Indiana Responsible Transfer Property Law (Ind. Code § 13-251-3-1 et seq.);

(n) an ALTA (Form B-1992) Owner Policy of Title Insurance, with an endorsement providing "extended coverage" over the standard exceptions contained in such form of Owner Policy of Title Insurance and such other endorsements as are reasonably requested by the Buyers (the "Title Policy"), issued by Chicago Title Insurance Company (the "Title Company"), in the amount of $100,000,000, and insuring that (i) good and marketable title to the Owned Real Property and (ii) valid easement interests in the Other Real Property Interests are vested in the Buyers, subject to no exceptions to title other than the Permitted Encumbrances;

(o) a survey of the Site (the "Survey") prepared by a surveyor licensed in the State of Indiana, (i) certified to the Selle. Parties, the Buyers and the Title Company in accordance with a form of certification which is reasonably acceptable to the Buyers, such certification to include a statement that the survey has been prepared in accordance with "Minimum Standard Detail Requirements for ALTA/ACSM Land Title Surveys" jointly adopted by ALTA, ACSM and NSPS in 1999 and including Items 1, 4, 6, 7(a), 7(b)(1), 7(c), 8-10, 11(b) and 13-16, (ii) showing no gaps, gores, encroachments or other matters which are not Permitted Encumbrances, (iii) showing that the easements created by (A) that certain Easement Agreement, dated March 10, 2000, between West Fork Land Development Company, L.L.C. and Larry B. Murray and (B) that certain Easement Agreement, dated March 10, 2000, between West Fork Land Development Company, L.L.C. and Charles L. Murray and Barbara Nell Murray, constitute a continuous easement corridor between the fee parcels owned by Wheatland LLC and the fee parcels owned by Lake LLC and (iv) plotting the location of the water pipeline, gas transmission pipeline and electrical transmission poles and lines serving the Wheatland Facility and confirming that such pipelines, poles and lines lie wholly within the Owned Real Property or the Other Real Property Interests; and

(p) such real estate transfer declarations, disclosures or forms and such other documents, instruments or agreements, if any, as shall have been reasonably requested by the Title Company in order to issue the Title Policy to the Buyers and to consummate the Closing.

4.4. Deliveries by the Buyers. At the Closing, the Buyers will deliver the following to the Seller Parties:

(a) the Purchase Price by wire transfer of immediately available funds, together with any amounts for which the Buyers are liable pursuant to Section 3.4;

(b) the Assignment and Assumption Agreement, duly executed by the Buyers and in recordable form if necessary;

(c) each other Ancillary Agreement required to be delivered under this Agreement, duly executed by the Buyers as applicable;

(d) a certificate from an authorized officer of each of the Buyers referred to in Section 8.3(d); and

(e) such other agreements, documents, instruments and writings as are required to be delivered by the Buyers at or prior to the Closing Date pursuant to this Agreement or otherwise required in connection herewith.

ARTICLE V
REPRESENTATIONS AND WARRANTIES OF THE SELLER PARTIES

The Seller Parties jointly and severally represent and warrant to the Buyers, except as set forth on the corresponding sections of the Seller Parties' Schedules, as follows:

5.1. Organization; Qualification. Each of the Seller Parties is a limited liability company duly organized, validly existing and in good standing under the laws of the State of Delaware. Each of the Sellers has all requisite limited liability company power and authority to own, lease and operate its respective properties and to carry out its respective business as is now being conducted, and is duly qualified and in good standing to do business in each jurisdiction in which the nature of its business or the ownership or leasing of its assets and properties makes such qualification necessary (including Indiana, as applicable), except where the failure to have such power and authority, or to be so qualified or in good standing, would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect. The Sellers have made available to the Buyers complete and correct copies of the Sellers' respective Certificates of Formation and Limited Liability Company Agreements, each as currently in effect.

5.2. Authority Relative to this Agreement. Each of the Seller Parties has full limited liability company power and authority to execute and deliver this Agreement and, as of the Closing, will have full limited liability company power and authority to execute and deliver the Ancillary Agreements, as applicable, and to consummate the transactions contemplated hereby and thereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been, and, as of the Closing, the execution and delivery of the Ancillary Agreements and the consummation of the transactions contemplated thereby will have been, duly and validly authorized by the Boards of Managers of each of the Seller Parties, and no other limited liability company proceedings on the part of the Seller Parties are necessary to authorize this Agreement or, as of the Closing, the Ancillary Agreements, as applicable, or to consummate the transactions contemplated hereby and thereby. This Agreement has been, and, as of the Closing, the Ancillary Agreements, as applicable, will be, duly and validly executed and delivered by the Seller Parties, as applicable. Assuming that this Agreement and, as of the Closing, the Ancillary Agreements constitute valid and binding agreements of the respective Buyers, subject to receipt of the Sellers Required Regulatory Approvals and the Buyers Regulatory Required Approvals, this Agreement constitutes, and the Ancillary Agreements will constitute, valid and binding agreements of the Seller Parties, enforceable against the Seller Parties in accordance with their respective terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles (the "Bankruptcy and Equity Exception").

5.3. Capitalization and Other Matters. AESC owns, beneficially and of record, all of the issued and outstanding limited liability company interests in the Sellers, free and clear of all Encumbrances, other than Encumbrances pursuant to the Existing Debt Documents. Neither of the Sellers has any equity or other investment interest in any other Person.

5.4. Consents and Approvals; No Violation.

(a) Other than obtaining the Sellers Required Regulatory Approvals and the Buyers Required Regulatory Approvals, and except as set forth on Schedule 5.4(a), neither the execution and delivery of this Agreement and, on the Closing Date, the Ancillary Agreements, as applicable, by the Seller Parties nor the sale by the Sellers of the Acquired Assets pursuant to this Agreement or performance by the Seller Parties under this Agreement or the Ancillary Agreements, as applicable, will (i) conflict with or result in any breach of any provision of the respective Certificates of Formation or Limited Liability Company Agreements of the Seller Parties; (ii) require any consent, approval, authorization or permit of, or filing with or notification to, any Governmental Entity, except (A) where the failure to obtain such consent, approval, authorization or permit, or to make such filing or notification, would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect or (B) for those requirements which become applicable to the Sellers as a result of the specific regulatory status of the Buyers (or any of their Affiliates) or as a result of any other facts that specifically relate to the business or the activities in which either of the Buyers (or any of their Affiliates) is or proposes to be engaged; (iii) require any consent, approval or notice, or result in a default (with or without notice or lapse of time or both) (or give rise to any right of termination, cancellation or acceleration), under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, license, agreement or other instrument or obligation to which any of the Seller Parties is a party, other than the Existing Debt Documents, or by which any of the Seller Parties may be bound, except for such defaults (or rights of termination, cancellation or acceleration) as to which requisite waivers or consents have been obtained or which would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect; or (iv) violate any Law or Permit applicable to any of the Seller Parties, or their respective assets, which violation would, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect; and without limiting the generality of the foregoing, the transactions contemplated by this Agreement comply with the provisions of the Existing Debt Documents and the Seller Parties have obtained the board approval and the appraisal required under Section 5.02(e)(v) of the Credit Agreement.

(b) Except for (i) any filings or approvals required under the Federal Power Act, (ii) the filings by the Seller Parties required by the HSR Act and the expiration or earlier termination of all waiting periods under the HSR Act, and (iii) the required approvals from the Indiana Utility Regulatory Commission (the "IURC") (the filings and approvals referred to in clauses (i) through (iii) are collectively referred to as the "Sellers Required Regulatory Approvals"), no declaration, filing or registration with, or notice to, or authorization, consent or approval of any Governmental Entity is necessary for the consummation by the Seller Parties of the transactions contemplated hereby or by the Ancillary Agreements, other than such declarations, filings, registrations, notices, authorizations, consents or approvals which, if not obtained or made, would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect.

5.5. Reports. Except as set forth in Schedule 5.5, since January 1, 2004, each of the Seller Parties has filed or caused to be timely filed with the SEC (limited to filings on Form 10–K and Form 10–Q, and any amendments thereof, with respect to filings under the Exchange Act) and the Federal Energy Regulatory Commission (the "FERC"), as the case may be, all material forms, statements, reports and documents (including all exhibits, amendments and supplements required to be filed by them) with respect to the business and operations of the Sellers under each of the Federal Power Act and the Holding Company Act and the respective rules and regulations thereunder, all of which complied in all material respects with all applicable requirements of the appropriate act and the rules and regulations thereunder in effect on the date each such report was filed, and there are no material misstatements or omissions in respect of such reports.

5.6. Absence of Certain Changes or Events; No Undisclosed Liabilities.

(a) Except as disclosed in Schedule 5.6(a), since December 31, 2004, each of the Sellers has conducted its business only in the ordinary course of business consistent with past practice and Good Utility Practice and there has not been: (i) any Material Adverse Effect; (ii) any damage, destruction or casualty loss with respect to the Acquired Assets, whether covered by insurance or not, which would, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect; (iii) any entry into any agreement, commitment or transaction (including, without limitation, any Indebtedness, capital expenditure or capital financing) by any of the Seller Parties, which is material to the business or operations of the Sellers; (iv) any change in financial or Tax accounting methods, principles or practices, of the Sellers, or with respect to any of the Acquired Assets, except as required under GAAP; (v) any election, revocation, or amendment of any Tax election of the Sellers or with respect to any of the Acquired Assets; (vi) any filing of any amended Tax Return of the Sellers or with respect to any of the Acquired Assets; (vii) an entry into any closing agreement affecting any Tax liability or refund of the Sellers or with respect to any of the Acquired Assets; or (viii) a settlement or compromise of any Tax liability or refund of the Sellers or with respect to any of the Acquired Assets.

(b) There are no Liabilities of the Seller Parties relating to the Wheatland Facility or the Site of a nature that would be required to be accrued in accordance with GAAP on a balance sheet of any Seller Party if such Seller Party had prepared such a balance sheet.

5.7. Indebtedness of the Sellers. Except for Indebtedness pursuant to the Existing Debt Documents, neither Seller has any Indebtedness.

5.8. Real Property and Related Matters.

(a) Except as set forth in Schedule 5.8(a) and except for Permitted Encumbrances, (i) Wheatland LLC holds (A) good, valid and marketable title in fee simple to each parcel included in the Wheatland Owned Real Property and (B) a valid perpetual easement to each parcel subject to the Other Real Property Interests that are appurtenant to the Wheatland Owned Real Property and (ii) Lake LLC holds (A) good, valid and marketable title in fee simple to each parcel included in the Lake Owned Real Property and (B) a valid perpetual easement to each parcel subject to the Other Real Property Interests that are appurtenant to the Lake Owned Real Property. The Other Real Property Interests are in full force and effect. The Owned Real Property is the only real property owned by the Sellers, and the Other Real Property Interests constitute all easements, rights-of-way or other rights of the Sellers to use real property owned by Persons other than the Sellers. The Site is the only real property necessary for the use and operation of the Wheatland Facility as currently used and operated. No other Person has, directly or indirectly, any interest in the Site (whether legal or equitable), except for Permitted Encumbrances, and no other Person has any contract, option, right of first refusal or other agreement to purchase the Site or any part thereof.

(b) To the Seller Parties' Knowledge, each of the Wheatland Owned Real Property and the Lake Owned Real Property is an independent property that does not rely on any facilities, Improvements or easements (other than public facilities and public roads) located on any property other than the Site to fulfill any requirement of any Governmental Entity, for the furnishing to the Wheatland Owned Real Property or the Lake Owned Real Property of any access, essential building systems or utilities or for the use or operation of the Wheatland Facility.

(c) Each of the Wheatland Owned Real Property and the Lake Owned Real Property is a separate real estate tax parcel, separate and apart from any property other than the Owned Real Property. The Seller Parties have not received any notice of any real property special tax assessments or reassessment of the Site. There are no unpaid charges, debts, Liabilities or claims arising from the construction, occupancy, use or operation of the Site which could give rise to any mechanic's or materialman's or other statutory lien against the Site other than charges incurred in the ordinary course of business and which shall be timely paid.

(d) To the Seller Parties' Knowledge, true and accurate copies of the existing owner's title insurance policy with respect to the Site issued to Wheatland LLC and Lake LLC and the lender's title insurance policy issued to Citibank, N.A., as Collateral Agent, are attached hereto as Schedule 5.8(d).

(e) There are no tax proceedings pending in respect of the Site.

(f) Schedule 5.8(f) describes all of the leases, licenses and occupancy agreements affecting the Site and to which either of the Seller Parties is a party, whether as lessor or lessee (the "Leases"). No third party has any occupancy or use rights with respect to the Owned Real Property except pursuant to the Leases. All Leases are in full force and effect. All material obligations of the Seller Parties under the Leases and, to the Seller Parties' Knowledge, all material obligations of the other parties to the Leases under such Leases, in each case, to be performed through the date hereof have been performed in full. The Seller Parties have not received any notice of default by either of the Sellers under any of the Leases.

(g) There are no surface conditions, and to the Seller Parties' Knowledge, there are no subsurface conditions, upon the Site which constitute, or which with the passing of time may constitute, a public nuisance. To the Seller Parties' Knowledge, the Site does not contain any archeological artifacts, human remains or other historical or archeological materials which are regulated under any Laws.

(h) To the Seller Parties' Knowledge, there are no public improvements pending, contemplated or proposed relating to the Site. None of the Seller Parties have commenced any improvements upon the Owned Real Property, nor to the Seller Parties' Knowledge, are any such improvements contemplated or proposed to be commenced upon the Owned Real Property.

(i) The Site is served by public electric, telephone and utility services which are made available to the Site from public utility easements, appurtenant insured easements or public rights–of–way. All such utilities are adequate and have sufficient capacity for operation and use of the Wheatland Facility as currently operated and used and for compliance with the Assumed Contracts.

(j) (i) The obligations of the Sellers with regard to all applicable covenants, easements and restrictions affecting the Site have been and are being performed in a proper and timely manner by the Sellers, except for such matters which would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect, (ii) the Sellers are not currently in default under any agreement, order, judgment or decree relating to the Site, and no conditions or circumstances exist which, with the giving of notice or passage of time, would constitute a default or breach with respect to any such agreement, order, judgment or decree, except for such default or breach which would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect, (iii) the Sellers have received no notice of, and are not otherwise aware of, any claims, causes of action, lawsuits or legal proceedings pending or threatened regarding the ownership, use or possession of the Site including, without limitation, condemnation or similar proceedings and (iv) the Sellers have received no notice of any violation of any zoning, subdivision, platting, building, fire, insurance, safety, health, environmental or other applicable laws, ordinances or regulations (whether related to the Site or the occupancy thereof).

(k) The Wheatland Facility is located entirely on the Owned Real Property (other than improvements required to connect the Wheatland Facility with the electric transmission grid, natural gas pipelines and water reserves, which are properly located on real property subject to the Other Real Property Interests).

5.9. Insurance. All material policies of fire, liability, worker's compensation and other forms of insurance owned or held by the Seller Parties or their Affiliates that insure any of the Acquired Assets are in full force and effect, subject to the terms of each policy, all premiums with respect thereto have been paid (other than retroactive premiums which may be payable with respect to comprehensive general liability and worker's compensation insurance policies), and no notice of cancellation or termination has been received with respect to any such policy which was not replaced on substantially similar terms prior to the date of such cancellation. During the past 12 months, the Seller Parties or their Affiliates have not been refused any insurance with respect to the Acquired Assets nor has such coverage been limited by any insurance carrier to which Seller Parties or their Affiliates has applied for any such insurance or with which it has carried insurance.

5.10. Environmental Matters.

(a) Except as set forth in Schedule 5.10(a), and except for such matters that would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect:

(i) The Sellers have obtained all permits, licenses, registrations, exemptions and other authorizations which are required under the Environmental Laws for the ownership, use and operation of the Wheatland Facility and the Owned Real Property as presently operated ("Environmental Permits"). All such Environmental Permits are in effect, and, to the Seller Parties' Knowledge, no appeal or any other action is pending to revoke any such Environmental Permits. The Sellers have filed (or will have filed by the Closing Date) all applications necessary to renew any necessary Environmental Permits in a timely fashion.

(ii) The Sellers have been and are in compliance with applicable Environmental Laws and Environmental Permits. To the Seller Parties' Knowledge, predecessor owners and operators of the Wheatland Facility and the Owned Real Property were in compliance with applicable Environmental Laws and Environmental Permits.

(iii) The Sellers have made available to the Buyers complete copies of all the environmental studies on the Wheatland Facility or the Owned Real Property in their possession, including, without limitation, environmental audit reports and Phase I or Phase II environmental assessments, if any.

(iv) There is no civil, criminal or administrative action, suit, demand, claim, hearing, notice of violation, investigation, proceeding, notice or demand letter existing or pending that has not been resolved with no further obligations on the part of the Sellers or, to the Seller Parties' Knowledge, threatened, relating to the Wheatland Facility or the Site pursuant to any Environmental Laws or relating Hazardous Substances, including, without limitation, claims for personal or bodily injury with respect to exposure to Hazardous Substances.

(v) The Sellers have not, and, to the Seller Parties' Knowledge, no other Person has Released any Hazardous Substances on, beneath or adjacent to the Site, except for Releases of Hazardous Substances that are not likely to result in a claim against the Sellers. To the Seller Parties' Knowledge, there are no Hazardous Substances present on, beneath or adjacent to the Site, except for such Hazardous Substances that are not likely to result in a claim against the Sellers.

(vi) To the Seller Parties' Knowledge, no Release or Response Action has occurred at the Site that could reasonably be expected to result in the assertion or creation of an Encumbrance on the Site by any Governmental Entity with respect thereto, nor has any such assertion of an Encumbrance been made by any Governmental Entity with respect thereto.

(vii) Neither of the Sellers has entered into or agreed to any outstanding consent decree or order, or is subject to any outstanding judgment, judicial or administrative decree or judicial or administrative order relating to compliance with any Environmental Law or to Response Actions to address a Release or threatened Release of Hazardous Substances under any Environmental Law.

(b) The Seller Parties have listed the current Environmental Permits in Schedule 5.10(b), and have made available to the Buyers a complete copy of each Environmental Permit.

(c) Schedule 5.10(c) lists all Emission Allowances for 2005 and future years that have been (i) issued or allocated by the U.S. Environmental Protection Agency or the Indiana Department of Environmental Management specifically for the Wheatland Facility or (ii) purchased by the Sellers specifically for the Wheatland Facility on or before the date hereof.

(d) The representations and warranties made in this Section 5.10 are the exclusive representations and warranties of the Seller Parties relating to Environmental Laws, Environmental Permits or other environmental matters, and no other provision of this Agreement shall be deemed to constitute, directly or indirectly, a representation or warranty with respect to such matters.

5.11. Labor and Employment Matters. With respect to the business or operations of the Sellers, except for such matters that would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect: (a) each of the Seller Parties is in compliance with all applicable Laws respecting employment and employment practices, terms and conditions of employment, health and safety, and wages and hours; (b) none of the Seller Parties has received notice of any charge or complaint against it pending before the Equal Employment Opportunity Commission, the National Labor Relations Board or any other Governmental Entity regarding an unlawful employment practice; (c) there is no labor strike, slowdown or work stoppage actually pending or, to the Seller Parties' Knowledge, threatened against or affecting the Seller Parties and none of the Seller Parties has experienced any strike, slowdown or work stoppage in the past 5 years; (d) none of the Seller Parties has received notice that any representation petition respecting the employees of the Seller Parties has been filed with the National Labor Relations Board, no union claims to represent any of the employees of the Seller Parties, and there has been no labor union, prior to the date hereof, organizing or attempting to organize any employees of the Seller Parties into one or more collective bargaining units; (e) there are no complaints, lawsuits, arbitrations or other proceedings pending or, to the Seller Parties' Knowledge, threatened by or on behalf of any present or former employee of the Seller Parties arising out of or relating in any way to any present or former employee's hiring by, employment with or separation from the Seller Parties, specifically including, without limitation, any claim for breach of any express or implied contract of employment, wrongful termination or infliction of emotional distress, or any claim under any applicable Law respecting employment, employment practices, terms and conditions of employment, health and safety, and wages and hours; and (f) to the Seller Parties' Knowledge, no Sellers' Employee, during the course of and as part of his or her employment with the Sellers or their Affiliates, has been exposed to Hazardous Substances exceeding permissible exposure limits established by applicable Law. Schedule 5.11 lists the three employees of the Seller Parties or their Affiliates who provide services on a full time basis for the Wheatland Facility as of the date hereof (collectively, the "Sellers' Employees") and identifies the employer of each such Sellers' Employee.

5.12. ERISA; Employee Benefit Plans.

(a) Schedule 5.12(a) lists all deferred compensation, incentive compensation, bonus, vacation, equity compensation and equity based or ownership plans, policies, programs, agreements and arrangements, all other "employee benefit plans," within the meaning of section 3(3) of ERISA and all employment, retention, consulting, change in control, termination or severance agreements, programs, plans, policies or arrangements, covering the Sellers' Employees, including such policies of any Person that is considered a single employer with any of the Seller Parties under section 4001 of ERISA or section 414 of the Code (each, an "ERISA Affiliate") (collectively, the "Benefit Plans"). True and complete copies of all Benefit Plans (or if the Benefit Plan is not a written plan, a description thereof), any related trust or other funding vehicle, the latest version of any reports or summaries required under ERISA or the Code including, without limitation, summary plan descriptions and summary material modifications, a copy of the three most recent annual reports and actuarial reports, to the extent required by ERISA or the Code, and the most recent determination letter received from the Internal Revenue Service (the "IRS") with respect to each Benefit Plan intended to qualify under section 401 of the Code have been provided or made available to the Buyers. The Sellers have had no employees and do not sponsor, maintain or contribute to Benefit Plans on behalf of the Sellers' Employees.

(b) All Benefit Plans that are subject to ERISA, other than "multiemployer plans" within the meaning of sections 3(37) or 4001(a)(3) of ERISA, are in compliance with their terms, and in material compliance with all applicable Laws, including, without limitation, the Code and ERISA. Each Benefit Plan intended to be qualified within the meaning of section 401(a) of the Code has received a current favorable IRS determination letter with respect to such qualifications. None of the Seller Parties or, to the Seller Parties' Knowledge, any ERISA Affiliate has engaged in a transaction with respect to any Benefit Plan that could subject any of the Seller Parties to a tax or penalty imposed by either sections 4975 or 4976 of the Code or section 409 or 502(i) of ERISA in an amount that would be material.

(c) There has been no amendment to, or announcement or other communication by the Seller Parties or, to the Seller Parties' Knowledge, any ERISA Affiliate regarding any change in employee participation or coverage under, any Benefit Plan which would increase materially the benefits provided to the Sellers' Employees under such plan above the level of the benefits provided thereunder for the most recent fiscal year. Neither the execution of this Agreement nor the consummation of any of the transactions contemplated hereby or the termination of employment after the date hereof will entitle any Sellers' Employees to severance pay or other payments (but not including any payments made pursuant to any tax-qualified retirement plan), any increase in severance pay or other payments, or any acceleration of vesting of any payment or benefit, or would result in any funding of any payment or benefit by the Seller Parties.

(d) Neither the Seller Parties nor any ERISA Affiliate (i) has failed to fulfill its obligations under the minimum funding requirements of section 302 of ERISA, to the extent applicable; or (ii) has any actual or potential withdrawal liability resulting from a complete or partial withdrawal (as defined in sections 4203 and 4205 of ERISA) from any multiemployer plan (as defined in sections 3(37) and 4001(a)(3) of ERISA). No Liability under Title IV of ERISA has been incurred by the Seller Parties or any ERISA Affiliate that has not been satisfied in full as of the date of this Agreement. No event has occurred in connection with any of the employee benefit plan of the Seller Parties or any ERISA Affiliate that has, will or may result in any Liability for which any transferee of assets of the Sellers may be responsible, whether by operation of Law, by contract or otherwise. The transactions contemplated by this Agreement will not, either alone or in combination with any other event or events, cause the Buyers to incur any Liabilities under Title IV of ERISA or section 4980B of the Code.

(e) To the Seller Parties' Knowledge, none of the Seller Parties nor any ERISA Affiliate has used the services of workers provided by third party contract labor suppliers, temporary employees, "leased employees" (as that term is defined in section 414(n) of the Code), or independent contractors to an extent that would reasonably be expected to result in the disqualification of any of the Benefit Plans or the imposition of penalties or excise taxes with respect to the Benefit Plans by the IRS, the Department of Labor, or the Pension Benefit Guaranty Corporation.

(f) Except as set forth in Schedule 5.12(f), there are no pending or threatened claims by or on behalf of any Benefit Plan, by any employee, beneficiary or alternate payee against any such Benefit Plan, or otherwise involving any such Benefit Plan (other than routine claims for benefits) against the Seller Parties or any ERISA Affiliate.

5.13. Contracts.

(a) Schedule 5.13(a) lists the following agreements and contracts to which any of the Seller Parties (limited in the case of AESC, to the extent such agreements or contracts are included in the definition of AESC Transferred Assets) is a party or by which either of the Sellers or the Wheatland Facility is bound (the "Material Contracts"):

(i) gas pipeline interconnection agreements, gas supply agreements, gas purchase and sale agreements, and gas transportation agreements;

(ii) power purchase agreements, electricity transmission agreements, and electricity interconnection agreements;

(iii) swap, exchange, commodity option or hedging agreements;

(iv) material operating and maintenance agreements;

(v) material equipment lease, purchase and sale contracts;

(vi) any contract (i) requiring known or liquidated expenditures or payments by any of the Seller Parties in excess of $100,000 in any calendar year or (ii) that cannot be terminated without penalty by the Seller Party that is a party to such contract upon 90 days' notice or less;

(vii) any pending sale or lease of real property of either Seller or any pending sale or lease of personal property of either Seller (other than sales of electric energy in the ordinary course of business) in excess of $100,000;

(viii) any contract that contains a covenant not to compete applicable to any Seller Party;

(ix) any other agreement material to either Seller, the Acquired Assets or the Wheatland Facility; and

(x) any amendment relating to any of the foregoing.

(b) The Seller Parties have provided or made available to the Buyers true, correct and complete copies of all the Material Contracts.

(c) Each of the Material Contracts (i) constitutes a valid and binding obligation of the respective Seller Parties and, to the Seller Parties' Knowledge, constitutes a valid and binding obligation of the other parties thereto, (ii) is in full force and effect, and (iii) except as set forth in Schedule 5.13(c), may be transferred to the Buyers pursuant to this Agreement, without the consent of, or notice to, any third party.

(d) No Seller Party and, to the Seller Parties' Knowledge, no other party to any of the Material Contracts, is in breach or default under, and, to the Seller Parties' Knowledge, no event has occurred that, with notice or lapse of time, would constitute a breach or default or permit termination, modification or acceleration of, any of the Material Contracts, except for such breaches, defaults or events as to which requisite waivers have been, or prior to the Closing will have been, obtained or that would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect.

5.14. Legal Proceedings. Since December 31, 2004, there have been no claims, actions, proceedings or investigations pending or, to the Seller Parties' Knowledge, threatened in writing against any Seller before any Governmental Entity, which (a) involve in the aggregate an amount greater than $100,000 or (b) if adversely determined would, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect. Neither the Sellers, the Acquired Assets nor the Assumed Liabilities are subject to any outstanding judgments, rules, orders, writs, injunctions or decrees of any Governmental Authority relating specifically to the Sellers, the Acquired Assets or the Assumed Liabilities that would, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect.

5.15. Compliance with Permits and Laws.

(a) Each of the Sellers has all material permits, subdivision approvals, variances, licenses, franchises and other governmental authorizations, consents and approvals (other than with respect to Environmental Laws which are addressed in Section 5.10) (collectively, "Permits") necessary to operate its respective businesses as presently conducted.

Except as set forth in Schedule 5.15(a), no Seller has received any notification that it or the Site is in material violation of any Permits or Laws applicable to it or the Acquired Assets. Each Seller and the Site is in material compliance with all Permits and Laws applicable to it or the Acquired Assets.

(b) Schedule 5.15(b) lists all Permits obtained by the Sellers in connection with the ownership or operation of the Wheatland Facility and the Site and all consent orders to which any Seller is subject. The Seller Parties have provided or made available to the Buyers true, correct and complete copies of all Permits and consent orders. All such Permits have become final and nonappealable and, except as would, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect, are valid and in full force and effect.

5.16. Regulation; Sole Purpose.

(a) Wheatland LLC is an "exempt wholesale generator" as defined by the Holding Company Act and is authorized by the FERC to sell electric energy at market–based rates pursuant to an approved rate schedule on file with the FERC. The Wheatland Facility is an "eligible facility" as defined in the Holding Company Act. Neither Seller is subject to regulation as a public utility, public service company or an electric company or similar entity subject to regulation by a Governmental Authority.

(b) Wheatland LLC has not conducted, and is not conducting, any business or operations, other than the development, construction, ownership, operation and maintenance of the Wheatland Facility, including the generation and sale of electric energy at wholesale from the Wheatland Facility, and the ownership of the Wheatland Owned Real Property.

5.17. Tax Matters.

(a) Except as set forth in Schedule 5.17, (i) all material Tax Returns required to be filed on or before the Closing Date, by or with respect to any Seller or any of the Acquired Assets, have been or will be timely filed on or before the Closing Date in all jurisdictions in which such Tax Returns are required to be filed; (ii) such Tax Returns are or will be true, correct, and complete in all material respects; and (iii) all Taxes shown to be due on such Tax Returns have been or will be timely paid in full.

(b) No statute of limitations of any jurisdiction regarding the assessment or collection of any Tax of either Seller or with respect to any of the Acquired Assets has been extended or waived, which extension or waiver remains in effect.

(c) There are no audits, claims, assessments, levies, administrative proceedings, or lawsuits pending, or to the Seller Parties' Knowledge, threatened against either Seller or with respect to any of the Acquired Assets by any taxing authority.

(d) The Sellers have each qualified as, and been treated as, an entity disregarded as separate from its owner for federal, state and local income Tax purposes at all times since the date of its formation.

(e) There are no Encumbrances for Taxes on any of the Acquired Assets, except for Permitted Encumbrances.

(f) To the Seller Parties' Knowledge, no claim has ever been made by an authority in a jurisdiction where a Tax Return is not filed by, or with respect to, either Seller or any of the Acquired Assets, that either Seller or any of the Acquired Assets are or may be subject to taxation in that jurisdiction.

(g) The Sellers have each withheld and paid all material Taxes required to have been paid in connection with amounts paid or owing to any employee, independent contractor, creditor, member or other third party.

(h) True and complete copies of all Income Tax Returns filed by either Seller, or any Tax Returns (other than Income Tax Returns) filed with respect to any of the Acquired Assets, and all written communications to or from any taxing authority since January 1, 2003 have been made available to the Buyers for inspection.

(i) None of the assets of the Sellers (i) is required to be treated as "tax–exempt use property" within the meaning of section 168(h) of the Code, (ii) is subject to the provisions of section 168(f) of the Code, or (iii) directly or indirectly secures any debt the interest on which is tax exempt under section 103(a) of the Code.

5.18. Related Party Matters. Except as set forth in Schedule 5.18, neither Seller is party to any agreement, contract, commitment, transaction or proposed transaction with any of its Affiliates.

5.19. Assets Other than Real Property Interests.

(a) Except as set forth in Schedule 5.19(a), each of the Seller Parties has good and valid title to all of its respective properties and assets constituting the Acquired Assets other than the Site (it being understood that the Site is covered by Section 5.8), in each case free and clear of all Encumbrances except any Permitted Encumbrances.

(b) All the material tangible personal property of the Sellers has been maintained in all material respects in accordance with the past practice of the Sellers and Good Utility Practice. Each item of material tangible personal property of the Sellers is in all material respects in good working order, ordinary wear and tear excepted. All leased personal property of the Sellers is in all material respects in the condition required of such property by the terms of the lease applicable thereto during the term of the lease and upon the expiration thereof.

(c) Other than the Acquired Assets and the Excluded Assets listed in clauses (a) through (g) of Section 2.2, none of the Seller Parties or their Affiliates owns any material assets relating to the Site or the Wheatland Facility.

5.20. Intellectual Property. The Sellers own, or possess licenses or other valid rights to use, all patents, patent rights, trademarks, trademark rights, trade names, trade name rights, copyrights, service marks, service mark rights, trade secrets, applications to register, and registrations for, the foregoing trademarks, service marks, know–how and other proprietary rights and information (collectively, the "Intellectual Property") necessary in connection with the business of the Sellers as currently conducted, except where the failure to possess such rights or licenses or valid rights to use would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect. The conduct of the businesses of the Sellers as currently conducted does not infringe upon any Intellectual Property of any third party, except where such infringement would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect. No person is infringing upon any Intellectual Property of the Sellers, except where such infringement would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect. Except as set forth in Schedule 5.20, the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby will not result in the loss of, or any Encumbrance on, the rights of the Sellers with respect to the Intellectual Property owned or used by them, except where such loss or encumbrance would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect.

5.21. Due Diligence Materials. All of the Due Diligence Materials that are photostatic, facsimile or electronic copies conform in all material respects with the original documents.

5.22. No Knowledge of Certain Conditions. To the Seller Parties' Knowledge, and assuming the accuracy of the Buyers' representations and warranties in this Agreement, the parties' compliance with their obligations under this Agreement, and the making or obtaining, as applicable, of the Buyers Required Regulatory Approvals, the Sellers Required Regulatory Approvals and any other third party consents contemplated herein, no condition or circumstance exists as of the date of this Agreement that will excuse the Seller Parties from their timely performance of their obligations under this Agreement.

5.23. Disclaimer of Other Representations and Warranties.

(a) **EXCEPT FOR THOSE REPRESENTATIONS AND WARRANTIES EXPRESSLY SET FORTH IN THIS ARTICLE V OR ELSEWHERE IN THIS AGREEMENT OR THE ANCILLARY AGREEMENTS, THE SELLER PARTIES MAKE NO REPRESENTATIONS OR WARRANTIES OF ANY KIND OR NATURE, EXPRESS OR IMPLIED, AS TO THE ACQUIRED ASSETS, INCLUDING, WITHOUT LIMITATION, THE SITE OR THE WHEATLAND FACILITY, THE OPERATIONS OF THE WHEATLAND FACILITY, OR THE PROSPECTS (FINANCIAL AND OTHERWISE), RISKS AND OTHER INCIDENTS OF THE WHEATLAND FACILITY OR THE ACQUIRED ASSETS, INCLUDING, WITHOUT LIMITATION, WITH RESPECT TO THE ACTUAL OR RATED GENERATING CAPABILITY OF THE WHEATLAND FACILITY OR THE ABILITY OF THE BUYERS TO GENERATE OR SELL ELECTRICAL ENERGY.**

(b) **WITHOUT LIMITING THE FOREGOING, AND EXCEPT FOR THOSE REPRESENTATIONS AND WARRANTIES EXPRESSLY SET FORTH IN THIS ARTICLE V OR ELSEWHERE IN THIS AGREEMENT OR THE ANCILLARY AGREEMENTS, THE SELLER PARTIES MAKE NO REPRESENTATIONS OR WARRANTIES OF MERCHANTABILITY, USAGE OR SUITABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE WITH RESPECT TO THE ACQUIRED ASSETS OR ANY PART THEREOF, OR AS TO THE WORKMANSHIP THEREOF, OR THE ABSENCE OF ANY DEFECTS THEREIN, WHETHER LATENT OR PATENT, OR COMPLIANCE OF SUCH PROPERTIES OR ASSETS WITH ANY LAWS, INCLUDING, WITHOUT LIMITATION, ENVIRONMENTAL LAWS, OR AS TO THE CONDITION OF THE ACQUIRED ASSETS OR ANY PART THEREOF, OR AS TO THE ABSENCE OF**

HAZARDOUS SUBSTANCES OR LIABILITY OR POTENTIAL LIABILITY UNDER ENVIRONMENTAL LAWS WITH RESPECT TO THE ACQUIRED ASSETS. ANY SUCH OTHER REPRESENTATIONS AND WARRANTIES ARE HEREBY EXPRESSLY DISCLAIMED.

(c) **EXCEPT FOR THOSE REPRESENTATIONS AND WARRANTIES EXPRESSLY SET FORTH IN THIS ARTICLE V OR ELSEWHERE IN THIS AGREEMENT OR THE ANCILLARY AGREEMENTS, THE ACQUIRED ASSETS ARE SOLD "AS IS, WHERE IS" ON THE CLOSING DATE, AND IN THEIR CONDITION ON THE CLOSING DATE "WITH ALL FAULTS."**

(d) **WITHOUT LIMITING THE FOREGOING, EXCEPT AS OTHERWISE SET FORTH IN THIS AGREEMENT OR THE ANCILLARY AGREEMENTS, NO MATERIAL OR INFORMATION PROVIDED BY OR COMMUNICATIONS MADE BY THE SELLER PARTIES OR THE SELLER PARTIES' REPRESENTATIVES, INCLUDING, WITHOUT LIMITATION, ANY INFORMATION OR MATERIAL CONTAINED IN THE DUE DILIGENCE MATERIALS OR IN THE INFORMATION MEMORANDUM, WILL CAUSE OR CREATE ANY WARRANTY, EXPRESS OR IMPLIED, AS TO THE TITLE, CONDITION, VALUE OR QUALITY OF THE ACQUIRED ASSETS.**

ARTICLE VI

REPRESENTATIONS AND WARRANTIES OF THE BUYERS

The Buyers jointly and severally represent and warrant to the Seller Parties, except as set forth on the corresponding sections of the Buyers' Schedules, as follows:

6.1. Organization. PSI Energy is a corporation duly organized, validly existing and in good standing under the laws of the State of Indiana. CG&E is a corporation duly organized, validly existing and in good standing under the laws of the State of Ohio. Each of PSI Energy and CG&E has all requisite corporate power and authority to own, lease and operate its properties and to carry out its respective business as is now being conducted, and is duly qualified and in good standing to do business in each jurisdiction in which the nature of its business or the ownership or leasing of its assets and properties makes such qualification necessary, except where the failure to have such power and authority, or to be so qualified or in good standing, would not individually or in the aggregate, be reasonably likely to prevent or materially delay or impair such Buyer's ability to consummate the transactions contemplated by this Agreement. The Buyers have made available to the Seller Parties complete and correct copies of their respective Articles of Incorporation and By–Laws, each as currently in effect.

6.2. Authority Relative to this Agreement. Each of the Buyers has full corporate power and authority to execute and deliver this Agreement and, as of the Closing Date, will have full corporate power and authority to execute and deliver the Ancillary Agreements, as applicable, and to consummate the transactions contemplated hereby and thereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been, and, as of the Closing, the execution and delivery of the Ancillary Agreements and the consummation of the transactions contemplated thereby will have been, duly and validly authorized by the Boards of Directors of each of the Buyers, and no other corporate proceedings on the part of the Buyers are necessary to authorize this Agreement and, as of the Closing, the Ancillary Agreements, as applicable, or to consummate the transactions contemplated hereby or thereby. This Agreement has been, and, as of the Closing, the Ancillary Agreements, as applicable, will have been, duly and validly executed and delivered by the Buyers, as applicable. Assuming that this Agreement and, as of the Closing, the Ancillary Agreements constitute valid and binding agreements of the respective Seller Parties, subject to receipt of the Sellers Required Regulatory Approvals and the Buyers Required Regulatory Approvals, this Agreement constitutes, and the Ancillary Agreements will constitute, valid and binding agreements of the Buyers, enforceable against the Buyers in accordance with their respective terms, subject to the Bankruptcy and Equity Exception.

6.3. Consents and Approvals; No Violation.

(a) Other than obtaining the Sellers Required Regulatory Approvals and the Buyers Required Regulatory Approvals, neither the execution and delivery of this Agreement and, on the Closing Date, the Ancillary Agreements, as applicable, by the Buyers nor the purchase by the Buyers of the Acquired Assets pursuant to this Agreement or performance by the Buyers under this Agreement or the Ancillary Agreements, as applicable, will (i) conflict with or result in any breach of any provision of the respective Articles of Incorporation or By–Laws of the Buyers, (ii) require any consent, approval, authorization or permit of, or filing with or notification to, any Governmental Entity, except where the failure to obtain such consent, approval, authorization or permit, or to make such filing or notification, would not, individually or in the aggregate, be reasonably likely to prevent or materially delay or impair the Buyers' ability to consummate the transactions contemplated by this Agreement, (iii) require any consent, approval or notice, or result in a default (with or without notice or lapse of time or both) (or give rise to any right of termination, cancellation or acceleration), under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, license, agreement, lease or other instrument or obligation to which any of the Buyers or their respective Subsidiaries is a party or by which any of the Buyers or their respective Subsidiaries may be bound, except for such defaults (or rights of termination, cancellation or acceleration) as to which requisite waivers or consents have been obtained or which, individually or in the aggregate, are not reasonably likely to prevent or materially delay or impair the Buyers' ability to consummate the transactions contemplated by this Agreement, or (iv) violate any Law or permit applicable to any of the Buyers, or their respective assets, which violation would, individually or in the aggregate, be reasonably likely to prevent or materially delay or impair the Buyers' ability to consummate the transactions contemplated by this Agreement.

(b) Except for (i) any filings or approvals under section 203 and section 205 the Federal Power Act (the "FERC Approvals"); (ii) the filings by the Buyers required by the HSR Act and the expiration or earlier termination of all waiting periods under the HSR Act; and (iii) subject to Section 11.16, (A) IURC approval of a certificate of public convenience and necessity ("CPCN") and deferred ratemaking treatment for transaction costs, capital improvement costs, carrying costs and depreciation costs (i.e., return on and return of) associated with the Acquired Assets consistent with the Indiana Settlement Agreement and (B) any required approvals from the SEC under the Holding Company Act (the filings and approvals referred to in clauses (i) through (iii), collectively, the "Buyers Required Regulatory Approvals"), no declaration, filing or registration with, or notice to, or authorization, consent or approval of any Governmental Entity is necessary for the consummation by the Buyers of the transactions contemplated hereby or by the Ancillary Agreements, other than such declarations, filings, registrations, notices, authorizations, consents or approvals which, if not obtained or made, are not reasonably likely to prevent or materially delay or impair the Buyers' ability to consummate the transactions contemplated by this Agreement.

(c) On or prior to the date hereof, the Buyers executed a settlement agreement with the IURC staff and the Indiana Office of Utility Consumer Counselor concerning both CPCN authority and ratemaking treatment regarding the Wheatland Facility, a copy of which is attached hereto as Exhibit E (the "Indiana Settlement Agreement").

6.4. Availability of Funds. Each Buyer has access to, and at the Closing will have available, sufficient funds to enable it to pay its portion of the Purchase Price on the terms and conditions of this Agreement. The Buyers' obligations hereunder are not subject to any conditions regarding the Buyers' ability to obtain financing for the consummation of the transactions contemplated hereby.

6.5. Litigation. There are no claims, actions, proceedings or investigations pending or, to the Buyers' Knowledge, threatened against or relating to either Buyer before any Governmental Entity, which question, challenge the validity of, or are reasonably likely to have the effect of preventing, delaying, making illegal or otherwise interfering with, this Agreement or the Ancillary Agreements, the transactions contemplated herein or therein or any action taken or proposed to be taken by the Buyers pursuant hereto or thereto or in connection with the transactions contemplated herein or therein.

6.6. No Knowledge of Certain Conditions. To the Buyers' Knowledge, and assuming the accuracy of the Seller Parties' representations and warranties in this Agreement, the parties' compliance with their obligations under this Agreement, and the making or obtaining, as applicable, of the Buyers Required Regulatory Approvals, the Sellers Required Regulatory Approvals and any other third party consents contemplated herein, no condition or circumstance exists as of the date of this Agreement that will excuse the Buyers from their timely performance of their obligations under this Agreement.

6.7. Due Diligence Investigation and Other Acknowledgements.

(a) Each of the Buyers acknowledges and agrees that it has conducted and is relying exclusively upon the Seller Parties' representations and warranties in this Agreement and any Ancillary Agreement and its own inspections and investigation in order to satisfy itself as to the condition and suitability of the business, Inventories, assets, real and personal properties, Liabilities, results of operations, condition (financial or otherwise) and prospects of the Wheatland Facility and of the Acquired Assets.

(b) Each of the Buyers acknowledges and agrees that, except as provided in this Agreement and any Ancillary Agreement, the Seller Parties make no representations or warranties (express, implied, at common law, statutory or otherwise) with respect to the accuracy or completeness of the Information Memorandum or the Due Diligence Materials now, previously or hereafter made available to the Buyers in connection with this Agreement (including any description of the Wheatland Facility, revenue, price and expense assumptions, electricity demand forecasts or environmental information), or of any other information furnished to the Buyers or the Buyers' Representatives by the Seller Parties or the Seller Parties' Representatives.

6.8. Disclaimer of Other Representations and Warranties. EXCEPT FOR THOSE REPRESENTATIONS AND WARRANTIES EXPRESSLY SET FORTH IN THIS ARTICLE VI OR THE ANCILLARY AGREEMENTS, THE BUYERS MAKE NO REPRESENTATIONS OR WARRANTIES OF ANY KIND OR NATURE, EXPRESS OR IMPLIED.

ARTICLE VII
COVENANTS OF THE PARTIES

7.1. Conduct of Business.

(a) Except as specifically contemplated in this Agreement, except as described in Schedule 7.1(a), except as required as a result of any change in Law, except with respect to the Excluded Assets, and except as necessitated by Good Utility Practices in circumstances where time does not permit the Seller Parties to obtain the prior written consent of the Buyers (in which case the Seller Parties shall notify the Buyers promptly after any such circumstance), during the period from the date of this Agreement to the Closing Date, each of the Sellers shall, and AESC shall cause each Seller to, operate its respective business in the usual, regular and ordinary course consistent with Good Utility Practice and shall use Commercially Reasonable Efforts to preserve intact its respective business and the goodwill and relationships with customers, suppliers, Governmental Entities, local communities and others having dealings with it. Without limiting the generality of the foregoing, and, except as specifically contemplated in this Agreement, except as described in Schedule 7.1(a), except as required as a result of any change in Law, except with respect to the Excluded Assets, and except as necessitated by Good Utility Practices in circumstances where time does not permit the Seller Parties to obtain the prior written consent of the Buyers (in which case the Seller Parties shall notify the Buyers promptly after any such circumstance), prior to the Closing Date, without the prior written consent of the Buyers, which will not be unreasonably withheld or delayed, the Sellers shall not, and AESC shall not permit the Sellers to, directly or indirectly:

(i) amend their respective certificates of formation or limited liability company agreements;

(ii) (A) issue any new limited liability company interests in the Sellers; (B) grant any stock option, warrant or other right to purchase limited liability company interests in the Sellers; or (C) issue any security convertible into limited liability company interests in the Sellers;

(iii) (A) except for Permitted Encumbrances, create, incur, assume or suffer to exist any Indebtedness secured by, or any Encumbrances on, the Acquired Assets; or (B) assume, guarantee, endorse or otherwise become liable or responsible (whether directly or indirectly, contingently or otherwise) for the obligations of any Person;

(iv) make any material change in the levels of Inventory customarily maintained by the Sellers, other than consistent with Good Utility Practice;

(v) sell, lease (as lessor), transfer or otherwise dispose of, any asset, other than assets used, consumed or replaced in the ordinary course of business consistent with past practice and Good Utility Practice;

(vi) terminate, extend, request or grant a waiver under, or otherwise amend, in any material respect, any Material Contract or Lease, or enter into any contract, agreement, commitment or arrangement which, had it been in effect as of the date hereof, would have constituted a Material Contract;

(vii) execute, enter into, terminate or otherwise amend, in any material respect, (A) any of the Permits or Environmental Permits, other than routine renewals or (B) any other agreement, order, decree or judgment relating to any current or new Permits or Environmental Permits;

(viii) enter into any power sales commitments other than those on customary terms and market pricing and that have terms that expire on or before November 20, 2005 or such other date that the parties mutually agree to be the date on which the Closing is expected to occur;

(ix) permit the Seller Parties or their Affiliates to (A) amend or cancel any liability or casualty insurance policies related to the Acquired Assets or (B) fail to maintain, by self insurance or with financially responsible insurance companies, insurance in such amounts and against such risks and losses as was in place as of the date of this Agreement and as is consistent with Good Utility Practice for the Acquired Assets;

(x) enter into any commitment or contract not addressed in clauses (i) through (ix) above that will be delivered or performed after the Closing, in an amount greater than $100,000;

(xi) acquire (including by merger, consolidation or acquisition of stock or assets) any Person or any division thereof or material portion of the assets thereof;

(xii) liquidate, dissolve or wind up either of the Sellers or commence a voluntary bankruptcy or similar proceeding in respect of either of the Sellers or appoint a custodian, receiver, liquidator or similar official or make an assignment for the benefit of creditors or admit in writing of its inability to pay its debts;

(xiii) make less than 100% of its Maintenance Expenditures, unless the projects associated with such expenditures are duly completed at a price below the cost indicated on Schedule 7.1(a)(xiii), or fail to make any capital expenditures required in accordance with Good Utility Practice;

(xiv) enter into any agreement or arrangement with any Affiliates other than such agreements and arrangements as are entered into in the ordinary course of business and which have been negotiated on an arm's–length basis and are no less favorable to the Sellers than the Sellers would have obtained from an unaffiliated third party, and provided that the Sellers shall have notified the Buyers in writing prior to entering into any such Affiliate transactions and, further, that the termination date of any such agreement or arrangement shall be not later than the Closing Date;

(xv) take any action that alters the regulatory status of the Sellers, the Site or the Wheatland Facility;

(xvi) sell, lease, dispose of, transfer or otherwise convey Emission Allowances issued with respect to the Wheatland Facility, including the transfer of Emission Allowances to other accounts maintained by the Sellers or their Affiliates, except to the extent that such transfers do not result in a breach of the provisions of this Agreement with respect to the Emission Allowances to be transferred to the Buyers; provided that, in any event, if the Closing occurs prior to November 30, 2005, the Sellers shall transfer to the Buyers, in addition to the Emission Allowances to be transferred to the Buyers as set forth in Section 2.1(b)(viii), additional Emission Allowances sufficient for the Wheatland Facility to comply with the Indiana NOx Budget Program for NOx emissions occurring in 2005 up to and including the Closing Date; provided further, that if the Closing occurs on or after November 30, 2005, the Sellers shall not be obligated to transfer Emissions Allowances with a vintage year of 2005 to the Buyers to the extent necessary for the Sellers to comply with the Indiana NOx Budget Program with respect to the emissions from the Wheatland Facility; or

(xvii) enter into any written or oral contract, agreement, commitment or arrangement with respect to any of the transactions set forth in the foregoing paragraphs (i) through (xvi).

(b) Except as specifically contemplated in this Agreement, except as described in Schedule 7.1(b), except as required as a result of any change in Law, except with respect to the Excluded Assets, and except as necessitated by Good Utility Practices in circumstances where time does not permit the Seller Parties to obtain the prior written consent of the Buyers (in which case the Seller Parties shall notify the Buyers promptly after any such circumstance), during the period from the date of this Agreement to the Closing Date, AESC shall, with respect to the Sellers and the Wheatland Facility only, operate its business in the usual, regular and ordinary course consistent with Good Utility Practice and shall, with respect to the Sellers and the Wheatland Facility only, use Commercially Reasonable Efforts to preserve intact its respective business and the goodwill and relationships with customers, suppliers, Governmental Entities, local communities and others having dealings with it. Without limiting the generality of the foregoing, and, except as specifically contemplated in this Agreement, except as described in Schedule 7.1(b), except as required as a result of any change in Law, except with respect to the Excluded Assets, and except as necessitated by Good Utility Practices in circumstances where time does not permit the Seller Parties to obtain the prior written consent of the Buyers (in which case the Seller Parties shall notify the Buyers promptly after any such circumstance), prior to the Closing Date, without the prior written consent of the Buyers, which will not be unreasonably withheld or delayed, AESC shall not, and shall not permit the Sellers or any of their Affiliates to, directly or indirectly:

(i) make any change in the compensation payable or to become payable to any of the Sellers' Employees (other than normal recurring adjustments of salaries and wages payable to the Sellers' Employees, which adjustments are in the ordinary course of business consistent with past practice);

(ii) enter into or amend any employment, severance, change in control, retention, consulting, termination or other compensation–related agreement or arrangement with or with respect to, or make any loan or advance to, any of the Sellers' Employees, except for loans permitted under any 401(k) plan sponsored by any ERISA Affiliate in which the Sellers' Employees participate;

(iii) (A) pay or make any accrual or arrangement for payment of any pension, profit–sharing, retirement allowance or other employee benefit pursuant to any existing plan, agreement, policy or arrangement to any of the Sellers' Employees, except to the extent AESC or the Sellers are obligated to do so on the date hereof, (B) adopt or pay, grant, issue, accelerate or accrue salary or other payments or benefits pursuant to any pension, profit–sharing, bonus, extra compensation, incentive, deferred compensation, stock purchase, stock option, stock appreciation right, group insurance, termination, severance pay, retention, retirement or other employee benefit plan, agreement or arrangement, or any employment or consulting agreement with or for the benefit of any of the Sellers' Employees, except to the extent AESC or the Sellers are obligated to do so on the date hereof, or (C) amend in any material respect any existing employee benefit plan, agreement or arrangement in a manner inconsistent with the foregoing, except as required by applicable Law;

(iv) hire any new employee to provide services in connection with the businesses of the Sellers with an annual salary in excess of $50,000 or terminate the employment of any such employee other than for cause, or engage any additional consultants or independent contractors or enter into or extend the term of any consulting or independent contractor relationship;

(v) encumber, mortgage, pledge, lease, transfer or otherwise dispose of the AESC Transferred Assets;

(vi) take any action which alters the regulatory status of the Sellers;

(vii) (A) change any financial or Tax accounting methods, policies or practices of either Seller or with respect to any of the Acquired Assets, except as required under GAAP, (B) make, revoke or amend any Tax election of either Seller or with respect to any of the Acquired Assets, (C) file any amended Tax Return of either Seller or with respect to any of the Acquired Assets, (D) enter into any closing agreement affecting any material Tax liability or refund of either Seller or with respect to any of the Acquired Assets, (E) settle or compromise any material Tax liability or refund of either Seller or with respect to any of the Acquired Assets, or (F) extend or waive the application of any statute of limitations regarding the assessment or collection of any Tax of either Seller or with respect to any of the Acquired Assets;

(viii) terminate, extend, request or grant a waiver under, or otherwise amend, in any material respect, any Material Contract or Lease, or enter into any contract, agreement, commitment or arrangement which, had it been in effect as of the date hereof, would have constituted a Material Contract; or

(ix) enter into any written or oral contract, agreement, commitment or arrangement with respect to any of the transactions set forth in the foregoing paragraphs (i) through (viii).

7.2. Access to Information.

(a) Between the date of this Agreement and the Closing Date, the Seller Parties will, during ordinary business hours and upon reasonable notice, (i) give the Buyers and the Buyers' Representatives reasonable access to all books, records, personnel, plants, offices and other facilities and properties of the Seller Parties (limited, in the case of AESC, to the extent they pertain to the Sellers or otherwise relate directly to this Agreement, the Ancillary Agreements and the transactions contemplated hereby and thereby), (ii) permit the Buyers and the Buyers' Representatives to make such reasonable inspections thereof as the Buyers may reasonably request, (iii) furnish the Buyers and the Buyers' Representatives with such financial and operating data and other information regarding the Wheatland Facility as the Buyers may from time to time reasonably request; provided, however, that the Seller Parties will not be required to create special reports or perform any studies, and (iv) furnish the Buyers a copy of each material report, schedule or other document filed or received by it with or from the SEC, FERC or any other Governmental Entity with respect to the Wheatland Facility; provided, however, that (A) any such investigation shall be conducted in such manner as not to unduly interfere with the operation of the Seller Parties' respective businesses and operations, (B) none of the Seller Parties shall be required to take any action which would constitute a waiver of the attorney–client privilege, and (C) none of the Seller Parties need supply the Buyers with any information which such Person is under a legal obligation not to supply. Notwithstanding anything in this Section 7.2 to the contrary, (x) the Seller Parties will only furnish copies of or provide such access to Transferring Employee Records and any other personnel, medical and benefits records to the extent allowed by Law, and (y) the Buyers shall not have the right to perform or conduct any environmental sampling or testing at, in, on or underneath any property or facility or real estate owned by any of the Seller Parties.

(b) Until the Closing Date, all information furnished to or obtained by the Buyers and the Buyers' Representatives pursuant to this Section 7.2 or the Ancillary Agreements shall be subject to the provisions of the Confidentiality Agreement. At the Closing, the Seller Parties shall execute a confidentiality and non–use agreement (the "Sellers Confidentiality Agreement") on substantially similar terms to the Confidentiality Agreement which shall require the Seller Parties to maintain the confidentiality of all information related to the Acquired Assets and the Assumed Liabilities for a period of five years from the Closing Date. Promptly following the date hereof, the Seller Parties shall request, if they have not previously done so, the return or destruction of all non–public information provided by the Seller Parties or their Affiliates or the Seller Parties' Representatives prior to the date hereof to other potential purchasers of the Acquired Assets in connection with a confidentiality agreement executed in connection with such a potential sale of the Acquired Assets.

(c) For a period of seven years after the Closing Date, each of the parties hereto shall have reasonable access to all of the books and records of the other parties (limited, in the case of AESC, to the extent they pertain to the Sellers or the Acquired Assets and, in the case of the Buyers, to the extent they pertain to the Acquired Assets, or, in either case, to the extent otherwise related to this Agreement, the Ancillary Agreements and the transactions contemplated hereby and thereby), including all Transferring Employee Records, to the extent that such access may reasonably be required by such party. Such access shall be afforded by the party or parties in possession of such books and records upon receipt of reasonable advance notice and during normal business hours. The party or parties exercising this right of access shall be solely responsible for any costs or expenses incurred by it or them pursuant to this Section 7.2(c). If the party or parties in possession of such books and records shall desire to dispose of any such books and records upon or prior to the expiration of such seven–year period, such party or parties shall, prior to such disposition, give the other party or parties a reasonable opportunity, at such other party's or parties' expense, to segregate and remove such books and records as such other party or parties may select.

(d) AESC agrees not to release any Person (other than the Buyers) from any confidentiality agreement now existing with respect to the Sellers or the transactions contemplated hereby, or waive or amend any provision thereof. From and after the Closing, AESC shall assign to the Buyers (or, if assignment is not permitted, enforce for the benefit of the Buyers) any such existing confidentiality agreements with other potential purchasers in connection with a potential sale of, or other transaction relating to, the Sellers; provided, however, that AESC will not be obligated to assign any existing confidentiality agreement if such confidentiality agreement contemplates, in addition to a transaction relating to the Sellers, the consummation of other potential transactions with AESC or any of its Affiliates and instead AESC will enforce such confidentiality agreement for the benefit of the Buyers to the extent it relates to a potential sale of, or other transaction relating to, the Sellers or the Acquired Assets.

7.3. Expenses. Except as set forth in Section 7.9 and as otherwise specifically provided herein, whether or not the transactions contemplated hereby are consummated, all costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be borne by the party incurring such costs and expenses, except that (i) the fee payable in connection with the filing required by the HSR Act shall be shared one–half by the Seller Parties and one–half by the Buyers and (ii) the premium for the Title Policy, including the costs of any endorsements, and the cost of the Survey shall be paid solely by the Seller Parties.

7.4. Further Assurances. Subject to the terms and conditions of this Agreement, each of the parties hereto will use Commercially Reasonable Efforts to take, or cause to be taken, all action, and to do, or cause to be done, all things necessary, proper or advisable under applicable Laws to consummate and make effective the sale of the Acquired Assets pursuant to this Agreement, including, without limitation, using Commercially Reasonable Efforts to ensure satisfaction of the conditions precedent to each party's obligations hereunder. None of the parties hereto will, without prior written consent of the other parties, except as contemplated by this Agreement, take or fail to take any action, which would reasonably be expected to prevent or materially impede, interfere with or delay the transactions contemplated by this Agreement. From time to time after the date hereof, without further consideration, each party shall, at its own expense, execute and deliver such and take such further actions as may reasonably be requested by the other party in order to consummate the transactions contemplated by this Agreement in accordance with the terms hereof.

7.5. Public Statements. Prior to the Closing, the parties shall consult with each other prior to issuing any public announcement, statement or other disclosure with respect to this Agreement or the Ancillary Agreements or the transactions contemplated hereby or thereby and shall not issue any such public announcement, statement or other disclosure prior to such consultation, except as may be required by Law or by any securities exchange and except that the parties may make public announcements, statements or other disclosures with respect to this Agreement and the transactions contemplated hereby to the extent and under the circumstances in which the parties are expressly permitted by the Confidentiality Agreement to make disclosures.

7.6. Consents and Approvals; Other Obligations.

(a) The Seller Parties and the Buyers shall cooperate and consult with each other and keep each other informed of the status and (i) prepare and file all necessary documentation and (ii) effect all necessary applications, notices, petitions and filings and execute all agreements and documents, in each case, to obtain as promptly as practicable all necessary consents, approvals and authorizations of all Persons (other than any Governmental Entity) necessary or advisable to consummate the transactions contemplated by this Agreement or required by the terms of any note, bond, mortgage, indenture, deed of trust, license, franchise, permit, concession, contract, lease or other instrument to which any of the Seller Parties or the Buyers are a party or by which any of them is bound.

(b) As promptly as practicable after the date hereof, the Seller Parties or their Affiliates and the Buyers (or the ultimate parent entity of the Buyers, if necessary) shall each file or cause to be filed with the Federal Trade Commission and the United States Department of Justice any notifications required to be filed under the HSR Act and the rules and regulations promulgated thereunder with respect to the transactions contemplated hereby. The parties shall consult with each other as to the appropriate time of filing such notifications and shall use Commercially Reasonable Efforts to make such filings at the agreed upon time, to respond promptly to, and consult with each other with respect to, any requests for additional information made by either of such agencies, and to cause the waiting periods under the HSR Act to terminate or expire at the earliest possible date after the date of filing.

(c) The Seller Parties and the Buyers shall cooperate with each other and promptly prepare and file notifications with, and request Tax clearances from, state and local taxing authorities in jurisdictions in which a portion of the Purchase Price may be required to be withheld pursuant to such state and local Tax Law.

(d) The Seller Parties, at their sole expense, will use all Commercially Reasonable Efforts to cause the transactions contemplated by this Agreement to be permitted, as of the Closing, under the Existing Debt Documents. In addition, the Seller Parties, at their sole expense, will timely seek, and will use all Commercially Reasonable Efforts to obtain, the release of Allegheny Energy, Inc. or its Affiliates from the guarantees and other security obligations with respect to the Wheatland Facility set forth on Schedule 7.6(d) (the "Support

Obligations"). The Buyers will use Commercially Reasonable Efforts to arrange for the Seller Parties and their Affiliates to be released, as of the Closing, from their obligations under the Support Obligations, including by providing any substitute guarantee or other security in like amount, if necessary. If the Buyers and the Seller Parties are not successful in obtaining such releases of the Support Obligations prior to the Closing, then the Buyers shall indemnify and hold the Seller Parties and their Affiliates harmless fro. any claims made against the Seller Parties or their Affiliates with respect to the Wheatland Facility that are attributable to the period on or after the Closing Date or are otherwise in respect of Assumed Liabilities.

7.7. Regulatory Approvals.

(a) The Seller Parties and the Buyers shall cooperate and consult with each other and keep each other informed of the status and (i) prepare and file all necessary documentation and (ii) effect all necessary applications, notices, petitions and filings and execute all agreements and documents, in each case, to obtain as promptly as practicable all necessary consents, approvals and authorizations of all Governmental Entities (including, without limitation, the Sellers Required Regulatory Approvals and the Buyers Required Regulatory Approvals) or required by the terms of any note, bond, mortgage, indenture, deed of trust, license, franchise, permit, concession, contract, lease or other instrument to which any of the Seller Parties or the Buyers are a party or by which any of them is bound. The parties hereto have exchanged, and agreed to, drafts of the joint application to be filed with the FERC under section 203 of the Federal Power Act related to this Agreement and the transactions contemplated hereby, and of the application to be filed by the Buyers with the FERC under section 205 of the Federal Power Act related to this Agreement and the transactions contemplated hereby, and such agreed drafts will be filed with the FERC on or about May 6, 2005. Each of the Seller Parties and the Buyers shall have the right to review in advance all characterizations of the information relating to the transactions contemplated by this Agreement which appear in any filing made in connection with the transactions contemplated hereby.

(b) The Buyers have retained and will use, at their expense, a qualified economist to prepare any analyses necessary to support such application.

(c) The Buyers will use Commercially Reasonable Efforts to obtain SEC approval pursuant to the Holding Company Act in parallel with all required FERC and state regulatory approvals.

7.8. Fees and Commissions. The Seller Parties and the Buyers each represent and warrant to the other that except for Banc of America Securities LLC, which is acting for and at the expense of the Seller Parties, no broker, finder or other Person is entitled to any brokerage fees, commissions or finder's fees in connection with the transactions contemplated hereby. The Seller Parties shall be solely responsible for paying all fees or commissions of Banc of America Securities LLC.

7.9. Tax Matters.

(a) Notwithstanding any other provision of this Agreement, all applicable sales, transfer, use, stamp, conveyance, value added, recording, excise, and other similar Taxes, if any, together with all recording or filing fees, notarial fees and other similar costs of Closing, that may be imposed upon, or payable, collectible or incurred in connection with the transfer of the Acquired Assets to the Buyers or otherwise as a result of the transfer of the Acquired Assets ("Transfer Taxes") shall be borne solely by the Buyers. The Buyers, at their own expense, will file, to the extent required by applicable Law, all necessary Tax Returns and other documentation with respect to all such Transfer Taxes, and if required by applicable Law, the Seller Parties will join in the execution of any such Tax Returns or other documentation.

(b) With respect to Taxes to be prorated in accordance with Section 3.4, the Buyers shall prepare and timely file all Tax Returns required to be filed after the Closing with respect to the Acquired Assets, if any, and shall duly and timely pay all such Taxes shown to be due on such Tax Returns. The Buyers' preparation of any such Tax Returns that are material shall be subject to the Seller Parties' approval, which shall not be unreasonably withheld, conditioned or delayed. The Buyers shall make such Tax Returns available for the Seller Parties' review and approval not later than 15 Business Days prior to the due date for filing such Tax Return and shall make such changes as are reasonably requested by the Seller Parties. Within 10 Business Days after the Buyers' payment of such Taxes, the Seller Parties shall pay to the Buyers, or the Buyers shall pay to the Seller Parties, as appropriate, the difference between (i) the Seller Parties' proportionate share of the amount shown as due on such Tax Return determined in accordance with Section 3.4 and (ii) the amount paid by the Seller Parties at the Closing Date pursuant to Section 4.3(l).

(c) Each of the Buyers and the Seller Parties shall provide the other with such assistance as may reasonably be requested in connection with the preparation of any Tax Return, any audit or other examination by any taxing authority, or any judicial or administrative proceedings relating to Liability for Taxes, and each will retain and provide the requesting parties with any records or information that may be relevant to such return, audit, or examination, proceedings or determination. Any information obtained pursuant to this Section 7.9(c) or pursuant to any other Section hereof providing for the sharing of information or review of any Tax Return or other schedule relating to Taxes shall be kept confidential by the parties hereto.

(d) The Buyers shall remit to the Seller Parties any refund or credit of Taxes, if and when actually received by the Buyers, to the extent such Taxes are attributable to any taxable period, or portion thereof, ending on or before the Closing Date.

(e) Any payment by the Buyers or the Seller Parties to the other pursuant to this Section 7.9 shall be treated for all purposes by both parties as an adjustment to the Purchase Price, to the maximum extent permitted by Law.

(f) In the event that the Buyers and the Seller Parties disagree as to the amount or calculation of any payment to be made under this Agreement relating to Taxes, or the interpretation or application of any provision under this Agreement relating to Taxes, the parties shall attempt in good faith to resolve such dispute. If such dispute is not resolved within 60 days following the commencement of the dispute, the Buyers and the Sellers shall jointly retain the Independent Accounting Firm to resolve the dispute; provided, however, that neither party shall be entitled to dispute any individual Tax item that involves an amount of less than $25,000. The

Independent Accounting Firm shall act as an arbitrator to resolve all points of disagreement and its decision shall be final and binding upon all parties involved. Following the decision of the Independent Accounting Firm, the Buyers and the Seller Parties shall each take or cause to be taken any action necessary to implement the decision of the Independent Accounting Firm. The fees and expense relating to the Independent Accounting Firm shall be borne fifty percent (50%) by the Buyers and fifty percent (50%) by the Seller Parties.

7.10. Employees.

(a) Not later than 15 days prior to the Closing Date, the Buyers will offer employment to each of the Sellers' Employees that is actively employed with any of the Seller Parties or their Affiliates immediately prior to the Closing Date, on such terms and conditions as the Buyers may determine in their sole discretion. Each such offer of employment shall be made contingent upon the Sellers' Employees passing the Buyers' standard screening procedures, which include drug screening and background checks. The Seller Parties shall cooperate with the Buyers' reasonable requests for access to the Sellers' Employees for purposes of making employment offers. Each of the Sellers' Employees who passes the Buyers' standard screening procedures, accepts the Buyers' offer of employment and actually commences work with the Buyers or their Affiliates shall be a "Buyers' Employee" for purposes of this Agreement upon the later of the Closing Date or the commencement of such Sellers' Employee's active employment with the Buyers. Except as required by Law, neither the Buyers nor their Affiliates shall be required to continue the employment of any Buyers' Employee for any period of time, each such employee shall be an at-will employee, and the employment of any Buyers' Employee may be terminated in the Buyers' sole discretion at any time in accordance with applicable Law.

(b) With respect to each Buyers' Employee, effective as of 12:01 a.m. on the date such employee becomes a Buyers' Employee, such Buyers' Employee shall cease to participate in the employee welfare benefit plans (as such term is defined in ERISA) maintained or sponsored by the Sellers or their Affiliates (the "Prior Welfare Plans"), except as may be required under COBRA, and shall, if applicable, commence to participate in welfare benefit plans of the Buyers or the Affiliates (the "Replacement Welfare Plans"). The Buyers shall use reasonable efforts (i) to waive all limitations as to pre-existing condition exclusions and waiting periods with respect to the Buyers' Employees under the Replacement Welfare Plans, other than, but only to the extent of, limitations or waiting period that were in effect with respect to such employee under the Prior Welfare Plans and that have not been satisfied as of the Closing Date, and (ii) to provide the Buyers' Employees with credit for any co-payments and deductibles paid prior to the Closing Date in satisfying any deductible or out of pocket requirements under the Replacement Welfare Plan (on a pro rata basis in the event of a difference in plan years). With respect to each Buyers' Employee (including any beneficiary or the dependant thereof), the Seller Parties shall retain all liabilities and obligations arising under any Prior Welfare Plan whether arising on, prior to or following the Closing Date.

(c) Effective not later than the date a Sellers' Employee becomes a Buyers' Employee, the Seller Parties shall cause such Buyers' Employee to cease to participate in the Benefit Plans, except as may be required under COBRA, and the Buyers shall cause such employee if applicable and to the extent that such employee satisfies any applicable conditions and requirements, to commence participation in certain of the employee benefit plans, programs and fringe benefit plans, programs and fringe benefit arrangements of the Buyers ("Buyers Benefit Plans"). The Buyers' Employees shall be given years of service credit, solely for purposes of eligibility for vacation allotment and not for (i) eligibility for any other purpose, (ii) vesting, (iii) benefit accrual, (iv) service related to benefit level or (v) any other purpose, for all service with the Sellers under the Buyers Benefit Plans, if any, in which they become participants to the same extent such employees were credited with service under comparable Benefit Plans. Neither the Buyers nor their Affiliates shall assume any Benefit Plan, including, without limitation, any severance plan, policy, program, agreement or arrangement of the Seller Parties or any of their Affiliates, nor, except to the extent otherwise provided in subsection (d) below, shall there be any transfer of assets or Liabilities of any Benefit Plan to any Buyers Benefit Plans. No provision of this Agreement shall be construed to limit the authority of the Buyers or their Affiliates to discontinue, suspend or modify any particular benefit or compensation plan or program provided to the Buyers' Employees at any time, or to terminate employment of any Buyers Employees at any time after the Closing Date.

(d) The Buyers will, with respect to any 401(k) plan of the Seller Parties or their ERISA Affiliate in which any of the Sellers' Employees participates, take all necessary action to cause the trustee of any defined contribution plan of the Buyers or any of the Buyers' ERISA Affiliates in which a Sellers' Employee becomes a participant to, if elected by the Sellers' Employee, accept a direct "rollover" of the employee's "eligible rollover distribution," as such terms are defined in Code section 401(a)(31), in cash, but solely to the extent such distribution is allowable by applicable Law and satisfies the requirements for such a rollover pursuant to applicable Law.

(e) The Seller Parties or their Affiliates (and not the Buyers or their Affiliates) shall be responsible for any and all Liabilities attributable to the Sellers' Employees, including without limitation, any and all Liabilities arising out of or resulting from any claim by any Sellers' Employee which arises under any Law (including, without limitation, any claims for wrongful discharge or otherwise), or under any policy, agreement, understanding or promise, written or oral, formal or informal, between the Seller Parties or any of their Affiliates and the Sellers' Employee, whether arising out of actions, events or omissions that occurred (or, in the case of omissions, failed to occur) before, on or after, the Closing Date), other than Liabilities attributable to any Buyers' Employees in respect of the period after the Closing Date (or such later date as the individual becomes a Buyers' Employee). Without limiting the generality of the preceding sentence, the Seller Parties shall be responsible for satisfying continuation coverage provisions under section 4980B of the Code and sections 601–608 of ERISA with respect to any Sellers' Employee (including any Sellers' Employee that becomes a Buyers' Employee) and any eligible spouse or dependent who experiences a "qualifying event," as defined in Code section 4980B(f)(3), on or before the Closing Date. The Seller Parties shall pay to each Buyers' Employee on or before the Closing Date (or such later date as the individual becomes a Buyers' Employee) all sums such Buyers' Employee is due as of such date for any accrued but unpaid salary and wages, including, without limitation, accrued but unpaid vacation days, personal days, and expense reimbursements. In addition, the Seller Parties shall be solely responsible for any and all severance payments or benefits arising under any Benefit Plan, or otherwise with respect to the transactions contemplated by this Agreement, and the Buyers shall have no Liabilities with respect thereto.

(f) Nothing contained in this Section 7.10, whether express or implied, is intended to confer upon any Sellers' Employee or former employee of any of the Seller Parties or their Affiliates or any Buyers' Employee any right or remedy, including, without limitation, any right as a third-party beneficiary.

(g) Effective as of the Closing Date, the Sellers shall pay to each Buyer's Employee who was a participant in the Annual Incentive Plan of any of the Seller Parties the annual bonus that such employee would have received had such employee remained employed with any of the Seller Parties until the last day of the plan year, prorated to reflect a partial plan year ending as of the Closing Date and based on such other assumptions as the Seller Parties reasonably need to make to calculate such bonuses.

7.11. Risk of Loss.

(a) From the date hereof through the Closing Date, all risk of loss or damage to the Acquired Assets shall be borne by the Seller Parties, except that loss or damage caused by the acts or omissions of the Buyers or the Buyers' Representatives will be the responsibility of the Buyers.

(b) If, before the Closing Date, all or any portion of the Acquired Assets is (i) condemned or taken by eminent domain or is the subject of a pending or, to the Seller Parties' Knowledge, contemplated taking which has not been consummated, or (ii) materially damaged or destroyed by fire or other casualty, then the Seller Parties shall notify the Buyers promptly in writing of such fact. If that condemnation, taking, damage, or destruction results in the failure of any condition in Sections 8.1 or 8.2 to be met or results in a Material Adverse Effect, then the Buyers may terminate this Agreement. Unless the Buyers terminate this Agreement pursuant to the foregoing sentence, (x) in the case of a condemnation or taking, the Seller Parties shall assign or pay, as the case may be, any net proceeds thereof to the Buyers at the Closing, and (y) in the case of a fire or other casualty, the Seller Parties shall either restore such damage or assign the insurance proceeds therefor to the Buyers at the Closing.

7.12. Tax Clearance Certificates. The parties hereto shall use Commercially Reasonable Efforts to obtain from any taxing authority any certificate, permit, license, or other document necessary to mitigate, reduce or eliminate any Taxes (including additions thereto or interest and penalties thereon) that otherwise would be imposed with respect to the transactions contemplated in this Agreement.

7.13. Non-Use of Allegheny Marks After the Closing.

(a) The Allegheny Marks appear on some of the Acquired Assets, including on signage at the Wheatland Facility, and on supplies, materials, stationery, brochures, advertising materials, manuals and similar consumable items. The Buyers acknowledge and agree that they do not have and, upon consummation of the transactions contemplated by this Agreement, will not have, any right, title, interest, license or other right to use the Allegheny Marks.

(b) The Buyers will (i) within 60 days after the Closing Date, remove the Allegheny Marks from, or cover or conceal the Allegheny Marks on, the Acquired Assets, including signage at the Wheatland Facility, and provide written verification thereof to the Seller Parties promptly after completing such removal, (ii) within 14 days after the Closing Date, return or destroy (with proof of destruction) all other Acquired Assets that contain any Allegheny Marks that are not removable, and (iii) within 30 days after the Closing Date, submit notifications or amendments with respect to any Permits or Environmental Permits that use any Allegheny Marks.

(c) Each Buyer agrees never to challenge Allegheny Energy, Inc.'s or its Affiliates' ownership of the Allegheny Marks or any application for registration thereof or any registration thereof or any rights of the Seller Parties or their Affiliates therein as a result, directly or indirectly, of its ownership of the Acquired Assets.

(d) The Buyers will not will conduct any business or offer any goods or services under any Allegheny Marks, except as expressly permitted during the transaction period pursuant to Section 7.13(b) or as permitted pursuant to Allegheny Energy, Inc.'s written consent.

(e) No Buyer will send, or cause to be sent, any correspondence or other materials to any Person on any stationery that contains any Allegheny Marks or otherwise operate Wheatland Facility in any manner that would or might reasonably be expected to confuse any Person into believing that such Buyer has any right, title, interest or license to use any Allegheny Marks.

7.14. Insurance. The Buyers acknowledge that, after the Closing, the Acquired Assets shall not be covered by any insurance policy in respect of fire, liability, worker's compensation or otherwise maintained by the Seller Parties or any of their Affiliates. Accordingly, the parties agree that the Buyers shall be responsible for procuring insurance in respect of the Acquired Assets after the Closing Date.

7.15. No Solicitation. From the date hereof through the Closing, none of the Seller Parties, their Affiliates nor the Sellers' Representatives (including, without limitation, investment bankers, attorneys and accountants) shall, directly or indirectly, enter into, solicit, initiate or continue any discussions or negotiations with, or encourage or respond to any inquiries or proposals by, or participate in any negotiations with, or provide any information to, or otherwise cooperate in any other way with, any Person or group, concerning any sale of all or a portion of the Acquired Assets, the Sellers or any equity interest therein, or any merger, consolidation, liquidation, dissolution or similar transaction involving the Sellers (each such transaction being referred to herein as a "Proposed Acquisition Transaction") other than with the Buyers, their Affiliates and the Buyers' Representatives. None of the Seller Parties shall, directly or indirectly, through any Affiliate, officer, director, employee, Sellers' Representative or otherwise, solicit, initiate or encourage the submission of any proposal or offer from any Person (including, without limitation, a "person" as defined in Section 13(d)(3) of the Exchange Act) relating to any Proposed Acquisition Transaction. The Seller Parties represent that they are not now engaged in discussions or negotiations with any Person other than the Buyers with respect to a Proposed Acquisition Transaction.

7.16. Notifications.

(a) Subject to the terms and conditions of this Agreement, each of the parties will use Commercially Reasonable Efforts to (i) promptly notify the other parties of (A) any representation or warranty made by it contained in this Agreement that is qualified as to materiality becoming untrue or inaccurate as so qualified in any respect or any such representation or warranty that is not so qualified becoming untrue or inaccurate in any material respect, (B) the failure by it to comply in any material respect with or satisfy in any material respect any covenant, condition or agreement to be complied with or satisfied by it under this Agreement, and (C) any change or event which, individually or in the aggregate, has had a material adverse effect on the Buyers or a Material Adverse Effect; and (ii) promptly provide the other party with copies of all filings made by such party or any Affiliates thereof with any Governmental Entity in connection with this Agreement and the transactions contemplated hereby.

(b) The Seller Parties will, from time to time prior to the Closing (but no more than once in any 30–day period), promptly supplement or amend any of the Seller Parties' Schedules relating to Article V with respect to any matter that existed as of the date of this Agreement and should have been set forth or described in such Schedule. If the matters disclosed on such supplemented or amended Schedules would, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect, then the Buyers may elect to terminate this Agreement within 15 days after receipt of the supplemented or amended Schedule, by providing written notice thereof to the Seller Parties. If the Buyers elect to terminate this Agreement pursuant to this Section 7.16(b), then the Seller Parties will have a 20–day period to cure the event causing the amended or supplemented Schedule, provided that, if so cured within such 20–day period, this Agreement shall not be terminated. No disclosure by the Seller Parties pursuant to this Section 7.16(b), however, will be deemed to amend or supplement any of the Seller Parties' Schedules, to have qualified the representations and warranties contained in this Agreement or to have reduced or limited in any way the indemnification obligations of the Seller Parties pursuant to Article IX, unless the Buyers expressly consent to such supplement in writing.

(c) The Seller Parties will, from time to time prior to the Closing (but no more than once in any 30–day period), promptly supplement or amend any of the Seller Parties' Schedules relating to Article V with respect to any matter arising after the date of this Agreement, which, if existing as of the date of this Agreement, would have been required to be set forth or described in such Schedule in order to make any representation or warranty set forth in this Agreement true and correct as of such date. If the matters disclosed on such supplemented or amended Schedules would, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect, then the Buyers may elect to terminate this Agreement, within 15 days after receipt of the supplemented or amended Schedules, by providing written notice thereof to the Seller Parties; provided, however, that if the Buyers do not exercise such right to terminate this Agreement within such 15–day period, then (i) the Buyers will be deemed to have forever waived any right to terminate this Agreement based upon such supplement or amendment, except when considered in the aggregate with subsequent supplements or amendments, (ii) the Buyers will be deemed to have accepted such supplement or amendment, subject to (and in no way limiting) the Buyers' right to receive the indemnity set forth in the last sentence of this Section 7.16(c), and (iii) such supplement or amendment will be deemed to supplement or amend the Sellers' Schedules, subject to (and in no way limiting) the Buyers' right to receive the indemnity set forth in the last sentence of this Section 7.16(c). If the Buyers elect to terminate this Agreement pursuant to this Section 7.16(c), then the Seller Parties will have a 20–day period to cure the event causing the amended or supplemented Schedule, provided that, if so cured within such 20–day period, this Agreement shall not be terminated. In the event the Closing occurs, the Seller Parties shall indemnify the Buyers for all Liabilities associated with or arising out of the matters disclosed in any supplemented or amended Schedules delivered pursuant to this Section 7.16(c) in accordance with Article IX.

(d) The Buyers will, from time to time prior to the Closing (but no more than once in any 30–day period), promptly supplement or amend any of the Buyers' Schedules relating to Article VI with respect to any matter that existed as of the date of this Agreement and should have been set forth or described in such Schedule. If the matters disclosed on such supplemented or amended Schedule would, individually or in the aggregate, be reasonably likely to prevent, materially delay or impair the Buyers' ability to consummate the transactions contemplated by this Agreement, then the Seller Parties may elect to terminate this Agreement within 15 days after receipt of the supplemented or amended Schedule, by providing written notice thereof to the Buyers. If the Seller Parties elect to terminate this Agreement pursuant to this Section 7.16(d), then the Buyers will have a 20 day period to cure the event causing the amended or supplemented Schedule, provided that, if so cured within such 20–day period, this Agreement shall not be terminated. No disclosure by the Buyers pursuant to this Section 7.16(d), however, will be deemed to amend or supplement any of the Buyers' Schedules, to have qualified the representations and warranties contained in this Agreement or to have reduced or limited in any way the indemnification obligations of the Buyers pursuant to Article IX, unless the Seller Parties expressly consent to such supplement in writing.

(e) The Buyers will, from time to time prior to the Closing (but no more than once in any 30–day period), promptly supplement or amend any of the Buyers' Schedules relating to Article VI with respect to any matter arising after the date of this Agreement, which, if existing as of the date of this Agreement, would have been required to be set forth or described in such Schedule in order to make any representation or warranty set forth in this Agreement true and correct as of such date. If the matters disclosed on such supplemented or amended Schedule would, individually or in the aggregate, be reasonably likely to prevent, materially delay or impair the Buyers' ability to consummate the transactions contemplated by this Agreement, then the Seller Parties may elect to terminate this Agreement, within 15 days after receipt of the supplemented or amended Schedule, by providing written notice thereof to the Buyers; provided, however, that if the Seller Parties do not exercise such right to terminate this Agreement within such 15–day period, then (i) the Seller Parties will be deemed to have forever waived any right to terminate this Agreement based upon such supplement or amendment, except when considered in the aggregate with subsequent supplements or amendments, (ii) the Seller Parties will be deemed to have accepted such supplement or amendment, and (iii) such supplement or amendment will be deemed to supplement or amend the Buyers' Schedules. If the Seller Parties elect to terminate this Agreement pursuant to this Section 7.16(e), then the Buyers will have a 20–day period to cure the event causing the amended or supplemented Schedule, provided that, if so cured within such 20–day period, this Agreement shall not be terminated.

(f) Together with any supplement or amendment to the Schedules pursuant to this Section 7.16, the party delivering such supplement or amendment shall also deliver supplementary material, and any other explanatory material with respect to such amendment or supplement as reasonably requested by any other party, to the other parties (the "Reviewing Parties"). Notwithstanding any other provision in this Agreement, and regardless of whether the conditions to the Closing in Article VIII have been satisfied or waived, in no event shall the Closing occur during the 15-day review period granted to the Reviewing Parties as provided in this Section 7.16 without the written consent of the Reviewing Parties.

7.17. Notice of Allocation of Acquired Assets. The Buyers shall deliver to the Seller Parties, no later than four Business Days prior to the expected Closing Date, a written notice indicating the respective ownership percentage of each of PSI Energy and CG&E with respect to the Acquired Assets and Assumed Liabilities as of the Closing. The parties hereto agree to use Commercially Reasonable Efforts to prepare the Ancillary Agreements to reflect the ownership percentages contained in such notice.

7.18. Post-Closing Start-Up.

(a) In the event that the Buyers conduct a start-up (other than a Sellers-Initiated Start-Up) of the Wheatland Facility (a "Buyers-Initiated Start-Up") within three months after the Closing Date, the Buyers shall give the Seller Parties written notice at least three days, or such shorter period as may be reasonably be required under the circumstances, prior to the planned date of the first Buyers-Initiated Start-Up, and the Buyers shall allow up to two individuals who are Seller Parties' Representatives to attend the first Buyers-Initiated Start-Up in order to observe the operation of the Wheatland Facility. The Seller Parties shall solely be observers of the Buyers-Initiated Start-Up and shall have no authority with respect to the operational parameters of any Buyers-Initiated Start-Up. The Buyers shall be solely responsible for all costs related to any Buyers-Initiated Start-Up.

(b) Within 30 days after the Closing Date, the Seller Parties may deliver a written notice to the Buyers requesting that the Buyers initiate one start-up of the Wheatland Facility (a "Sellers-Initiated Start-Up"). In the event such a notice is delivered, the Buyers shall use Commercially Reasonable Efforts to conduct such Sellers-Initiated Start-Up within 30 days of the delivery of such notice to the Buyers, subject to reasonable delay for weather conditions, fuel availability and other reasonable factors that might delay such Sellers-Initiated Start-Up. The Buyers shall allow up to two individuals who are Seller Parties' Representatives to attend the Sellers-Initiated Start-Up in order to observe the operation of the Wheatland Facility. The Seller Parties shall solely be observers of the Sellers-Initiated Start-Up and shall have no authority with respect to the operational parameters of the Sellers-Initiated Start-Up. The Seller Parties shall pay to the Buyers the difference between the market price of the electricity sold during the Sellers-Initiated Start-Up and the price of the natural gas used to generate such electricity, also known as the spark spread.

(c) Notwithstanding Sections 7.18(a) and (b), in no event shall the Buyers be obligated to (i) conduct a Sellers-Initiated Start-Up if the Buyers have already conducted a Buyers-Initiated Start-Up in compliance with Section 7.18(a) or (ii) allow the Seller Parties'

Representatives to observe more than one start–up of the Wheatland Facility, regardless of whether such observed start–up was a Buyers–Initiated Start–Up or a Sellers–Initiated Start–Up.

(d) For the avoidance of doubt, the occurrence of a Buyers–Initiated Start–Up or a Sellers–Initiated Start–Up shall in no way limit or modify (i) the representations and warranties of the Seller Parties, including those contained in Section 5.19(b), (ii) the indemnification obligations of the Seller Partiers pursuant to Article IX or (iii) the survival periods of any of the provisions of this Agreement as set forth in Section 11.3.

7.19. Waiver of Indiana Responsible Transfer Property Law. The Sellers shall comply with the provisions of section 2(b) of the Indiana Responsible Transfer Property Law (Ind. Code § 13–25–3), to the extent applicable, in connection with the conveyance of the Owned Real Property to the Buyers; provided, however, that each of the Buyers hereby (a) waives the 30 day advance delivery requirement set forth in section 13–25–3–2(a) of the Indiana Responsible Transfer Property Law, and (b) acknowledges its awareness of the purpose and intent of the disclosure document referred to therein

7.20. Certain Transmission Matters. On or prior to the Closing Date, the Seller Parties shall, and shall cause their Affiliates to, take all necessary actions required to delist all of the units at the Wheatland Facility as capacity resources for PJM. From and after the Closing Date, the Seller Parties shall not, and shall cause their Affiliates not to, use any of the units at the Wheatland Facility for any capacity obligations of the Seller Parties or their Affiliates. No later than May 31, 2006, the Seller Parties shall, and shall cause their Affiliates to, cease utilizing any of the units at the Wheatland Facility as a source for the purposes of transmission service or transmission service reservations. If any of the Seller Parties or any of their Affiliates have an existing transmission service reservation from the Wheatland Facility on June 1, 2006, such Seller Parties shall, or shall cause their Affiliates to, either terminate such transmission service reservation or, if reasonably acceptable to both the Seller Parties and the Buyers, assign such transmission service agreement to the Buyers.

ARTICLE VIII
CONDITIONS

8.1. Conditions to Each Party's Obligations to Effect the Transaction. The respective obligations of each party to effect the sale and purchase of the Acquired Assets shall be subject to the fulfillment at or prior to the Closing Date of the following conditions, except as may be waived in writing pursuant to Section 11.2 by the joint action of the parties hereto:

(a) The waiting period under the HSR Act applicable to the consummation of the sale of the Acquired Assets contemplated hereby shall have expired or been terminated;

(b) No preliminary or permanent injunction or other order or decree by any federal or state court which prevents the consummation of the sale of the Acquired Assets contemplated hereby shall have been issued and remain in effect (each party agreeing to use Commercially Reasonable Efforts to have any such injunction, order or decree lifted); and no Law shall have been enacted by any Governmental Entity which prohibits the consummation of the sale of the Acquired Assets;

(c) All consents and approvals for the consummation of the sale of the Acquired Assets required under the terms of any note, bond, mortgage, indenture, contract, Permit or other agreement to which the Seller Parties or the Buyers, or any of their Subsidiaries, are a party shall have been obtained, other than those which if not obtained, would not, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect; and

(d) Subject to Section 11.16, the Sellers Required Regulatory Approvals and the Buyers Required Regulatory Approvals shall have been obtained by a Final Order.

8.2. Conditions to Obligation of the Buyers. The obligation of the Buyers to effect the purchase of the Acquired Assets contemplated by this Agreement shall be subject to the fulfillment at or prior to the Closing Date of the following additional conditions, except as may be waived by the Buyers in writing pursuant to Section 11.2:

(a) There shall not have occurred since the date of this Agreement and be continuing a Material Adverse Effect or any events or conditions which are reasonably likely to have a Material Adverse Effect;

(b) The Seller Parties shall have performed and complied with in all material respects the covenants and agreements contained in this Agreement that are required to be performed and complied with by the Seller Parties on or prior to the Closing Date;

(c) Each of the representations and warranties of the Seller Parties set forth in this Agreement that are not qualified by materiality or Material Adverse Effect shall be true and correct in all material respects as of the date of this Agreement and as of the Closing Date, with the same effect as though such representations and warranties had been made on and as of the Closing Date, except that such representations and warranties that are made as of a specific date need only be true and correct as of such date;

(d) Each of the representations and warranties of the Seller Parties that are qualified by materiality or Material Adverse Effect shall be true and correct as of the date of this Agreement and as of the Closing Date, with the same effect as though such representations and warranties had been made on and as of the Closing Date, except that such representations and warranties that are made as of a specific date need only be true and correct as of such date;

(e) Each of the Buyers shall have received a certificate from an authorized officer of each of the Seller Parties, dated the Closing Date, to the effect that the conditions set forth in Sections 8.2(a), 8.2(b), 8.2(c) and 8.2(d) have been satisfied;

(f) The Seller Parties shall have complied with the delivery requirements of Section 4.3;

(g) All Permits and material Environmental Permits shall have been transferred to the Buyers or, if such Permits and Environmental Permits are not transferable, shall have been modified or reissued to the Buyers, except to the extent that applicable Laws (including, without limitation, applicable Environmental Laws) would allow the Buyers to lawfully own and operate the Wheatland Facility and the Site after the Closing Date in the manner in which they are currently operated without such conditions having been satisfied;

(h) Subject to Section 11.16, the Final Orders of any Governmental Entity having authority over the transactions contemplated by this Agreement shall have been received, and such Final Orders shall not impose terms or conditions which would, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect or a material adverse effect on the business, assets, operations or conditions of either of the Buyers, in the context of the transaction contemplated hereby and as determined by the board of directors of either of the Buyers based on the advice of the Buyers' Representatives; and

(i) The Seller Parties shall have delivered evidence, reasonably satisfactory in form and substance to the Buyers, of the full and irrevocable release of all Encumbrances on the Acquired Assets arising under or relating to the Existing Debt Documents.

8.3. Conditions to Obligation of the Seller Parties. The obligation of the Seller Parties to effect the sale of the Acquired Assets contemplated by this Agreement shall be subject to the fulfillment at or prior to the Closing Date of the following additional conditions, except as may be waived by the Seller Parties in writing pursuant to Section 11.2:

(a) The Buyers shall have performed and complied with in all material respects the covenants and agreements contained in this Agreement that are required to be performed and complied with by the Buyers on or prior to the Closing Date;

(b) Each of the representations and warranties of the Buyers set forth in this Agreement that are not qualified by materiality shall be true and correct in all material respects as of the date of this Agreement and as of the Closing Date, with the same effect as though such representations and warranties had been made on and as of the Closing Date, except that such representations and warranties that are made as of a specific date need only be true and correct as of such date;

(c) Each of the representations and warranties of the Buyers that are qualified by materiality shall be true and correct as of the date of this Agreement and as of the Closing Date, with the same effect as though such representations and warranties had been made on and as of the Closing Date, except that such representations and warranties that are made as of a specific date need only be true and correct as of such date;

(d) The Seller Parties shall have received a certificate from an authorized officer of each of the Buyers, dated the Closing Date, to the effect that the conditions set forth in Sections 8.3(a), 8.3(b) and 8.3(c) have been satisfied;

(e) The Buyers shall have complied with the delivery requirements of Section 4.4; and

(f) Subject to Section 11.16, the Final Orders of any Governmental Entity having authority over the transactions contemplated by this Agreement shall have been received, and such Final Orders shall not impose terms or conditions which would, individually or in the aggregate, be reasonably likely to have a material adverse effect on the business, assets, operations or conditions of any of the Seller Parties, in the context of the transactions contemplated hereby and as determined by the board of directors of AESC based on the advice of the Seller Parties' Representatives.

ARTICLE IX
INDEMNIFICATION

9.1. Indemnification.

(a) From and after the Closing Date, subject to the limitations set forth in this Section 9.1(a), and provided that the Buyers Indemnified Party makes a written claim for indemnification against the Seller Parties pursuant to Section 11.4 within the survival period set forth in Section 11.3, the Seller Parties shall, jointly and severally, indemnify, defend and hold harmless each of the Buyers and their Affiliates, and their respective directors, officers, employees, shareholders and agents (each, a "Buyers Indemnified Party") from and against any and all claims, demands or suits (by any Person), losses, Liabilities, damages, obligations, payments, costs and expenses (including, without limitation, the costs and expenses of any and all actions, suits, proceedings, assessments, judgments, settlements and compromises relating thereto and reasonable attorneys' fees and reasonable disbursements in connection therewith) (each, an "Indemnifiable Loss") asserted against or suffered by the Buyers Indemnified Parties relating to, resulting from or arising out of (i) any breach by any of the Seller Parties of any of the representations and warranties of the Seller Parties contained in this Agreement, or any inaccurate statement in the certificate delivered pursuant to Section 8.2(e), (ii) any breach by any of the Seller Parties of any covenant or agreement of the Seller Parties contained in this Agreement, (iii) any Excluded Liabilities, (iv) any failure of the Seller Parties to comply with applicable bulk sales Laws or (v) the matters disclosed on any supplemented or amended Schedules provided by the Seller Parties pursuant to Section 7.16(c). Notwithstanding the foregoing, (A) the Seller Parties shall have no Liability under Sections 9.1(a)(i) or 9.1(a)(v) for Indemnifiable Losses (other than Indemnifiable Losses pursuant to Section 7.8), unless and until the aggregate Indemnifiable Losses incurred by the Buyers Indemnified Parties exceed $750,000 in which case the Seller Parties shall be jointly and severally liable for all losses in excess of $750,000, (B) in no event shall the Seller Parties' aggregate Liability under Sections 9.1(a)(i) and 9.1(a)(v) exceed $50,000,000 in the aggregate; (C) in no event shall the Seller Parties' aggregate Liability under Section 9.1(a)(ii) exceed the amount of the Purchase Price; and (D) for purposes of calculating the amount of Indemnifiable Losses, all references to materiality or similar qualifiers or Material Adverse Effect shall be disregarded.

(b) From and after the Closing Date, subject to the limitations set forth in this Section 9.1(b), and provided that the Sellers Indemnified Party makes a written claim for indemnification against the Buyers pursuant to Section 11.4 within the survival period set forth in Section 11.3, the Buyers shall, jointly and severally, indemnify, defend and hold harmless each of the Seller Parties and their Affiliates, and their respective directors, officers, employees, shareholders and agents (each, a "Sellers Indemnified Party") from and against all Indemnifiable Losses asserted against or suffered by the Sellers Indemnified Parties relating to, resulting from or arising out of (i) any breach by either of the Buyers of any of the representations and warranties of the Buyers contained in this Agreement, or any inaccurate statement in the certificate delivered pursuant to Section 8.3(d), (ii) any breach by either of the Buyers of any covenant or agreement of the Buyers contained in this Agreement, or (iii) the Assumed Liabilities. Notwithstanding the foregoing, (A) the Buyers shall have no Liability under Section 9.1(b)(i) for Indemnifiable Losses (other than Indemnifiable Losses pursuant to Section 7.8), unless and until the aggregate Indemnifiable Losses incurred by the Sellers Indemnified Parties exceed \$750,000 in which case the Buyers shall be jointly and severally liable for all losses in excess of \$750,000; (B) in no event shall the Buyers' aggregate Liability under Section 9.1(b)(i) exceed \$50,000,000; (C) in no event shall the Buyers' aggregate Liability under Section 9.1(b)(ii) exceed the amount of the Purchase Price; and (D) for purposes of calculating the amount of Indemnifiable Losses, all references to materiality, material adverse effect or similar qualifiers shall be disregarded.

(c) Any Person entitled to receive indemnification under this Agreement (an "Indemnitee") having a claim under these indemnification provisions shall make a good faith effort to recover all Indemnifiable Losses from insurers of such Indemnitee under applicable insurance policies so as to reduce the amount of any Indemnifiable Loss hereunder; provided that in no event shall an Indemnitee be required to initiate litigation or arbitration against an insurance provider before receiving payment for any Indemnifiable Loss pursuant to this Article IX. The amount of Indemnifiable Loss will be (i) reduced to the extent that Indemnitee receives any insurance proceeds with respect to an Indemnifiable Loss and (ii) reduced or increased to take into account any net Tax benefit or burden recognized by the Indemnitee arising from the recognition of the Indemnifiable Loss and any payment actually received with respect to an Indemnifiable Loss.

(d) The expiration, termination or extinguishment of any representation, warranty, covenant or agreement pursuant to Section 11.3 shall not affect the parties' obligations under this Section 9.1 if the Indemnitee provided the Person required to provide indemnification under this Agreement (the "Indemnifying Party") with proper notice of the claim or event for which indemnification is sought prior to such expiration, termination or extinguishment.

(e) Following the Closing and except with respect to intentional breaches of this Agreement, willful misconduct or fraud, the remedies set forth in this Article IX will be the sole and exclusive remedies for any and all claims, damages, complaints, demands, causes of action, investigations, hearings, actions, suits or other proceedings in connection with, arising from or relating to this Agreement and the Ancillary Agreements and the transactions contemplated hereby and thereby and are in lieu of any and all other rights and remedies which the Seller Parties or the Buyers may have under this Agreement or otherwise for relief (monetary or otherwise) with respect to any breach of or failure to perform under this Agreement and the Ancillary Agreements or otherwise with respect to the transactions contemplated hereby and thereby, including with respect to the Assumed Liabilities or Excluded Liabilities. Each party waives any provision of Law to the extent that it would limit or restrict the agreements contained in this Article IX. Nothing herein shall prevent either party from terminating this Agreement in accordance with Article X.

(f) Any indemnity payment under this Agreement shall be treated as an adjustment to the Purchase Price for Tax purposes, to the maximum extent permitted by applicable Law.

9.2. Defense of Claims.

(a) If any Indemnitee receives notice of the assertion of any claim or of the commencement of any claim, action, or proceeding made or brought by any Person who is not a party to this Agreement or an Affiliate of a party to this Agreement (a "Third Party Claim") with respect to which indemnification is to be sought from the Indemnifying Party, the Indemnitee will give the Indemnifying Party reasonably prompt written notice thereof, but in any event not later than 15 days after the Indemnitee's receipt of written notice of such Third Party Claim. Such notice shall describe the nature of the Third Party Claim in reasonable detail and shall indicate the estimated amount, if practicable, of the Indemnifiable Loss that has been or may be sustained by the Indemnitee. The Indemnifying Party will have the right to participate in or, by giving written notice to the Indemnitee, to elect to assume the defense of any Third Party Claim at the Indemnifying Party's own expense and by the Indemnifying Party's own counsel (reasonably acceptable to the Indemnitee), and the Indemnitee will cooperate in good faith in such defense at such Indemnitee's own expense.

(b) If within 10 days after an Indemnitee provides written notice to the Indemnifying Party of any Third Party Claim the Indemnitee receives written notice from the Indemnifying Party that the Indemnifying Party has elected to assume the defense of such Third Party Claim as provided in the last sentence of Section 9.2(a), the Indemnifying Party will not be liable for any legal expenses subsequently incurred by the Indemnitee in connection with the defense thereof; provided, however, that if at any time the Indemnifying Party fails to take reasonable steps necessary to defend diligently such Third Party Claim within 10 days after receiving notice from the Indemnitee that the Indemnitee believes the Indemnifying Party has failed to take such steps, the Indemnitee may assume its own defense, and the Indemnifying Party will be liable for all reasonable expenses thereof; provided further, that if, under applicable standards of professional conduct, a conflict with respect to any significant issue between any Indemnitee and the Indemnifying Party exists in respect of such Third Party Claim, the Indemnifying Party shall pay reasonable fees and expenses of one additional counsel as may be required to be retained in order to resolve such conflict. The Indemnifying Party shall be liable for the fees and expenses of counsel employed by the Indemnitee for any period during which the Indemnifying Party has not assumed the defense of any such Third Party Claim (other than during any period in which the Indemnitee has failed to give notice of the Third Party Claim as provided above). If the Indemnifying Party assumes such defense, the Indemnitee shall have the right to participate in the defense thereof and to employ counsel, at its own expense, separate from the counsel employed by the Indemnifying Party, it being understood that the Indemnifying Party shall control such defense. If the Indemnifying Party chooses to defend or bring any Third Party Claim, the Indemnitee shall agree to any settlement, compromise or discharge of such Third Party Claim that the Indemnifying Party may recommend and that, by its terms, discharges the Indemnitee and its Affiliates from the full amount of Liability in connection with such Third Party Claim; provided, however, that, without the consent of the Indemnitee, the Indemnifying Party shall not consent to, and the Indemnitee shall not be required to agree to, the entry of any judgment or entry into any settlement that (i) provides for injunctive or other non-monetary relief affecting the Indemnitee or any of its Affiliates or (ii) does not include as an unconditional term thereof the giving of a release from all Liability with respect to such claim by each claimant or plaintiff to each Indemnitee that is the subject of such Third Party Claim.

(c) Any claim by an Indemnitee on account of an Indemnifiable Loss which does not result from a Third Party Claim (a "Direct Claim") will be asserted by giving the Indemnifying Party reasonably prompt written notice thereof, stating the nature of such claim in reasonable detail and indicating the estimated amount, if practicable, and the Indemnifying Party will have a period of 30 days within which to respond to such Direct Claim. If the Indemnifying Party does not respond within such 30-day period, the Indemnifying Party will be deemed to have accepted such claim. If the Indemnifying Party rejects such claim, the Indemnitee will be free to seek enforcement of its rights to indemnification under this Agreement.

(d) If the amount of any Indemnifiable Loss, at any time subsequent to the making of an indemnity payment in respect thereof, is reduced by recovery, settlement or otherwise under or pursuant to any insurance coverage, or pursuant to any claim, recovery, settlement or payment by or against any other Person, the amount of such reduction, less any costs, expenses or premiums incurred in connection therewith will promptly be repaid by the Indemnitee to the Indemnifying Party, but in any event not later than 30 days after receipt of such reduction by the Indemnitee. Upon making any indemnity payment, the Indemnifying Party will, to the extent of such indemnity payment, be subrogated to, and the Indemnitee shall provide the Indemnifying Party a written assignment of, all rights of the Indemnitee against any third party (including any insurer) in respect of the Indemnifiable Loss to which the indemnity payment relates; provided, however, that (i) the Indemnifying Party will then be in compliance with its obligations under this Agreement in respect of such Indemnifiable Loss and (ii) until the Indemnitee recovers full payment of its Indemnifiable Loss, any and all claims of the Indemnifying Party against any such third party on account of said indemnity payment is hereby made expressly subordinated and subject in right of payment to the Indemnitee's rights against such third party. Without limiting the generality or effect of any other provision hereof, each such Indemnitee and the Indemnifying Party will duly execute upon request all instruments reasonably necessary to evidence and perfect the above-described subrogation and subordination rights, and otherwise cooperate in the prosecution of such claims at the direction of the Indemnifying Party. Nothing in this Section 9.2(d) shall be construed to require any party hereto to obtain or maintain any insurance coverage.

(e) A failure to give timely notice as provided in this Section 9.2 will not affect the rights or obligations of any party hereunder except if, and only to the extent that, as a result of such failure, the party which was entitled to receive such notice was actually prejudiced as a result of such failure.

ARTICLE X
TERMINATION AND ABANDONMENT

10.1. Termination.

(a) This Agreement may be terminated at any time prior to the Closing Date by mutual written consent of the Seller Parties and the Buyers.

(b) This Agreement may be terminated by the Seller Parties or the Buyers if the Closing contemplated hereby shall have not occurred on or before December 31, 2005 (the "Termination Date"); provided, however, that the right to terminate this Agreement under this Section 10.1(b) will not be available to any party whose failure to fulfill any obligation under this Agreement has been the cause of, or resulted in, the failure of the Closing to occur on or before such date.

(c) This Agreement may be terminated by the Seller Parties or the Buyers if (i) one or more courts of competent jurisdiction shall have issued an order, judgment or decree permanently restraining, enjoining or otherwise prohibiting the Closing, and such order, judgment or decree shall have become final and nonappealable or (ii) any Law shall have been enacted by any Governmental Entity which prohibits the consummation of the Closing.

(d) This Agreement may be terminated by the Buyers if there shall have been a material breach of any representation or warranty, or a material breach of any covenant or agreement of the Seller Parties hereunder, which breach would, individually or in the aggregate, be reasonably likely to have a Material Adverse Effect and such breach has not been cured by the Seller Parties within 30 Business Days after the Seller Parties have Knowledge of such breach.

(e) This Agreement may be terminated by the Seller Parties if there shall have been a material breach of any representation or warranty, or a material breach of any covenant or agreement of the Buyers hereunder, which breach would prevent, materially delay or materially impair the Buyers' ability to consummate the transactions contemplated by this Agreement and such breach has not been cured by the Buyers within 30 Business Days after the Buyers have Knowledge of such breach.

(f) This Agreement may be terminated by the Buyers as contemplated in Section 7.11(b).

(g) This Agreement may be terminated by the Seller Parties or the Buyers in accordance with the provisions of Section 7.16.

10.2. Procedure and Effect of Termination. In the event of termination of this Agreement and abandonment of the transactions contemplated hereby by either the Seller Parties or the Buyers pursuant to Section 10.1, written notice thereof shall forthwith be given by the terminating party to the other parties and this Agreement shall terminate and the transactions contemplated hereby shall be abandoned, without further action by any of the parties hereto. If this Agreement is terminated as provided herein:

(a) None of the parties hereto nor any of their respective trustees, directors, officers, Affiliates, as the case may be, shall have any Liability or further obligation to the other parties or any of their respective trustees, directors, officers or Affiliates, as the case may be, pursuant to this Agreement, except (i) that nothing herein shall relieve any party from Liability for any material breach of any representation, warranty, covenant, or agreement of such party contained in this Agreement and (ii) that Sections 7.2(b), 7.3, 7.8, 10.2, 11.1, 11.2, 11.4 through 11.6, and 11.8 through 11.10 and 11.12 through 11.15 shall survive such termination; and

(b) All filings, applications and other submissions made pursuant to this Agreement, to the extent practicable, shall be withdrawn from the Governmental Entity or other Person to which they were made.

ARTICLE XI
MISCELLANEOUS PROVISIONS

11.1. Amendment and Modification. Subject to applicable Law, this Agreement may be amended, modified or supplemented only by written agreement of the Seller Parties and the Buyers.

11.2. Waiver of Compliance. Except as otherwise provided in this Agreement, any failure of any of the parties to comply with any obligation, covenant, agreement or condition herein may be waived by the party entitled to the benefits thereof only by a written instrument signed by the party expressly granting such waiver, but such waiver or failure to insist upon strict compliance with such obligation, covenant, agreement or condition shall not operate as a waiver of, or estoppel with respect to, any other failure.

11.3. Survival.

(a) The representations and warranties of the Seller Parties contained herein or in any certificates or documents delivered pursuant to this Agreement on the Closing Date shall survive the Closing for a period of 24 months following the Closing Date; provided, however, that (i) the representations and warranties set forth in Section 5.10 shall survive for a period of five years following the Closing Date, (ii) the representations and warranties set forth in Section 5.19(b) shall survive for a period of three months following the Closing Date, and (iii) the representations and warranties set forth in Sections 5.2, 5.3, 5.8, 5.17, 5.19(a), 5.22 and 5.23 shall survive until 90 days after the expiration of the applicable statute of limitations (giving effect to extensions or waivers thereof; provided, however, that nothing contained in this Agreement shall be deemed to require any of the parties to agree to any such extension or waiver).

(b) The representations and warranties of the Buyers contained herein or in any certificates or documents delivered pursuant to this Agreement on the Closing Date shall survive the Closing for a period of 24 months following the Closing Date; provided, however, that the representations and warranties set forth in Sections 6.2, 6.6, 6.7 and 6.8 shall survive until 90 days after the expiration of the applicable statute of limitations (giving effect to extensions or waivers thereof; provided, however, that nothing contained in this Agreement shall be deemed to require any of the parties to agree to any such extension or waiver).

(c) The covenants and agreements in Article IX shall survive the Closing and shall remain in full force and effect for such period as is necessary to resolve any claim made with respect to any representation, warranty, covenant or agreement contained herein during the survival period thereof, and the covenants and agreements of the parties contained in Articles II, III, VII and XI of this Agreement shall survive the Closing for (i) the time period(s) set forth in the respective Sections contained in such Articles, or (ii) if no time period is so specified, until 90 days after the expiration of the applicable statute of limitations.

11.4. Notices. All notices and other communications hereunder shall be in writing and shall be deemed given if delivered personally or by facsimile transmission, telexed or mailed by overnight courier or registered or certified mail (return receipt requested), postage prepaid, to the parties at the following address (or at such other address for a party as shall be specified by like notice; provided that notices of a change of address shall be effective only upon receipt thereof):

(a) If to the Seller Parties, to:

Allegheny Energy Supply Company, LLC
4350 Northern Pike – 4 North
Monroeville, PA 15146–2841
Facsimile: (412) 856–2789
Attention: Deputy General Counsel

with a copy to:

Allegheny Energy, Inc.
800 Cabin Hill Drive
Greensburg, PA 15601–1689
Facsimile: (724) 830–5151
Attention: President

and

Gray, Plant, Mooty, Mooty & Bennett, P.A.
500 IDS Center
80 South Eighth Street
Minneapolis, MN 55402
Facsimile: (612) 632–4388
Attention: Joseph T. Kinning, Esq.

(b) If to PSI Energy, to:

PSI Energy, Inc.
1000 East Main Street
Plainfield, IN 46168

Facsimile: (317) 838–2111

Attention: Kay E. Pashos, President

with a copy to:

Cinergy Corp.

139 East Fourth Street

Cincinnati, OH 45202

Facsimile: (513) 287–4090

Attention: Douglas C. Taylor, Vice President, Corporate Development

and

Skadden, Arps, Slate, Meagher & Flom LLP

1440 New York Avenue, N.W.

Washington, DC 20005

Facsimile: (202) 393–5760

Attention: Pankaj K. Sinha, Esq.

(c) If to CG&E, to:

The Cincinnati Gas & Electric Company

139 East Fourth Street

Cincinnati, OH 45202

Facsimile: (513) 287–4031

Attention: Gregory C. Ficke, President

with a copy to:

Cinergy Corp.

139 East Fourth Street

Cincinnati, OH 45202

Facsimile: (513) 287–4090

Attention: Douglas C. Taylor, Vice President, Corporate Development

and

Skadden, Arps, Slate, Meagher & Flom LLP

1440 New York Avenue, N.W.

Washington, DC 20005

Facsimile: (202) 393–5760

Attention: Pankaj K. Sinha, Esq.

11.5. Assignment; No Third–Party Beneficiaries. This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns, but neither this Agreement nor any of the rights, interests or obligations hereunder may be assigned by any party hereto, including by operation of Law without the prior written consent of the other party, nor is this Agreement intended to confer upon any other Person except the parties hereto any rights or remedies hereunder. Without limiting the generality of the foregoing, no provision of this Agreement will create any third–party beneficiary rights in any employee or former employee of the Seller Parties or any of their Affiliates (including any beneficiary or dependent thereof) in respect of continued employment or resumed employment, and no provision of this Agreement will create any rights in any such Persons in respect of any benefits that may be provided, directly or indirectly, under any employee benefit plan or arrangement except as expressly provided for thereunder.

11.6. **Governing Law**. This Agreement shall be governed by and construed in accordance with the Laws of the State of Indiana (regardless of the Laws that might otherwise govern under applicable Indiana principles of conflicts of law) as to all matters, including, without limitation, matters of validity, construction, effect, performance and remedies, except where Indiana Law is preempted by federal Law, in which event federal Law shall govern.

11.7. Counterparts. This Agreement may be executed and delivered (including via facsimile) in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

11.8. Interpretation. The article and section headings contained in this Agreement are solely for the purpose of reference, are not part of the agreement of the parties and shall not in any way affect the meaning or interpretation of this Agreement.

11.9. Schedules and Exhibits. All Exhibits and Schedules referred to herein are intended to be and hereby are specifically made a part of this Agreement.

11.10. Entire Agreement. This Agreement, the Confidentiality Agreement and the Ancillary Agreements including the Exhibits, Schedules, documents, certificates and instruments referred to herein or therein, embody the entire agreement and understanding of the parties hereto in respect of the transactions contemplated by this Agreement. There are no restrictions, promises, representations, warranties, covenants or undertakings, other than those expressly set forth or referred to herein or therein. This Agreement and the Ancillary Agreements supersede all prior agreements and understandings, whether written or oral, between the parties with respect to such transactions other than the Confidentiality Agreement.

11.11. Bulk Sales or Transfer Laws. The Buyers acknowledge that the Seller Parties will not comply with the provision of any bulk sales or transfer Laws of any jurisdiction in connection with the transactions contemplated by this Agreement. The Buyer hereby waive compliance by the Sellers with the provisions of the bulk sales or transfer Laws of all applicable jurisdictions.

11.12. Consent to Jurisdiction. Each party hereby irrevocably submits to the exclusive jurisdiction of the federal or state courts located in the State of Indiana in any action, suit or proceeding arising out of or relating to this Agreement or the Ancillary Agreements or any of the transactions contemplated hereby or thereby, provided, however, that such consent to jurisdiction is solely for the purpose referred to in this Section and shall not be deemed to be a general submission to the jurisdiction of said courts or in the State of Indiana other than for such purpose. Each party hereby irrevocably waives, to the fullest extent permitted by Law, any objection that it may now or hereafter have to the laying of the venue of any such action, suit or proceeding brought in such a court and any claim that any such action, suit or proceeding brought in such a court has been brought in an inconvenient forum.

11.13. Waiver of Jury Trial. THE PARTIES HERETO HEREBY IRREVOCABLY WAIVE, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE ANCILLARY AGREEMENTS OR ANY OF THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY.

11.14. Waiver of Consequential, Etc. Damages. NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THIS AGREEMENT, EXCEPT TO THE EXTENT RESULTING FROM ANY THIRD PARTY CLAIM OR FROM FRAUD OR WILLFUL MISCONDUCT, THE BUYERS SHALL NOT BE LIABLE

TO THE SELLER PARTIES, NOR SHALL THE SELLER PARTIES BE LIABLE TO THE BUYERS, FOR ANY EXEMPLARY, PUNITIVE, SPECIAL, INDIRECT, CONSEQUENTIAL, REMOTE OR SPECULATIVE DAMAGES (INCLUDING, WITHOUT LIMITATION, ANY DAMAGES ON ACCOUNT OF LOST PROFITS OR OPPORTUNITIES) RESULTING FROM OR ARISING OUT OF THIS AGREEMENT OR THE ANCILLARY AGREEMENTS OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY.

11.15. Specific Performance. The parties hereto agree that irreparable damage would occur in the event any of the provisions of this Agreement were not to be performed in accordance with the terms hereof and that prior to the Closing, the parties will be entitled to specific performance of the terms hereof in addition to any other remedies at law or in equity.

11.16. Change of Structure. Notwithstanding anything in this Agreement to the contrary, (a) if, with respect to Buyers Required Regulatory Approvals, all required IURC approvals with respect to PSI Energy have not been obtained by November 20, 2005, and all required FERC and SEC approvals have been obtained by November 30, 2005, then, subject to the satisfaction of the other conditions contained in Article VIII, CG&E alone will acquire the Wheatland Facility pursuant to this Agreement and all references in this Agreement to "Buyers" shall be deemed to refer to CG&E only (and not PSI Energy) and PSI Energy shall have no further rights or obligations under this Agreement, or (b) if, with respect to Buyers Required Regulatory Approvals, all required IURC approvals and FERC Approvals have been obtained, but all required SEC approvals under the Holding Company Act for CG&E have not been obtained by November 30, 2005, then, subject to the satisfaction of the other conditions contained in Article VIII, PSI Energy alone will acquire the Wheatland Facility pursuant to this Agreement and all references in this Agreement to "Buyers" shall be deemed to refer to PSI Energy only (and not CG&E) and CG&E shall have no further rights or obligations under this Agreement. Notwithstanding the foregoing, the Seller Parties acknowledge that, prior to November 20, 2005, the Buyers shall have sole discretion to allocate the ownership of the Acquired Assets and the Assumed Liabilities between the Buyers (including by allocating 100% of the Acquired Assets and Assumed Liabilities to one Buyer) provided the Buyer Required Regulatory Approvals necessary for Closing the transaction with the selected allocation have been received by November 20, 2005. In the event the Buyers determine, and give written notice pursuant to Section 7.17, that either PSI Energy or CG&E shall acquire 100% of the Acquired Assets and Assumed Liabilities, all references in this Agreement to "Buyers" shall be deemed to refer to the one applicable Buyer (and not the other Buyer) and the other Buyer shall have no further rights or obligations under this Agreement. The parties hereto agree to use their Commercially Reasonable Efforts to amend this Agreement and the Ancillary Agreements if necessary to reflect any revised transaction structure discussed in this Section 11.16.

11.17. Certain Approvals. The parties hereto agree that in the event FERC approval under section 203 of the Federal Power Act, in form and substance sufficient to satisfy the requirements of Section 8.2(h), is received on or before December 20, 2005, and FERC approval under section 205 of the Federal Power Act is not received by the Buyers on or before December 29, 2005, then FERC approval under section 205 of the Federal Power Act shall no longer be deemed to be a Buyers Required Regulatory Approval (and thus shall no longer be deemed to constitute a condition to the Closing) and, subject to the satisfaction of the other conditions contained in Article VIII, the Closing shall occur on December 30, 2005; provided that, in no event shall the Closing occur if, prior to December 30, 2005, the FERC has issued an adverse order with respect to the filing made by the Buyers under section 205 of the Federal Power Act.

[Remainder of this page is blank. Signature page follows.]

IN WITNESS WHEREOF, the Seller Parties and the Buyers have caused this Agreement to be signed by their respective duly authorized officers as of the date first above written.

BUYERS:

PSI ENERGY, INC.

By: /s/ Kay Pashos
Name: Kay Pashos
Title: President

THE CINCINNATI GAS & ELECTRIC COMPANY

By: /s/ Gregory C. Ficke
Name: Gregory C. Ficke
Title: President

SELLER PARTIES:

ALLEGHENY ENERGY SUPPLY COMPANY, LLC

By: /s/John P. Campbell
Name: John P. Campbell
Title: Vice President

ALLEGHENY ENERGY SUPPLY WHEATLAND GENERATING FACILITY, LLC

By: /s/ John P. Campbell
Name: John P. Campbell
Title: Vice President

LAKE ACQUISITION COMPANY, L.L.C.

By: /s/ John P. Campbell
Name: John P. Campbell
Title: Vice President

EXHIBIT A

ASSIGNMENT AND ASSUMPTION AGREEMENT

This ASSIGNMENT AND ASSUMPTION AGREEMENT (this "Agreement") is made effective as of the day of , 2005, by and among PSI Energy, Inc., an Indiana corporation ("PSI Energy"), and The Cincinnati Gas & Electric Company, an Ohio corporation ("CG&E" and, together with PSI Energy, collectively, the "Buyers"), and Allegheny Energy Supply Wheatland Generating Facility, LLC, a Delaware limited liability company and a wholly owned subsidiary of AESC ("Wheatland LLC"), Lake Acquisition Company, L.L.C., a Delaware limited liability company and a wholly owned subsidiary of AESC ("Lake LLC"), and Allegheny Energy Supply Company, LLC, a Delaware limited liability company ("AESC" and, together with Wheatland LLC and Lake LLC, the "Seller Parties").

WHEREAS, the Seller Parties and the Buyers have entered into an Asset Purchase Agreement dated as of May 5, 2005 (the "Asset Purchase Agreement"; capitalized terms used herein but not otherwise defined herein having the meanings given to such terms in the Asset Purchase Agreement), pursuant to which, subject to the terms and conditions set forth therein, the Seller Parties have agreed to assign to the Buyers all of the Seller Parties' right, title and interest in and to the Assumed Contracts and the Leases, and the Buyers have agreed to assume the Assumed Liabilities, in the proportions set forth on Schedule A.

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

1. Assignment of Contracts. Subject to the terms and conditions of the Asset Purchase Agreement, the Seller Parties hereby assign and transfer to the Buyers (in the percentages set forth on Schedule A), and the Buyers (in the percentages set forth on Schedule A) hereby take assignment of and assume from the Seller Parties, all of the Seller Parties' right, title and interest in and to the Assumed Contracts and any other agreements or contracts included in the Acquired Assets. Notwithstanding the foregoing, the Seller Parties do not assign or transfer any agreement or contract or any claim or right or any benefit or obligation thereunder or resulting therefrom if an assignment or transfer thereof, without the consent of a third party thereto, would constitute a breach or violation thereof or impose any obligation or liability on the Seller Parties unless and until such a consent has been obtained.

2. Assumption of Liabilities. The Buyers (in the percentages set forth on Schedule A) hereby assume and satisfy, and agree to pay, perform, fulfill and discharge when due, the Assumed Liabilities.

3. Asset Purchase Agreement. This Agreement is being executed and delivered pursuant and subject to the Asset Purchase Agreement. Nothing in this Agreement shall, or shall be deemed to, defeat, limit, alter or impair, enhance or enlarge

any right, obligation, claim or remedy created by the Asset Purchase Agreement. In the event of any conflict between this Agreement and the Asset Purchase Agreement, the Asset Purchase Agreement shall control.

4. Successor and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns.

5. Applicable Law. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of Indiana without giving effect to the principles of conflicts of law thereof.

6. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the undersigned have caused this Agreement to be executed and delivered as of this day of , 2005.

PSI ENERGY, INC.

By: __________________________
Name:
Title:

THE CINCINNATI GAS & ELECTRIC COMPANY

By: __________________________
Name:
Title:

ALLEGHENY ENERGY SUPPLY COMPANY, LLC

By: __________________________
Name:
Title:

ALLEGHENY ENERGY SUPPLY WHEATLAND GENERATING FACILITY, LLC

By: __________________________
Name:
Title:

LAKE ACQUISITION COMPANY, L.L.C.

By: __________________________
Name:
Title:

SCHEDULE A

Allocation of Contracts and Assumed Liabilities Between the Buyers

Buyer	Percent Allocation
PSI Energy	[ ]%(1)
CG&E	[ ]%

(1) To be determined prior to Closing pursuant to the Asset Purchase Agreement.

EXHIBIT B

BILL OF SALE

This BILL OF SALE (this "Bill of Sale") is made effective as of the day of , 2005, by Allegheny Energy Supply Wheatland Generating Facility, LLC, a Delaware limited liability company ("Wheatland LLC"), Lake Acquisition Company, L.L.C., a Delaware limited liability company ("Lake LLC"), and Allegheny Energy Supply Company, LLC, a Delaware limited liability company ("AESC" and, together with Wheatland LLC and Lake LLC, the "Seller Parties"), to PSI Energy, Inc., an Indiana Corporation ("PSI Energy"), and The Cincinnati Gas & Electric Company, an Ohio corporation ("CG&E" and, together with PSI Energy, the "Buyers").(1)

WHEREAS, the Seller Parties and the Buyers have entered into an Asset Purchase Agreement dated as of May 5, 2005 (the "Asset Purchase Agreement"; capitalized terms used herein but not otherwise defined herein having the meanings given to such terms in the Asset Purchase Agreement) providing for, subject to the terms and conditions set forth therein, the sale, assignment, conveyance, transfer and delivery by the Seller Parties to the Buyers of the Acquired Assets.

NOW, THEREFORE, in consideration of the foregoing, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Sellers hereby sell, assign, convey, transfer and deliver (or cause to be sold, assigned, conveyed, transferred and delivered) to the Buyers (in the percentages set forth on Schedule A) all of the Seller Parties' respective rights, title and interests in and to the Acquired Assets other than the Assumed Contracts, which are being assigned and transferred to the Buyers pursuant to the Assignment and Assumption Agreement of even date herewith between the Seller Parties and the Buyers.

This Bill of Sale is being executed and delivered pursuant and subject to the Asset Purchase Agreement. Nothing in this Bill of Sale shall, or shall be deemed to, defeat, limit, alter, impair, enhance or enlarge any right, obligation, claim or remedy created by the Asset Purchase Agreement. In the event of any conflict between this Bill of Sale and the Asset Purchase Agreement, the Asset Purchase Agreement shall control.

This Bill of Sale shall be binding upon the Seller Parties and their successors and permitted assigns and shall inure to the benefit of the Buyers and their respective successors and permitted assigns.

This Bill of Sale shall be governed by and construed and enforced in accordance with the laws of the State of Indiana without giving effect to the principles of conflicts of law thereof.

---

(1) Note that if PSI Energy or CG&E acquires 100% of the Acquired Assets, then this Bill of Sale will be revised to remove the entity that is not acquiring any of the Acquired Assets.

This Bill of Sale may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the undersigned have caused this Bill of Sale to be executed and delivered as of this day of , 2005.

ALLEGHENY ENERGY SUPPLY COMPANY, LLC

By: ____________________
Name:
Title:

ALLEGHENY ENERGY SUPPLY WHEATLAND GENERATING FACILITY, LLC

By: ____________________
Name:
Title:

LAKE ACQUISITION COMPANY, L.L.C.

By: ____________________
Name:
Title:

Acknowledged and accepted as of this

day of , 2005.

PSI ENERGY, INC.

By: ____________________
Name:
Title:

THE CINCINNATI GAS & ELECTRIC COMPANY

By: ____________________
Name:
Title:

SCHEDULE A

Allocation of Assets Between the Buyers

Buyer	Percent Allocation
PSI Energy	[ ]%(2)
CG&E	[ ]%

(2) To be determined prior to Closing pursuant to the Asset Purchase Agreement.

EXHIBIT C

FORM OF DEEDS

This Instrument Was Prepared By:

Gray Plant Mooty

500 IDS Center, 80 South 8th St.

Minneapolis, Minnesota 55402–3796

Attention: John D. Giudicessi, Esq.

After Recording, Mail To:

Cinergy/PSI

1000 East Main Street

Plainfield, Indiana 46168

Attention: John B. Scheidler, Esq.

Send Subsequent Tax Bills To:

Cinergy/PSI

1000 East Main Street

Plainfield, Indiana 46168

Attention: Tax Department

[SUBJECT TO FORMATTING REVISIONS TO CONFORM

WITH LOCAL RECORDING REQUIREMENTS]

SPECIAL WARRANTY DEED

THIS INDENTURE is made as of this [ ] day of [ ], 2005 from **[ALLEGHENY ENERGY SUPPLY WHEATLAND GENERATING FACILITY, LLC/LAKE ACQUISITION COMPANY, L.L.C.]**, a Delaware limited liability company having its principal place of business at 4530 Northern Pike – 4 North, Monroeville, Pennsylvania 15146–2841 ("Grantor"), to PSI ENERGY, INC., an Indiana corporation having its principal place of business at 1000 East Main Street, Plainfield, Indiana 46168 ("PSI"), and THE CINCINNATI GAS & ELECTRIC COMPANY, an Ohio corporation having its principal place of business at 139 East Fourth Street, Cincinnati, Ohio 45202 ("CG&E" and collectively with PSI, "Grantee"), as tenants in common as more particularly set forth below. **[Grantor is formerly known as West Fork Land Development Company, LLC, a Delaware limited liability company.]**

WITNESSETH, that Grantor, for and in consideration of the sum of Ten Dollars ($10.00) and other good and valuable consideration in hand paid by Grantee, the receipt whereof is hereby acknowledged, by these presents does DEMISE, RELEASE, ALIEN AND CONVEY FOREVER unto (i) PSI and its successors and assigns, an undivided fifty percent (50%) interest as tenant in common and not as joint tenant with rights of survivorship and (ii) CG&E and its successors and assigns, an undivided fifty percent (50%) interest as tenant in common and not as joint tenant with rights of survivorship, in and to all of that certain real estate, situated in the County of Knox and State of Indiana, which real estate is more particularly described on **Exhibit A** attached hereto, together with, all and singular, all the estate, right, title, interest, claim or demand whatsoever of Grantor, either in law or equity, of, in and to (i) the easements, rights of way, servitudes and other hereditaments and appurtenances thereunto belonging, or in anyway appertaining, and the reversion and reversions, remainder and remainders, rents, issues and profits thereof, (ii) all buildings, structures, fixtures and other improvements located thereon and (iii) the streets adjacent thereto (collectively, the "Property"), subject to the matters set forth in **Exhibit B** attached hereto (the "Permitted Encumbrances"): TO HAVE AND TO HOLD the Property, unto Grantee, and each of their respective successors and assigns forever.

And Grantor, for itself, and its successors, does covenant, promise and agree, to and with Grantee and each of their respective successors and assigns, that, except for Permitted Encumbrances, it has not done or suffered to be done, anything whereby the Property is, or may be, in any manner encumbered or charged, except as herein recited; and that Grantor WILL WARRANT AND DEFEND the title to the Property to said Grantee and their respective successors and assigns, against the lawful claims and demands of all persons claiming through or under the said Grantor or its predecessor corporations by merger, consolidation, change of name, etc., except for the Permitted Encumbrances.

[Signature Page Follows]

IN WITNESS WHEREOF, Grantor has caused its name to be signed to these presents by the undersigned authorized signatory as of the day and year first above written.

Grantor: **[ALLEGHENY ENERGY SUPPLY WHEATLAND GENERATING FACILITY, LLC/LAKE ACQUISITION COMPANY, L.L.C.]**, a Delaware limited liability company

By: ______________________
Name: ______________________
Title: ______________________

STATE OF

SS

COUNTY OF

I, the undersigned, a Notary Public in and for the County and State Aforesaid, do hereby certify that personally known to me to be of **[ALLEGHENY ENERGY SUPPLY WHEATLAND GENERATING FACILITY, LLC/LAKE ACQUISITION COMPANY, L.L.C.]**, a Delaware limited liability company, and personally known to me to be the same person whose name is subscribed to the foregoing instrument, appeared before me this day in person and acknowledged that he signed and delivered such instrument, in his capacity as of such limited liability company, as his free and voluntary act and as the free and voluntary act and deed of such limited liability company, for the uses and purposes therein set forth.

Given under my hand and official seal this day of , 2005.

____
Notary Public

Printed Name: ______________________

My County of Residence:
My Commission Expires:

EXHIBIT A

LEGAL DESCRIPTION OF THE PROPERTY

[TO BE ADDED FROM FINAL TITLE COMMITMENT]

Tax Indentification Numbers: [ ]

EXHIBIT B

PERMITTED EXCEPTIONS

[To Be Reasonably Agreed Upon by the Parties Prior to Closing]

EXHIBIT D

CERTIFICATION OF NON-FOREIGN STATUS

Section 1445 of the Internal Revenue Code of 1986, as amended, provides that a transferee of a U.S. real property interest must withhold tax if the transferor is a foreign person. For U.S. tax purposes (including section 1445), the owner of a disregarded entity (which has legal title to a U.S. real property interest under local law) will be the transferor of the property and not the disregarded entity. To inform the transferee that such withholding of tax is not required upon the disposition of a U.S. real property interest by Allegheny Energy Supply Company, LLC, a Delaware limited liability company ("Transferor"), the undersigned hereby certifies the following on behalf of Transferor:

1. Transferor is not a foreign corporation, foreign partnership, foreign trust, or foreign estate (as those terms are defined in the Internal Revenue Code of 1986, as amended, and the Income Tax Regulations thereunder);

2. Transferor is not a disregarded entity as defined in Treasury Regulation §1.1445–2(b)(2)(iii);

3. Transferor's U.S. employer identification number is ; and

4. Transferor's office address is .

Transferor understands that this certification may be disclosed to the Internal Revenue Service by the transferee and that any false statement contained herein could be punished by fine, imprisonment, or both.

Under penalties of perjury, I declare that I have examined this certification and to the best of my knowledge and belief it is true, correct and complete, and I further declare that I have authority to sign this document on behalf of Transferor.

By: ______________________________
Name:
Title:

Dated: , 2005

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER

PURSUANT TO SECTION 302 OF THE SARBANES–OXLEY ACT OF 2002

I, James E. Rogers, certify that:

1. I have reviewed this quarterly report on Form 10–Q of Cinergy Corp., The Cincinnati Gas & Electric Company, PSI Energy, Inc., and The Union Light, Heat and Power Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrants as of, and for, the periods presented in this report;

4. The registrants' other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) for the registrants and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for Cinergy Corp. and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrants, including their consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrants' disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrants' internal control over financial reporting that occurred during the registrants' most recent fiscal quarter (the registrants' fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrants' internal control over financial reporting; and

5. The registrants' other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrants' auditors and the audit committee of the registrants' board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrants' ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrants' internal control over financial reporting.

Date: August 4, 2005

/s/ James E. Rogers

James E. Rogers
Chief Executive Officer

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER

PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, James L. Turner, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cinergy Corp., The Cincinnati Gas & Electric Company, PSI Energy, Inc., and The Union Light, Heat and Power Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrants as of, and for, the periods presented in this report;

4. The registrants' other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrants and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for Cinergy Corp. and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrants, including their consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrants' disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrants' internal control over financial reporting that occurred during the registrants' most recent fiscal quarter (the registrants' fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrants' internal control over financial reporting; and

5. The registrants' other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrants' auditors and the audit committee of the registrants' board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrants' ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrants' internal control over financial reporting.

Date: August 4, 2005

/s/ James L. Turner

James L. Turner
Chief Financial Officer

Exhibit 32–a

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES–OXLEY ACT OF 2002

In connection with the Quarterly Report of Cinergy Corp., The Cincinnati Gas & Electric Company, PSI Energy, Inc. and The Union Light, Heat and Power Company (the "Companies") on Form 10–Q for the period ending June 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James E. Rogers, Chief Executive Officer of the Companies, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes–Oxley Act of 2002, to the best of my knowledge and belief, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Companies.

Date: August 4, 2005

/s/ James E. Rogers

James E. Rogers
Chief Executive Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES–OXLEY ACT OF 2002

In connection with the Quarterly Report of Cinergy Corp., The Cincinnati Gas & Electric Company, PSI Energy, Inc. and The Union Light, Heat and Power Company (the "Companies") on Form 10–Q for the period ending June 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James L. Turner, Chief Financial Officer of the Companies, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes–Oxley Act of 2002, to the best of my knowledge and belief, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Companies.

Date: August 4, 2005

/s/ James L. Turner
James L. Turner
Chief Financial Officer

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10–Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended **March 31, 2005**

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number	Registrant, State of Incorporation, Address and Telephone Number	I.R.S. Employer Identification No.
1–11377	**CINERGY CORP.** (A Delaware Corporation) 139 East Fourth Street Cincinnati, Ohio 45202 (513) 421–9500	31–1385023
1–1232	**THE CINCINNATI GAS & ELECTRIC COMPANY** (An Ohio Corporation) 139 East Fourth Street Cincinnati, Ohio 45202 (513) 421–9500	31–0240030
1–3543	**PSI ENERGY, INC.** (An Indiana Corporation) 1000 East Main Street Plainfield, Indiana 46168 (513) 421–9500	35–0594457

2–7793

31–0473080

THE UNION LIGHT, HEAT AND POWER COMPANY

(A Kentucky Corporation)
139 East Fourth Street
Cincinnati, Ohio 45202
(513) 421–9500

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether each registrant is an accelerated filer (as defined in Rule 12b–2 of the Act).

Cinergy Corp.	Yes ☒ No ☐
The Cincinnati Gas & Electric Company	Yes ☐ No ☒
PSI Energy, Inc.	Yes ☐ No ☒
The Union Light, Heat and Power Company	Yes ☐ No ☒

This combined Form 10–Q is separately filed by **Cinergy Corp.**, **The Cincinnati Gas & Electric Company**, **PSI Energy, Inc.**, and **The Union Light, Heat and Power Company**. Information contained herein relating to any individual registrant is filed by such registrant on its own behalf. Each registrant makes no representation as to information relating to the other registrants.

The Union Light, Heat and Power Company meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10–Q and is therefore filing its company specific information with the reduced disclosure format specified in General Instruction H(2) of Form 10–Q.

As of April 30, 2005, shares of common stock outstanding for each registrant were as listed:

Registrant	Description	Shares
Cinergy Corp.	Par value $.01 per share	198,327,844
The Cincinnati Gas & Electric Company	Par value $8.50 per share	89,663,086
PSI Energy, Inc.	Without par value, stated value $.01 per share	53,913,701
The Union Light, Heat and Power Company	Par value $15.00 per share	585,333

TABLE OF CONTENTS

CINERGY CORP.

AND SUBSIDIARY COMPANIES

CINERGY CORP.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Quarter Ended March 31 2005	Quarter Ended March 31 2004
	(in thousands, except per share amounts) (unaudited)	
Operating Revenues		
Electric	$ **926,297**	$ 858,436
Gas	**313,096**	350,846
Other	**104,856**	79,376
Total Operating Revenues	**1,344,249**	1,288,658
Operating Expenses		
Fuel, emission allowances, and purchased power	**304,963**	293,890
Gas purchased	**208,600**	223,516
Costs of fuel resold	**85,843**	57,462
Operation and maintenance	**331,708**	310,836
Depreciation	**126,486**	104,857
Taxes other than income taxes	**78,932**	82,247
Total Operating Expenses	**1,136,532**	1,072,808
Operating Income	**207,717**	215,850
Equity in Earnings of Unconsolidated Subsidiaries	**4,836**	2,748
Miscellaneous Income (Expense) – Net	**2,340**	(15,508)
Interest Expense	**64,064**	67,395
Preferred Dividend Requirements of Subsidiaries	**858**	858
Income Before Taxes	**149,971**	134,837
Income Taxes	**32,615**	31,822
Net Income	$ **117,356**	$ 103,015
Average Common Shares Outstanding – Basic	**195,647**	179,261
Earnings Per Common Share – Basic (Note 8)	$ **0.60**	$ 0.57
Average Common Shares Outstanding – Diluted	**196,712**	181,926
Earnings Per Common Share – Diluted (Note 8)	$ **0.60**	$ 0.57
Cash Dividends Declared Per Common Share	$ **0.48**	$ 0.47

The accompanying notes as they relate to Cinergy Corp. are an integral part of these condensed consolidated financial statements.

CINERGY CORP.

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	March 31 2005	December 31 2004
	(dollars in thousands) *(unaudited)*	
Current Assets		
Cash and cash equivalents	$ **124,108**	$ 164,541
Notes receivable, current	**126,984**	214,513
Accounts receivable less accumulated provision for doubtful accounts of $5,000 at March 31, 2005, and $5,514 at December 31, 2004	**985,262**	1,061,140
Fuel, emission allowances, and supplies	**390,064**	444,750
Energy risk management current assets	**450,770**	381,146
Prepayments and other	**234,303**	174,624
Total Current Assets	**2,311,491**	2,440,714
Property, Plant, and Equipment – at Cost		
Utility plant in service	**10,136,415**	10,076,468
Construction work in progress	**429,817**	333,687
Total Utility Plant	**10,566,232**	10,410,155
Non–regulated property, plant, and equipment	**4,734,719**	4,700,009
Accumulated depreciation	**5,257,604**	5,180,699
Net Property, Plant, and Equipment	**10,043,347**	9,929,465
Other Assets		
Regulatory assets	**1,016,347**	1,030,333
Investments in unconsolidated subsidiaries	**495,195**	513,675
Energy risk management non–current assets	**239,028**	138,787
Notes receivable, non–current	**188,391**	193,857
Other investments	**123,654**	125,367
Restricted funds held in trust	**341,126**	358,006
Goodwill and other intangible assets	**154,293**	132,752
Other	**118,260**	119,361
Total Other Assets	**2,676,294**	2,612,138
Total Assets	**$ 15,031,132**	$ 14,982,317

The accompanying notes as they relate to Cinergy Corp. are an integral part of these condensed consolidated financial statements.

CINERGY CORP.

CONDENSED CONSOLIDATED BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS' EQUITY

	March 31 2005	December 31 2004
	(dollars in thousands) *(unaudited)*	
Current Liabilities		
Accounts payable	$ **1,272,124**	$ 1,348,576
Accrued taxes	**251,493**	216,804
Accrued interest	**61,000**	54,473
Notes payable and other short–term obligations (Note 3)	**449,844**	958,910
Long–term debt due within one year	**222,748**	219,967
Energy risk management current liabilities	**427,161**	310,741
Other	**129,366**	171,188
Total Current Liabilities	**2,813,736**	3,280,659
Non–Current Liabilities		
Long–term debt	**4,240,579**	4,227,741
Deferred income taxes	**1,574,111**	1,597,120
Unamortized investment tax credits	**97,524**	99,723
Accrued pension and other postretirement benefit costs	**710,788**	688,277
Regulatory liabilities	**563,873**	557,419
Energy risk management non–current liabilities	**247,127**	127,340
Other	**224,599**	225,298
Total Non–Current Liabilities	**7,658,601**	7,522,918
Commitments and Contingencies		
Total Liabilities	**10,472,337**	10,803,577
Cumulative Preferred Stock of Subsidiaries		
Not subject to mandatory redemption	**62,818**	62,818
Common Stock Equity		
Common stock – $.01 par value; authorized shares – 600,000,000; issued shares – 198,128,516 at March 31, 2005, and 187,653,506 at December 31, 2004; outstanding shares – 197,989,654 at March 31, 2005, and 187,524,229 at December 31, 2004	**1,981**	1,877
Paid–in capital	**2,919,758**	2,559,715
Retained earnings	**1,638,704**	1,613,340
Treasury shares at cost – 138,862 shares at March 31, 2005, and 129,277 shares at December 31, 2004	**(4,635)**	(4,336)
Accumulated other comprehensive loss	**(59,831)**	(54,674)
Total Common Stock Equity	**4,495,977**	4,115,922
Total Liabilities and Shareholders' Equity	$ **15,031,132**	$ 14,982,317

The accompanying notes as they relate to Cinergy Corp. are an integral part of these condensed consolidated financial statements.

CINERGY CORP.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN COMMON STOCK EQUITY

(dollars in thousands, except per share amounts)
(unaudited)

	Common Stock	Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Common Stock Equity
Quarter Ended March 31, 2005						
Balance at January 1, 2005 (187,524,229 shares)	**$ 1,877**	**$ 2,559,715**	**$ 1,613,340**	**$ (4,336)**	**$ (54,674)**	**$ 4,115,922**
Comprehensive income:						
Net income			**117,356**			**117,356**
Other comprehensive income, net of tax effect of $2,431						
Foreign currency translation adjustment					**(5,838)**	**(5,838)**
Unrealized loss on investment trusts					**(1,175)**	**(1,175)**
Cash flow hedges					**1,856**	**1,856**
Total comprehensive income						**112,199**
Issuance of common stock – net (10,475,010 shares)	**104**	**353,753**				**353,857**
Treasury shares purchased (9,585 shares)				**(299)**		**(299)**
Dividends on common stock ($0.48 per share)			**(91,879)**			**(91,879)**
Other		**6,290**	**(113)**			**6,177**
Ending balance at March 31, 2005 (197,989,654 shares)	**$ 1,981**	**$ 2,919,758**	**$ 1,638,704**	**$ (4,635)**	**$ (59,831)**	**$ 4,495,977**
Quarter Ended March 31, 2004						
Balance at January 1, 2004 (178,336,854 shares)	$ 1,784	$ 2,195,985	$ 1,551,003	$ (3,255)	$ (44,835)	$ 3,700,682
Comprehensive income:						
Net income			103,015			103,015
Other comprehensive income (loss), net of tax effect of $(914)						
Foreign currency translation adjustment					986	986
Unrealized gain on investment trusts					755	755
Cash flow hedges					(275)	(275)
Total comprehensive income						104,481
Issuance of common stock – net (1,226,916 shares)	13	21,082				21,095
Treasury shares purchased (18,853 shares)				(607)		(607)
Dividends on common stock ($0.47 per share)			(83,987)			(83,987)
Other		3,681	(36)			3,645
Ending balance at March 31, 2004 (179,544,917 shares)	$ 1,797	$ 2,220,748	$ 1,569,995	$ (3,862)	$ (43,369)	$ 3,745,309

The accompanying notes as they relate to Cinergy Corp. are an integral part of these condensed consolidated financial statements.

CINERGY CORP.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Quarter Ended March 31	
	2005	2004
	(dollars in thousands) (unaudited)	
Cash Flows from Operations		
Operating Activities		
Net income	**$ 117,356**	$ 103,015
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**126,486**	104,857
Loss on impairment or disposal of subsidiaries and investments, net	**6,818**	22,766
Change in net position of energy risk management activities	**66,342**	(7,030)
Deferred income taxes and investment tax credits – net	**(20,258)**	11,627
Equity in earnings of unconsolidated subsidiaries	**(4,836)**	(2,748)
Allowance for equity funds used during construction	**(1,987)**	(254)
Regulatory asset/liability deferrals	**(23,520)**	7,351
Regulatory assets amortization	**34,426**	25,367
Accrued pension and other postretirement benefit costs	**22,511**	19,082
Cost of removal	**(5,475)**	(3,805)
Changes in current assets and current liabilities:		
Accounts and notes receivable	**159,607**	27,156
Fuel, emission allowances, and supplies	**51,082**	82,044
Prepayments	**(65,218)**	(35,336)
Accounts payable	**(75,935)**	123,620
Accrued taxes and interest	**41,216**	10,047
Other assets	**(17,543)**	(9,609)
Other liabilities	**(32,954)**	4,555
Net cash provided by operating activities	**378,118**	482,705
Financing Activities		
Change in short–term debt	**(509,066)**	(114,318)
Issuance of long–term debt	**4,165**	—
Redemption of long–term debt	**(3,516)**	(114,652)
Issuance of common stock	**353,857**	21,095
Dividends on common stock	**(91,879)**	(83,987)
Net cash used in financing activities	**(246,439)**	(291,862)
Investing Activities		
Construction expenditures (less allowance for equity funds used during construction)	**(242,511)**	(145,748)
Proceeds from notes receivable	**4,852**	4,238
Withdrawal of restricted cash held in trust	**35,631**	—
Acquisitions and other investments	**(2,155)**	(14,317)
Proceeds from distributions by investments and sale of investments and subsidiaries	**32,071**	14,405
Net cash used in investing activities	**(172,112)**	(141,422)
Net increase (decrease) in cash and cash equivalents	**(40,433)**	49,421
Cash and cash equivalents at beginning of period	**164,541**	169,120
Cash and cash equivalents at end of period	**$ 124,108**	$ 218,541
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for:		
Interest (net of amount capitalized)	**$ 60,902**	$ 68,397
Income taxes	**$ 7,671**	$ 7,057

The accompanying notes as they relate to Cinergy Corp. are an integral part of these condensed consolidated financial statements.

THE CINCINNATI GAS & ELECTRIC COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Quarter Ended March 31	
	2005	2004
	(dollars in thousands) *(unaudited)*	
Operating Revenues		
Electric	**$ 464,331**	$ 417,915
Gas	**306,354**	327,652
Other	**52,671**	19,692
Total Operating Revenues	**823,356**	765,259
Operating Expenses		
Fuel, emission allowances, and purchased power	**145,702**	121,658
Gas purchased	**207,782**	223,517
Costs of fuel resold	**40,986**	17,746
Operation and maintenance	**162,147**	149,763
Depreciation	**45,165**	44,386
Taxes other than income taxes	**59,434**	64,195
Total Operating Expenses	**661,216**	621,265
Operating Income	**162,140**	143,994
Miscellaneous Income – Net	**3,523**	2,854
Interest Expense	**22,950**	22,436
Income Before Taxes	**142,713**	124,412
Income Taxes	**58,047**	46,957
Net Income	**$ 84,666**	$ 77,455
Preferred Dividend Requirement	**211**	211
Net Income Applicable to Common Stock	**$ 84,455**	$ 77,244
Net Income	**$ 84,666**	$ 77,455
Other Comprehensive Income (Loss), Net of Tax	**1,718**	(324)
Comprehensive Income	**$ 86,384**	$ 77,131

The accompanying notes as they relate to The Cincinnati Gas & Electric Company are an integral part of these condensed consolidated financial statements.

THE CINCINNATI GAS & ELECTRIC COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	March 31 2005	December 31 2004
	(dollars in thousands) *(unaudited)*	
Current Assets		
Cash and cash equivalents	$ **9,320**	$ 4,154
Notes receivable from affiliated companies	**69,763**	121,559
Accounts receivable less accumulated provision for doubtful accounts	**191,060**	145,105
Accounts receivable from affiliated companies	**24,766**	30,916
Fuel, emission allowances, and supplies	**185,600**	199,769
Energy risk management current assets	**243,590**	148,866
Prepayments and other	**79,341**	54,650
Total Current Assets	**803,440**	705,019
Property, Plant, and Equipment — at Cost		
Utility plant in service		
Electric	**2,265,310**	2,249,352
Gas	**1,193,511**	1,179,764
Common	**250,344**	249,576
Total Utility Plant In Service	**3,709,165**	3,678,692
Construction work in progress	**63,868**	45,762
Total Utility Plant	**3,773,033**	3,724,454
Non–regulated property, plant, and equipment	**3,700,646**	3,660,226
Accumulated depreciation	**2,727,925**	2,694,708
Net Property, Plant, and Equipment	**4,745,754**	4,689,972
Other Assets		
Regulatory assets	**594,400**	609,550
Energy risk management non–current assets	**108,105**	47,276
Restricted funds held in trust	**86,331**	93,671
Other	**90,853**	86,871
Total Other Assets	**879,689**	837,368
Total Assets	$ **6,428,883**	$ 6,232,359

The accompanying notes as they relate to The Cincinnati Gas & Electric Company are an integral part of these condensed consolidated financial statements.

THE CINCINNATI GAS & ELECTRIC COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS' EQUITY

	March 31 2005	December 31 2004
	(dollars in thousands) *(unaudited)*	
Current Liabilities		
Accounts payable	$ **381,745**	$ 332,316
Accounts payable to affiliated companies	**44,892**	85,127
Accrued taxes	**197,415**	149,010
Accrued interest	**23,066**	19,408
Notes payable and other short–term obligations (Note 3)	**112,100**	112,100
Notes payable to affiliated companies (Note 3)	**79,603**	180,116
Long–term debt due within one year	**150,000**	150,000
Energy risk management current liabilities	**232,128**	120,204
Other	**32,459**	33,712
Total Current Liabilities	**1,253,408**	1,181,993
Non–Current Liabilities		
Long–term debt	**1,443,984**	1,443,668
Deferred income taxes	**1,091,348**	1,090,897
Unamortized investment tax credits	**71,666**	73,120
Accrued pension and other postretirement benefit costs	**233,804**	228,058
Regulatory liabilities	**178,096**	164,846
Energy risk management non–current liabilities	**103,682**	40,184
Other	**65,820**	70,395
Total Non–Current Liabilities	**3,188,400**	3,111,168
Commitments and Contingencies		
Total Liabilities	**4,441,808**	4,293,161
Cumulative Preferred Stock		
Not subject to mandatory redemption	**20,485**	20,485
Common Stock Equity		
Common stock – $8.50 par value; authorized shares – 120,000,000; outstanding shares – 89,663,086 at March 31, 2005, and December 31, 2004	**762,136**	762,136
Paid–in capital	**584,176**	584,176
Retained earnings	**656,391**	610,232
Accumulated other comprehensive loss	**(36,113)**	(37,831)
Total Common Stock Equity	**1,966,590**	1,918,713
Total Liabilities and Shareholders' Equity	**$ 6,428,883**	$ 6,232,359

The accompanying notes as they relate to The Cincinnati Gas & Electric Company are an integral part of these condensed consolidated financial statements.

THE CINCINNATI GAS & ELECTRIC COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Quarter Ended March 31	
	2005	2004
	(dollars in thousands) *(unaudited)*	
Operating Activities		
Net income	$ **84,666**	$ 77,455
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**45,165**	44,386
Deferred income taxes and investment tax credits – net	**(13,253)**	(2,863)
Change in net position of energy risk management activities	**19,869**	(18,356)
Allowance for equity funds used during construction	**(130)**	(245)
Regulatory asset/liability deferrals	**4,944**	19,282
Regulatory assets amortization	**23,313**	14,636
Accrued pension and other postretirement benefit costs	**5,746**	4,324
Cost of removal	**(1,294)**	(1,736)
Changes in current assets and current liabilities:		
Accounts and notes receivable	**14,775**	107,163
Fuel, emission allowances, and supplies	**9,480**	19,293
Prepayments	**(24,688)**	(2,748)
Accounts payable	**8,983**	(74,720)
Accrued taxes and interest	**52,063**	31,812
Other assets	**429**	4,579
Other liabilities	**7,346**	10,156
Net cash provided by operating activities	**237,414**	232,418
Financing Activities		
Change in short–term debt, including net affiliate notes	**(103,297)**	9,357
Redemption of long–term debt	—	(110,000)
Dividends on preferred stock	—	(51)
Dividends on common stock	**(38,296)**	(54,926)
Net cash used in financing activities	**(141,593)**	(155,620)
Investing Activities		
Construction expenditures (less allowance for equity funds used during construction)	**(98,580)**	(69,857)
Withdrawal of restricted funds held in trust	**7,822**	—
Other investments	**103**	(2)
Net cash used in investing activities	**(90,655)**	(69,859)
Net increase in cash and cash equivalents	**5,166**	6,939
Cash and cash equivalents at beginning of period	**4,154**	15,842
Cash and cash equivalents at end of period	$ **9,320**	$ 22,781
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for:		
Interest (net of amount capitalized)	$ **20,187**	$ 21,341
Income taxes	$ **8,891**	$ 3,447

The accompanying notes as they relate to The Cincinnati Gas & Electric Company are an integral part of these condensed consolidated financial statements.

PSI ENERGY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Quarter Ended March 31	
	2005	2004
	(dollars in thousands) *(unaudited)*	
Operating Revenues		
Electric	$ **425,408**	$ 416,279
Operating Expenses		
Fuel, emission allowances, and purchased power	**132,036**	154,906
Operation and maintenance	**120,570**	108,801
Depreciation	**66,847**	48,831
Taxes other than income taxes	**15,661**	16,412
Total Operating Expenses	**335,114**	328,950
Operating Income	**90,294**	87,329
Miscellaneous Income – Net	**3,377**	547
Interest Expense	**24,765**	19,924
Income Before Taxes	**68,906**	67,952
Income Taxes	**26,561**	27,146
Net Income	$ **42,345**	$ 40,806
Preferred Dividend Requirement	**647**	647
Net Income Applicable to Common Stock	$ **41,698**	$ 40,159
Net Income	$ **42,345**	$ 40,806
Other Comprehensive Income (Loss), Net of Tax	**(1,195)**	484
Comprehensive Income	$ **41,150**	$ 41,290

The accompanying notes as they relate to PSI Energy, Inc. are an integral part of these condensed consolidated financial statements.

PSI ENERGY, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	March 31 2005	December 31 2004
	(dollars in thousands) *(unaudited)*	
Current Assets		
Cash and cash equivalents	**$ 3,154**	$ 10,794
Restricted deposits	**23,327**	22,063
Notes receivable from affiliated companies	**39,395**	72,958
Accounts receivable less accumulated provision for doubtful accounts	**16,434**	31,177
Accounts receivable from affiliated companies	**4,641**	437
Fuel, emission allowances, and supplies	**112,086**	108,793
Prepayments and other	**8,994**	11,804
Total Current Assets	**208,031**	258,026
Property, Plant, and Equipment – at Cost		
Utility plant in service	**6,427,250**	6,397,776
Construction work in progress	**365,949**	287,925
Total Utility Plant	**6,793,199**	6,685,701
Accumulated depreciation	**2,326,838**	2,284,932
Net Property, Plant, and Equipment	**4,466,361**	4,400,769
Other Assets		
Regulatory assets	**421,947**	420,783
Other investments	**71,520**	73,396
Restricted funds held in trust	**240,137**	264,335
Other	**35,880**	32,587
Total Other Assets	**769,484**	791,101
Total Assets	**$ 5,443,876**	$ 5,449,896

The accompanying notes as they relate to PSI Energy, Inc. are an integral part of these condensed consolidated financial statements.

PSI ENERGY, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS' EQUITY

	March 31 2005	December 31 2004
	(dollars in thousands) *(unaudited)*	
Current Liabilities		
Accounts payable	$ **39,099**	$ 65,151
Accounts payable to affiliated companies	**23,218**	38,292
Accrued taxes	**88,295**	65,871
Accrued interest	**25,380**	27,532
Notes payable and other short–term obligations (Note 3)	**135,500**	135,500
Notes payable to affiliated companies (Note 3)	**144,374**	130,580
Long–term debt due within one year	**51,166**	50,000
Other	**31,507**	33,326
Total Current Liabilities	**538,539**	546,252
Non–Current Liabilities		
Long–term debt	**1,823,204**	1,824,219
Deferred income taxes	**653,174**	638,061
Unamortized investment tax credits	**25,858**	26,603
Accrued pension and other postretirement benefit costs	**216,070**	209,992
Regulatory liabilities	**385,777**	392,573
Other	**89,073**	88,665
Total Non–Current Liabilities	**3,193,156**	3,180,113
Commitments and Contingencies		
Total Liabilities	**3,731,695**	3,726,365
Cumulative Preferred Stock		
Not subject to mandatory redemption	**42,333**	42,333
Common Stock Equity		
Common stock – without par value; $.01 stated value; authorized shares – 60,000,000; outstanding shares – 53,913,701 at March 31, 2005, and December 31, 2004	**539**	539
Paid–in capital	**626,019**	626,019
Retained earnings	**1,068,462**	1,078,617
Accumulated other comprehensive loss	**(25,172)**	(23,977)
Total Common Stock Equity	**1,669,848**	1,681,198
Total Liabilities and Shareholders' Equity	$ **5,443,876**	$ 5,449,896

The accompanying notes as they relate to PSI Energy, Inc. are an integral part of these condensed consolidated financial statements.

PSI ENERGY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Quarter Ended March 31	
	2005	2004
	(dollars in thousands) *(unaudited)*	
Operating Activities		
Net income	$ **42,345**	$ 40,806
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**66,847**	48,831
Deferred income taxes and investment tax credits – net	**10,158**	20,656
Allowance for equity funds used during construction	**(1,857)**	(9)
Regulatory asset/liability deferrals	**(28,464)**	(11,931)
Regulatory assets amortization	**11,113**	10,731
Accrued pension and other postretirement benefit costs	**6,078**	5,190
Cost of removal	**(4,181)**	(2,069)
Changes in current assets and current liabilities:		
Accounts and notes receivable	**44,102**	15,044
Fuel, emission allowances, and supplies	**(1,931)**	23,147
Prepayments	**1,929**	1,170
Accounts payable	**(41,126)**	(52,915)
Accrued taxes and interest	**20,272**	12,570
Other assets	**(7,378)**	(1,194)
Other liabilities	**1,809**	1,009
Net cash provided by operating activities	**119,716**	111,036
Financing Activities		
Change in short–term debt, including net affiliate notes	**13,794**	(5,757)
Dividends on preferred stock	**(647)**	(647)
Dividends on common stock	**(51,853)**	(28,957)
Net cash used in financing activities	**(38,706)**	(35,361)
Investing Activities		
Construction expenditures (less allowance for equity funds used during construction)	**(113,801)**	(64,500)
Withdrawal of restricted funds held in trust	**25,276**	—
Other investments	**(125)**	(944)
Net cash used in investing activities	**(88,650)**	(65,444)
Net increase (decrease) in cash and cash equivalents	**(7,640)**	10,231
Cash and cash equivalents at beginning of period	**10,794**	6,565
Cash and cash equivalents at end of period	$ **3,154**	$ 16,796
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for:		
Interest (net of amount capitalized)	$ **29,435**	$ 24,743
Income taxes	$ **9,850**	$ 3,132

The accompanying notes as they relate to PSI Energy, Inc. are an integral part of these condensed consolidated financial statements.

THE UNION LIGHT, HEAT AND POWER COMPANY

CONDENSED STATEMENTS OF INCOME

	Quarter Ended March 31 2005	Quarter Ended March 31 2004
	(dollars in thousands) *(unaudited)*	
Operating Revenues		
Electric	$ **54,584**	$ 56,215
Gas	**57,775**	58,139
Total Operating Revenues	**112,359**	114,354
Operating Expenses		
Electricity purchased from parent company for resale	**39,501**	39,453
Gas purchased	**40,199**	40,833
Operation and maintenance	**15,715**	13,760
Depreciation	**5,109**	4,925
Taxes other than income taxes	**1,485**	1,438
Total Operating Expenses	**102,009**	100,409
Operating Income	**10,350**	13,945
Miscellaneous Income – Net	**852**	499
Interest Expense	**1,745**	1,227
Income Before Taxes	**9,457**	13,217
Income Taxes	**3,262**	5,329
Net Income	$ **6,195**	$ 7,888

The accompanying notes as they relate to The Union Light, Heat and Power Company are an integral part of these condensed financial statements.

THE UNION LIGHT, HEAT AND POWER COMPANY

CONDENSED BALANCE SHEETS

ASSETS

	March 31 2005	December 31 2004
	(dollars in thousands) *(unaudited)*	
Current Assets		
Cash and cash equivalents	**$ 9,307**	$ 4,197
Notes receivable from affiliated companies	**15,280**	20,675
Accounts receivable less accumulated provision for doubtful accounts	**949**	1,451
Accounts receivable from affiliated companies	**612**	5,671
Inventory and supplies	**4,051**	8,500
Prepayments and other	**143**	285
Total Current Assets	**30,342**	40,779
Property, Plant, and Equipment – at Cost		
Utility plant in service		
Electric	**286,595**	285,828
Gas	**259,986**	256,667
Common	**42,257**	42,176
Total Utility Plant In Service	**588,838**	584,671
Construction work in progress	**10,853**	6,070
Total Utility Plant	**599,691**	590,741
Accumulated depreciation	**180,096**	176,726
Net Property, Plant, and Equipment	**419,595**	414,015
Other Assets		
Regulatory assets	**7,421**	10,070
Other	**2,741**	2,801
Total Other Assets	**10,162**	12,871
Total Assets	**$ 460,099**	$ 467,665

The accompanying notes as they relate to The Union Light, Heat and Power Company 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 2005	December 31 2004
	(dollars in thousands) (unaudited)	
Current Liabilities		
Accounts payable	$ **12,575**	$ 16,028
Accounts payable to affiliated companies	**19,705**	22,236
Accrued taxes	**3,571**	—
Accrued interest	**1,580**	1,370
Notes payable to affiliated companies (Note 3)	—	11,246
Other	**6,642**	7,009
Total Current Liabilities	**44,073**	57,889
Non–Current Liabilities		
Long–term debt	**94,357**	94,340
Deferred income taxes	**56,380**	58,422
Unamortized investment tax credits	**2,584**	2,626
Accrued pension and other postretirement benefit costs	**18,314**	17,762
Regulatory liabilities	**32,190**	29,979
Other	**13,495**	14,136
Total Non–Current Liabilities	**217,320**	217,265
Commitments and Contingencies		
Total Liabilities	**261,393**	275,154
Common Stock Equity		
Common stock – $15.00 par value; authorized shares – 1,000,000; outstanding shares – 585,333 at March 31, 2005, and December 31, 2004	**8,780**	8,780
Paid–in capital	**23,455**	23,455
Retained earnings	**167,757**	161,562
Accumulated other comprehensive loss	**(1,286)**	(1,286)
Total Common Stock Equity	**198,706**	192,511
Total Liabilities and Shareholder's Equity	$ **460,099**	$ 467,665

The accompanying notes as they relate to The Union Light, Heat and Power Company 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	
	2005	2004
	(dollars in thousands) (unaudited)	
Operating Activities		
Net income	$ 6,195	$ 7,888
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	5,109	4,925
Deferred income taxes and investment tax credits – net	(397)	(1,258)
Allowance for equity funds used during construction	(116)	14
Regulatory asset/liability deferrals	1,143	3,466
Regulatory assets amortization	1,419	192
Accrued pension and other postretirement benefit costs	552	505
Cost of removal	(229)	(414)
Changes in current assets and current liabilities:		
Accounts and notes receivable	15,305	15,231
Inventory and supplies	4,449	3,052
Prepayments	142	139
Accounts payable	(5,984)	(3,122)
Accrued taxes and interest	4,352	7,390
Other assets	1,614	18
Other liabilities	(3,265)	(408)
Net cash provided by operating activities	30,289	37,618
Financing Activities		
Change in short–term debt, including net affiliate notes	(15,595)	(24,037)
Net cash used in financing activities	(15,595)	(24,037)
Investing Activities		
Construction expenditures (less allowance for equity funds used during construction)	(9,584)	(7,460)
Net cash used in investing activities	(9,584)	(7,460)
Net increase in cash and cash equivalents	5,110	6,121
Cash and cash equivalents at beginning of period	4,197	1,899
Cash and cash equivalents at end of period	$ 9,307	$ 8,020
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for:		
Interest (net of amount capitalized)	$ 1,455	$ 1,480
Income taxes	$ —	$ 3

The accompanying notes as they relate to The Union Light, Heat and Power Company are an integral part of these condensed financial statements.

INDEX

NOTES TO CONDENSED FINANCIAL STATEMENTS

NOTES TO CONDENSED FINANCIAL STATEMENTS

In this report **Cinergy** (which includes **Cinergy Corp.** and all of our regulated and non–regulated subsidiaries) is, at times, referred to in the first person as "we", "our", or "us". In addition, when discussing **Cinergy's** financial information, it necessarily includes the results of The Cincinnati Gas & Electric Company (**CG&E**), PSI Energy, Inc. (**PSI**), The Union Light, Heat and Power Company (**ULH&P**) and all of **Cinergy's** other consolidated subsidiaries. When discussing **CG&E's** financial information, it necessarily includes the results of **ULH&P** and all of **CG&E's** other consolidated subsidiaries.

1. Summary of Significant Accounting Policies

(a) *Presentation*

Our Condensed Financial Statements reflect all adjustments (which include normal, recurring adjustments) necessary in the opinion of the registrants 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 registrants' combined Form 10–K for the year ended December 31, 2004 (2004 10–K). Certain amounts in the 2004 Condensed Financial Statements have been reclassified to conform to the 2005 presentation.

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

- Valuing derivative contracts used in our energy marketing and trading activities;
- Evaluating the regulatory recoverability of various costs;
- Providing reserves for contingencies, including legal, environmental, and income taxes; and
- Evaluating various non–regulated fixed assets and investments for impairment.

These estimates and judgments are discussed more fully in "Critical Accounting Estimates" in our 2004 10–K. Actual results could differ, as these estimates and assumptions involve judgment about future events or performance.

(b) *Revenue Recognition*

(i) Utility Revenues

CG&E, **PSI**, and **ULH&P** (collectively, our utility operating companies) record *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 **Cinergy**, **CG&E**, **PSI**, and **ULH&P** as of March 31, 2005 and 2004, were as follows:

	2005	2004
	(in millions)	
Cinergy	**$ 143**	$ 133
CG&E and subsidiaries	**86**	80
PSI	**57**	53
ULH&P	**15**	14

(ii) *Energy Marketing and Trading Revenues*

We market and trade electricity, natural gas, and other energy–related products. Many of the contracts associated with these products qualify as derivatives in accordance with Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*. We designate derivative transactions as either trading or non–trading at the time they are originated in accordance with Emerging Issues Task Force Issue 02–3, *Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities*. Trading contracts are reported on a net basis and non–trading contracts are reported on a gross basis. Net reporting requires presentation of realized and unrealized gains and losses on trading derivatives on a net basis in *Operating Revenues*. Gross reporting requires presentation of sales contracts in *Operating Revenues* and purchase contracts in *Fuel, emission allowances, and purchased power* expense or *Gas purchased* expense.

(iii) *Other Operating Revenues*

Cinergy and **CG&E** recognize revenue from coal origination, which represents contract structuring and marketing of physical coal. These revenues are included in *Other Operating Revenues* on the Condensed Consolidated Statements of Income. *Other Operating Revenues* for **Cinergy** also includes sales of synthetic fuel.

(c) *Derivatives*

Cinergy designates derivatives as fair value hedges for certain volumes of our natural gas held in storage. Under this accounting election, changes in the fair value of both the derivative as well as the hedged item (the specified gas held in storage) are included in *Gas Operating Revenues* in **Cinergy's** Condensed Consolidated Statements of Income. We assess the effectiveness of the derivatives in offsetting the change in fair value of the gas held in storage on a quarterly basis. Selected information on **Cinergy's** hedge accounting activities for the quarters ended March 31, 2005 and 2004 were as follows:

	2005	2004
	(in millions)	
Portion of gain (loss) on hedging instruments determined to be ineffective	$ **(4)**	$ 4
Portion of gain on hedging instruments related to changes in time value excluded from assessment of ineffectiveness	**4**	2
Total included in *Gas operating revenues*	$ **—**	$ 6

(d) *Accounting Changes*

(i) *Asset Retirement Obligations*

In March 2005, the Financial Accounting Standards Board (FASB) issued Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (Interpretation 47), an interpretation of Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* (Statement 143). Statement 143 requires recognition of legal obligations associated with the retirement or removal of long–lived assets at the time the obligations are incurred. Interpretation 47 clarifies that a conditional asset retirement obligation (which occurs when the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity) is a legal obligation within the scope of Statement 143. As such, the fair value of a conditional asset retirement obligation must be recognized as a liability when incurred if the liability's fair value can be reasonably estimated. Interpretation 47 also clarifies when sufficient information exists to reasonably estimate the fair value of an asset retirement obligation.

Cinergy will adopt Interpretation 47 on December 31, 2005. Upon adoption of Interpretation 47 **Cinergy** will recognize the impact, if any, of additional liabilities for conditional asset retirement obligations as a cumulative effect of a change in accounting principle. We have begun evaluating the impact of adopting this new interpretation and are currently unable to predict whether the implementation of this accounting standard will be material to our financial position or results of operations.

(ii) Share–Based Payment

In December 2004, the FASB issued a replacement of Statement of Financial Accounting Standards No. 123, *Accounting for Stock–Based Compensation* (Statement 123), *Statement of Financial Accounting Standards No. 123 (revised 2004), Share–Based Payment* (Statement 123R). This standard will require accounting for all stock–based compensation arrangements under the fair value method in addition to other provisions.

In 2003, we prospectively adopted accounting for our stock–based compensation plans using the fair value recognition provisions of Statement 123, as amended by Statement of Financial Accounting Standards No. 148, *Accounting for Stock–Based Compensation–Transition and Disclosure* (Statement 148), for all employee awards granted or with terms modified on or after January 1, 2003. Therefore, the impact of implementation of Statement 123R on stock options within our stock–based compensation plans is not expected to be material. Statement 123R contains certain provisions that will modify the accounting for various stock–based compensation plans other than stock options. We are in the process of evaluating the impact of this new standard on these plans. **Cinergy** will adopt Statement 123R on January 1, 2006.

(iii) Income Taxes

In October 2004, the American Jobs Creation Act (AJCA) was signed into law. The AJCA includes a one–time deduction of 85 percent of certain foreign earnings that are repatriated, as defined in the AJCA. **Cinergy** has not fully completed its evaluation of the effects of the AJCA on its foreign investment strategy. However, based on the evaluation to date, it does not appear that the effects of the provision will have a material impact on our financial position or results of operations.

2. Common Stock

As discussed in the 2004 10–K, in January and February 2005, **Cinergy Corp.** issued a total of 9.2 million shares of common stock pursuant to certain stock purchase contracts that were issued as a component of combined securities in December 2001. Net proceeds from the transaction of $316 million were used to reduce short–term debt.

Cinergy issues new **Cinergy Corp.** common stock shares to satisfy obligations under certain of its employee stock plans and the Cinergy Corp. Direct Stock Purchase and Dividend Reinvestment Plan. During the first quarter of 2005, **Cinergy** issued 1.3 million shares under these plans.

3. Notes Payable and Other Short–term Obligations

Cinergy Corp.'s short–term borrowings consist primarily of unsecured revolving lines of credit and the sale of commercial paper. **Cinergy Corp.'s** $2 billion revolving credit facilities and $1.5 billion commercial paper program also support the short–term borrowing needs of **CG&E, PSI**, and **ULH&P**. In addition, **Cinergy Corp., CG&E**, and **PSI** maintain uncommitted lines of credit. These facilities are not firm sources of capital but rather informal agreements to lend money, subject to availability, with pricing determined at the time of advance. The following table summarizes our *Notes payable and other short–term obligations* and *Notes payable to affiliated companies*:

	March 31, 2005			December 31, 2004		
	Established Lines	Outstanding	Weighted Average Rate	Established Lines	Outstanding	Weighted Average Rate
	(dollars in millions)					
Cinergy						
Cinergy Corp.						
Revolving lines(1)	$ 2,000	$ —	— %	$ 2,000	$ —	— %
Uncommitted lines	40	—	—	40	—	—
Commercial paper(2)		155	2.88		676	2.45
Utility operating companies						
Uncommitted lines	75	—	—	75	—	—
Pollution control notes		248	2.70		248	2.43
Non–regulated subsidiaries						
Revolving lines(3)	162	20	3.52	158	8	5.67
Short–term debt		2	4.50		2	4.50
Pollution control notes		25	2.66		25	2.30
Cinergy Total		$ 450	2.81 %		$ 959	2.47 %
CG&E and subsidiaries						
Uncommitted lines	$ 15	$ —	— %	$ 15	—	— %
Pollution control notes		112	2.64		112	2.34
Money pool		80	2.86		180	2.38
CG&E Total		$ 192	2.73 %		$ 292	2.36 %
PSI						
Uncommitted lines	$ 60	$ —	— %	$ 60	$ —	— %
Pollution control notes		136	2.76		136	2.49
Money pool		144	2.86		130	2.38
PSI Total		$ 280	2.81 %		$ 266	2.44 %
ULH&P						
Money pool		$ —	— %		$ 11	2.38 %
ULH&P Total		$ —	— %		$ 11	2.38 %

(1) Consists of a three–year $1 billion facility and a five–year $1 billion facility. The three–year facility was entered into in April 2004 and matures in April 2007. The five–year facility was entered into in December 2004, matures in December 2009, and contains $500 million sublimits each for **CG&E** and **PSI**.

(2) **Cinergy Corp.'s** commercial paper program limit is $1.5 billion. The commercial paper program is supported by **Cinergy Corp.'s** revolving lines of credit.

(3) Of the $162 million, $150 million relates to a three–year senior revolving credit facility that Cinergy Canada, Inc. entered into in December 2004 and matures in December 2007.

At March 31, 2005, **Cinergy Corp.** had $1.8 billion remaining unused and available capacity relating to its $2 billion revolving credit facilities. These revolving credit facilities include the following:

Credit Facility	Expiration	Established Lines	Outstanding and Committed	Unused and Available
			(in millions)	
Five–year senior revolving	December 2009			
Direct borrowing			$ —	
Commercial paper support			—	
Total five–year facility(1)		$ 1,000	—	$ 1,000
Three–year senior revolving	April 2007			
Direct borrowing			—	
Commercial paper support			155	
Letter of credit support			12	
Total three–year facility		1,000	167	833
Total Credit Facilities		$ 2,000	$ 167	$ 1,833

(1) **CG&E** and **PSI** each have $500 million borrowing sublimits on this facility.

In our credit facilities, **Cinergy Corp.** has covenanted to maintain:

- a consolidated net worth of $2 billion; and
- a ratio of consolidated indebtedness to consolidated total capitalization not in excess of 65 percent.

As part of **CG&E's** $500 million sublimit under the $1 billion five–year credit facility, **CG&E** has covenanted to maintain:

- a consolidated net worth of $1 billion; and
- a ratio of consolidated indebtedness to consolidated total capitalization not in excess of 65 percent.

As part of **PSI's** $500 million sublimit under the $1 billion five–year credit facility, **PSI** has covenanted to maintain:

- a consolidated net worth of $900 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 facilities 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.

The latter two events, however, are subject to dollar–based materiality thresholds. As of March 31, 2005, **Cinergy**, **CG&E**, and **PSI** are in compliance with all of their debt covenants.

4. Energy Trading Credit Risk

Cinergy's extension of credit for energy marketing and trading is governed by a Corporate Credit Policy. Written guidelines approved by **Cinergy's** Risk Policy Committee document the management approval levels for credit limits, evaluation of creditworthiness, and credit risk mitigation procedures. Exposures to credit risks are monitored daily by the Corporate Credit Risk function, which is independent of all trading operations. As of March 31, 2005, 93 percent of the credit exposure, net of credit collateral, related to energy trading and marketing activity was with counterparties rated investment grade or the counterparties' obligations were guaranteed or secured by an investment grade entity. The majority of these investment grade counterparties are externally rated. If a counterparty has an external rating, the lower of Standard & Poor's Ratings Services or Moody's Investors Service is used; otherwise, **Cinergy's** internal rating of the counterparty is used. The remaining seven percent represents credit exposure of $57 million with counterparties rated non–investment grade.

As of March 31, 2005, **CG&E** had a concentration of trading credit exposure of $37 million with two counterparties accounting for greater than ten percent of **CG&E's** total trading credit exposure. These counterparties are rated investment grade.

Energy commodity prices can be extremely volatile and the market can, at times, lack liquidity. Because of these issues, credit risk for energy commodities is generally greater than with other commodity trading.

We continually review and monitor our credit exposure to all counterparties and secondary counterparties. If appropriate, we may adjust our credit reserves to attempt to compensate for increased credit risk within the industry. Counterparty credit limits may be adjusted on a daily basis in response to changes in a counterparty's financial status or public debt ratings.

5. Pension and Other Postretirement Benefits

As discussed in the 2004 10–K, **Cinergy Corp.** sponsors both pension and other postretirement benefits plans. Our 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 income 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. In addition, we sponsor non–qualified pension plans that cover officers, certain other key employees, and non–employee directors. We 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, dental, and prescription drug coverage and are subject to certain limitations, such as deductibles and co–payments.

Based on preliminary estimates, we expect 2005 contributions of $102 million for qualified pension benefits, which is an increase from the $72 million disclosed in the 2004 10–K. This $30 million increase is primarily the result of a change in the retirement age assumption which increased the near–term funding estimates. Actual contributions for the first quarter of 2005 were zero.

Our benefit plans' costs for the quarters ended March 31, 2005 and 2004, included the following components:

Quarter Ended March 31	Qualified Pension Benefits		Non–Qualified Pension Benefits		Other Postretirement Benefits	
	2005	2004	**2005**	2004	**2005**	2004
	(in millions)					
Service cost	**$ 9.6**	$ 8.8	**$ 1.4**	$ 1.2	**$ 1.6**	$ 1.4
Interest cost	**24.1**	22.1	**1.8**	1.7	**5.7**	6.0
Expected return on plans' assets	**(22.0)**	(20.1)	**—**	—	**—**	—
Amortization of transition (asset) obligation	**—**	(0.1)	**—**	—	**0.1**	0.8
Amortization of prior service cost	**1.1**	1.1	**0.5**	0.5	**(0.1)**	—
Recognized actuarial loss	**1.9**	0.5	**0.6**	0.7	**2.7**	2.1
Net periodic benefit cost	**$ 14.7**	$ 12.3	**$ 4.3**	$ 4.1	**$ 10.0**	$ 10.3

The net periodic benefit costs by registrant for the quarters ended March 31, 2005 and 2004, were as follows:

Quarter Ended March 31	Qualified Pension Benefits 2005	Qualified Pension Benefits 2004	Non–Qualified Pension Benefits 2005	Non–Qualified Pension Benefits 2004	Other Postretirement Benefits 2005	Other Postretirement Benefits 2004
			(in millions)			
Cinergy(1)	**$ 14.7**	$ 12.3	**$ 4.3**	$ 4.1	**$ 10.0**	$ 10.3
CG&E and subsidiaries	**4.4**	3.7	**0.2**	0.2	**2.6**	2.6
PSI	**3.8**	3.2	**0.2**	0.2	**4.9**	5.3
ULH&P	**0.4**	0.4	**—**	—	**0.3**	0.2

(1) The results of **Cinergy** also include amounts related to non–registrants.

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 turbine 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. We currently estimate that we will incur capital costs of approximately $12 million in addition to $788 million already incurred to comply with this program.

In March 2005, the EPA issued the Clean Air Interstate Rule (CAIR), formerly the Interstate Air Quality Rule, 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. At the same time, the EPA issued the Clean Air Mercury Rule (CAMR) which requires reductions in mercury emissions from coal–fired power plants. The final regulation also adopts a two–phase cap and trade approach that requires mercury reductions of 70 percent by 2018. Under both CAIR and 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 and environmental organizations have challenged certain EPA regulatory determinations contending that CAMR does not require enough reductions. At this time we cannot predict the outcome of this matter.

Over the 2005–2009 time period, we expect to spend approximately $1.8 billion to reduce mercury, SO_2, and NO_X emissions. These estimates include $1.7 billion in costs to comply with CAIR and CAMR. These estimates also 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 60 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. See (b)(*i*) for more details. **CG&E** would receive partial recovery of depreciation and financing costs related to environmental compliance projects for 2005–2008 through its recently approved rate stabilization plan (RSP). See (b)(*ii*) for more details.

In June 2004, the EPA made final state non–attainment area designations to implement the revised ozone standard. In January 2005, the EPA made final state non–attainment area designations to implement the new fine particulate standard. 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.

(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. Depending on the EPA's final disposition of the pending petition and its proposal discussed previously, **Cinergy's** generating stations could become subject to requirements for additional SO_2 and NO_X emissions reductions. We expect a decision from the EPA on this matter by August 2005. It is unclear at this time whether any additional reductions would be necessary beyond those required under the CAA.

(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 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. In addition, three northeast states and two environmental groups have intervened in the case. The case is currently in discovery, and the United States Federal District Court for the Southern District of Indiana has set the case for trial by jury commencing in February 2006.

In March 2000, the United States also filed in the United States District Court for the Southern District of Ohio an amended complaint in a separate lawsuit alleging violations of the CAA relating to PSD, NSR, and Ohio SIP requirements regarding various generating stations, including a generating station operated by Columbus Southern Power Company (CSP) and jointly–owned by CSP, The Dayton Power and Light Company (DP&L), and **CG&E**. The EPA is seeking injunctive relief and civil penalties of up to $27,500 per day for each violation. This suit is being defended by CSP. In April 2001, the United States District Court for the Southern District of Ohio in that case ruled that the Government and the intervening plaintiff environmental groups cannot seek monetary damages for alleged violations that occurred prior to November 3, 1994; however, they are entitled to seek injunctive relief for such alleged violations. Neither party appealed that decision. This matter is scheduled for trial commencing June 2005.

In addition, **Cinergy** and **CG&E** have been informed by DP&L that in June 2000, the EPA issued a Notice of Violation (NOV) to DP&L for alleged violations of PSD, NSR, and Ohio SIP requirements at a station operated by

DP&L and jointly-owned by DP&L, CSP, and **CG&E**. The NOV indicated the EPA may (1) issue an order requiring compliance with the requirements of the Ohio SIP, or (2) bring a civil action seeking injunctive relief and civil penalties of up to $27,500 per day for each violation. In September 2004, Marilyn Wall and the Sierra Club brought a lawsuit against **CG&E**, DP&L and CSP for alleged violations of the CAA at this same generating station.

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. **Cinergy** intends to defend these lawsuits vigorously in court and filed motions to dismiss with the other defendants in September 2004. We are not able to predict whether resolution of these matters would have a material effect on our financial position or results of operations.

(v) Selective Catalytic Reduction Units at Gibson Station

In May 2004, SCRs and other pollution control equipment became operational at Units 4 and 5 of **PSI's** Gibson Station in accordance with compliance deadlines under the NO_X SIP Call. In June and July 2004, Gibson Station temporarily shut down the equipment on these units due to a concern that portions of the plume from those units' stacks appeared to break apart and descend to ground level, at certain times, under certain weather conditions. As a result, and, working with the City of Mt. Carmel, Illinois, Illinois EPA, Indiana Department of Environmental Management (IDEM), EPA, and the State of Illinois, we developed a protocol regarding the use of the SCRs while we explored alternatives to address this issue. After the protocol was finalized, the Illinois Attorney General brought an action in Wabash County Circuit Court against **PSI** seeking a preliminary injunction to enforce the protocol. In August 2004, the court granted that preliminary injunction. **PSI** is appealing that decision to the Fifth District Appellate Court, but we cannot predict the ultimate outcome of that appeal or of the underlying action by the Illinois Attorney General.

In April 2005, we completed the installation of a permanent control system to address this issue. The new control system will support all five Gibson generating units. We will seek recovery of any related capital as well as increased emission allowance expenditures through the regulatory process. We do not believe costs related to resolving this matter will have a material impact on our financial position or results of operations.

(vi) Zimmer Station Lawsuit

In November 2004, a citizen of the Village of Moscow, Ohio, the town adjacent to **CG&E's** Zimmer Station, brought a purported class action in the United States District Court for the Southern District of Ohio seeking monetary damages and injunctive relief against **CG&E** for alleged violations of the CAA, the Ohio SIP, Ohio laws against nuisance and common law nuisance. **CG&E** filed a motion to dismiss the lawsuit on primarily procedural grounds and we intend to defend against these claims vigorously. The plaintiffs have filed a number of additional notices of intent to sue and a second lawsuit raising claims similar to those in the original claim. At this time, we cannot predict whether the outcome of this matter will have a material impact on our financial position or results of operations.

(vii) Manufactured Gas Plant (MGP) Sites

Coal tar residues, related hydrocarbons, and various metals have been found in at least 22 sites that **PSI** or its predecessors previously owned and sold in a series of transactions with Northern Indiana Public Service Company (NIPSCO) and Indiana Gas Company, Inc. (IGC). The 22 sites are in the process of being studied and will be remediated, if necessary. In 1998 NIPSCO, IGC, and **PSI** entered into Site Participation and Cost Sharing Agreements to allocate liability and responsibilities between them. The IDEM oversees investigation and cleanup of all of these sites. Thus far, **PSI** has primary responsibility for investigating, monitoring and, if necessary, remediating nine of these sites. In December 2003, **PSI** entered into a voluntary remediation plan with the state of Indiana, providing a formal framework for the investigation and cleanup of the sites.

In April 1998, **PSI** filed suit in Hendricks County in the state of Indiana against its general liability insurance carriers. **PSI** sought a declaratory judgment to obligate its insurance carriers to (1) defend MGP claims against **PSI** and compensate **PSI** for its costs of investigating, preventing, mitigating, and remediating damage to property and paying claims related to MGP sites; or (2) pay **PSI's** cost of defense. **PSI** settled, in principle, its claims with all but one of the insurance carriers in January 2005 prior to commencement of the trial. With respect to the lone insurance carrier, a jury returned a verdict against **PSI** in February 2005. **PSI** has appealed this decision. At the present time, **PSI** cannot predict the outcome of this litigation, including the outcome of the appeal.

PSI has accrued costs related to investigation, remediation, and groundwater monitoring for those sites where such costs are probable and can be reasonably estimated. We will continue to investigate and remediate the sites as outlined in the voluntary remediation plan. As additional facts become known and investigation is completed, we will assess whether the likelihood of incurring additional costs becomes probable. Until all investigation and remediation is complete, we are unable to determine the overall impact on our financial position or results of operations.

CG&E and **ULH&P** have performed site assessments on certain of their sites where we believe MGP activities have occurred at some point in the past and have found no imminent risk to the environment. At the present time, **CG&E** and **ULH&P** cannot predict whether investigation and/or remediation will be required in the future at any of these sites.

(viii) Asbestos Claims Litigation

CG&E and **PSI** have been named as defendants or co–defendants in lawsuits related to asbestos at their electric generating stations. Currently, there are approximately 120 pending lawsuits. In these lawsuits, plaintiffs claim to have been exposed to asbestos–containing products in the course of their work at the **CG&E** and **PSI** generating stations. The plaintiffs further claim that as the property owner of the generating stations, **CG&E** and **PSI** should be held liable for their injuries and illnesses based on an alleged duty to warn and protect them from any asbestos exposure. A majority of the lawsuits to date have been brought against **PSI**. The impact on **CG&E's** and **PSI's** financial position or results of operations of these cases to date has not been material.

Of these lawsuits, one case filed against **PSI** has been tried to verdict. The jury returned a verdict against **PSI** in the amount of approximately $500,000 on a negligence claim and a verdict for **PSI** on punitive damages. **PSI** received an adverse ruling in its initial appeal of the negligence claim verdict, but the Indiana Supreme Court accepted the transfer of the case and heard oral argument in June 2004. In addition, **PSI** has settled a number of other lawsuits for amounts, which neither individually nor in the aggregate, are material to **PSI's** financial position or results of operations.

At this time, **CG&E** and **PSI** are not able to predict the ultimate outcome of these lawsuits or the impact on **CG&E's** and **PSI's** financial position or results of operations.

(b) *Regulatory*

(*i*) *PSI Environmental Compliance Case*

In November 2004, **PSI** filed a compliance plan case with the Indiana Utility Regulatory Commission (IURC) seeking approval of **PSI's** plan for complying with SO_2, NO_X, and mercury emission reduction requirements discussion previously in (a)(*i*), including approval of cost recovery and an overall rate of return of eight percent related to certain projects. **PSI** requested approval to recover the financing, depreciation, and operating and maintenance costs, among others, related to $1.08 billion in capital projects designed to reduce emissions of SO_2, NO_X, and mercury at **PSI's** coal–burning generating stations. An evidentiary hearing is scheduled for May 2005 and a final IURC Order is expected in the third quarter of 2005.

(*ii*) *CG&E Electric Rate Filings*

CG&E made multiple rate filings in 2003 with the Public Utilities Commission of Ohio (PUCO) seeking approval of **CG&E's** methodology for establishing market–based rates for generation service at the end of the market development (frozen rate) period and to recover investments made in the transmission and distribution system. The PUCO requested in these proceedings that **CG&E** propose a RSP to mitigate the potential for significant rate increases when the market development period comes to an end. In January 2004, **CG&E** filed its proposed RSP. In May 2004, **CG&E** entered into a settlement agreement with many of the parties to these proceedings requesting that the PUCO approve a modified version of the RSP. In September 2004, the PUCO issued an order seeking to modify several key provisions of this settlement and as a result of these modifications, **CG&E** filed a petition for rehearing in October 2004. The PUCO approved a modified version of the plan in November 2004, the major features of which are as follows:

- **Provider of Last Resort (POLR) Charge: CG&E** began collecting a POLR charge from non–residential customers effective January 1, 2005, and will begin to collect a POLR charge from residential customers effective January 1, 2006. The POLR charge includes several discrete charges, the most significant being an annually adjusted component (AAC) intended to provide cost recovery primarily for environmental compliance expenditures; an infrastructure maintenance fund charge (IMF) intended to provide compensation to **CG&E** for committing its physical capacity to meet its POLR obligation; and a system reliability tracker (SRT) intended to provide cost recovery for capacity purchases, purchased power, reserve capacity, and related market costs for purchases to meet capacity needs. We anticipate the collection of the AAC and IMF will result in an approximate $36 million increase in revenues in 2005 and an additional $50 million in 2006. The SRT will be billed based on dollar–for–dollar costs incurred. A portion of these charges are avoidable by certain customers who switch to an alternative generation supplier. Therefore, these estimates are subject to change, depending on the level of switching that occurs in future periods. In 2007 and 2008, **CG&E** could seek additional increases in the AAC component of the POLR based on **CG&E's** actual net costs for the specified expenditures.

- **Generation Rates and Fuel Recovery:** A new rate has been established for generation service after the market development period ends. In addition, a fuel cost recovery mechanism that is adjusted quarterly has been established to recover costs for fuel, emission allowances, and certain purchased power costs, that exceed the amount originally included in the rates frozen in the **CG&E** transition plan. These new rates were applied to non–residential customers beginning January 1, 2005 and will be applied to residential customers beginning January 1, 2006.

- **Generation Rate Reduction:** The existing five percent generation rate reduction required by statute for residential customers implemented under **CG&E's** 2000 plan will end on December 31, 2005.

- **Transmission Cost Recovery:** Transmission cost recovery mechanisms were established beginning January 1, 2005 for non–residential customers and will be established beginning January 1, 2006 for residential customers. The transmission cost recovery mechanisms are designed to permit **CG&E** to recover Midwest Independent Transmission System Operator, Inc. charges, all Federal Energy Regulatory Commission (FERC) approved transmission costs, and all congestion costs allocable to retail ratepayers that are provided service by **CG&E**.

- **Distribution Cost Recovery: CG&E** will have the ability to defer certain capital–related distribution costs from July 1, 2004 through December 31, 2005 with recovery from non–residential customers to be provided through a rider beginning January 1, 2006 through December 31, 2010.

CG&E had also filed an electric distribution base rate case for residential and non–residential customers to be effective January 1, 2005. Under the terms of the RSP described previously, **CG&E** withdrew this base rate case and, in February 2005, **CG&E** filed a new distribution base rate case with rates to become effective January 1, 2006. The requested amount of the increase is $78 million.

In March 2005, the Ohio Consumers' Counsel asked the Ohio Supreme Court to overturn the RSP. We expect the court to decide the case before January 1, 2006; however, at this time we cannot predict the outcome of this matter.

(iii) ULH&P Gas Rate Case

In 2002, the Kentucky Public Service Commission (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 costs would be recovered through a tracking mechanism for an initial three year period, with the possibility of renewal up to ten years. To date, we have capitalized $31 million in costs associated with the accelerated gas main replacement program. The tracking mechanism allows **ULH&P** to recover depreciation costs and rate of return annually over the life of the deferred assets. Through March 31, 2005, **ULH&P** has recovered $6.3 million under this tracking mechanism. The Kentucky Attorney General has appealed to the Franklin Circuit Court the KPSC's approval of the tracking mechanism and the new tracking mechanism rates. 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. **ULH&P** is requesting approval to continue the tracking mechanism in addition to its request for a $14 million increase in base rates, which is a seven percent increase in current retail gas rates. **ULH&P** expects that the KPSC will issue its decision by the fourth quarter of 2005.

(iv) Gas Distribution Plant

In June 2003, the PUCO approved an amended settlement agreement between **CG&E** and the PUCO Staff in a gas distribution safety case arising out of a gas leak at a service head–adapter (SHA) style riser on **CG&E's** distribution system. The amended settlement agreement required **CG&E** to expend a minimum of $700,000 to replace SHA risers by December 31, 2003, and to file a comprehensive plan addressing all SHA risers on its distribution system. **CG&E** filed a comprehensive plan with the PUCO in December 2004 providing for replacement of approximately 5,000 risers in 2005 with continued monitoring thereafter. **CG&E** estimates the replacement cost of these risers will not be material. In April 2005, the PUCO issued an order closing this case. The PUCO issued a separate order opening a statewide investigation into riser leaks in gas pipeline systems throughout Ohio. At this time, **Cinergy** and **CG&E** cannot predict the outcome of this matter.

(c) *Other*

(i) Energy Market Investigations

In August 2003, **Cinergy**, along with Cinergy Marketing & Trading, LP (Marketing & Trading) and 37 other companies, were named as defendants in civil litigation filed as a purported class action on behalf of all persons who purchased and/or sold New York Mercantile Exchange natural gas futures and options contracts between January 1, 2000, and December 31, 2002. The complaint alleges that improper price reporting caused damages to the class. Two similar lawsuits have subsequently been filed, and these three lawsuits have been consolidated for pretrial purposes. The plaintiffs filed a consolidated class action complaint in January 2004. **Cinergy's** motion to dismiss was granted in September 2004 leaving only Marketing & Trading in the lawsuit. We believe this action against Marketing & Trading is without merit and intend to defend this lawsuit vigorously.

Cinergy continues to provide various Assistant United States Attorneys with information with respect to their investigations into energy market practices. We understand that we are neither a target nor are we under investigation by the Department of Justice in relation to any of these communications.

At this time, we do not believe the outcome of these investigations and litigation will have a material impact on **Cinergy's** financial position or results of operations.

(ii) Synthetic Fuel Production

In July 2002, Cinergy Capital & Trading, Inc. acquired a coal–based synthetic fuel production facility. The synthetic fuel produced at this facility qualifies for tax credits (through 2007) in accordance with IRC Section 29 if certain requirements are satisfied. The three key requirements are that (a) the synthetic fuel differs significantly in chemical composition from the coal used to produce such synthetic fuel, (b) the fuel produced is sold to an unrelated entity and (c) the fuel was produced from a facility that was placed in service before July 1, 1998. In addition to the existing plant, we have recently purchased an additional synthetic fuel plant.

During the third quarter of 2004, several unrelated entities announced that the IRS had challenged or threatened to challenge the placed in service dates of some of the entities' synthetic fuel plants. A successful IRS challenge could result in disallowance of all credits previously claimed for fuel produced by the subject plants. **Cinergy's** sale of synthetic fuel has generated $244 million in tax credits through March 31, 2005. The IRS is currently auditing **Cinergy** for the 2002 and 2003 tax years. It is reasonable to anticipate that the IRS will evaluate the various key requirements for claiming our Section 29 credits related to synthetic fuel. **Cinergy** received a private letter ruling from the IRS in connection with the acquisition of the facility that specifically addressed the significant chemical change requirement. Additionally, although not addressed in the letter ruling, we believe that our facility's in service date meets the Section 29 requirements.

IRC Section 29 also provides for a phase–out of the credit based on the average price of crude oil during a calendar year. The phase–out is based on a prescribed calculation and definition of crude oil prices. We believe that crude oil prices would need to average approximately $60 per barrel from May through December 2005 for any credits to be phased out for 2005. The credits would be entirely phased out if crude oil prices were to average approximately $80 per barrel during that same time period. Based on recent forecasts of crude oil prices for the remainder of 2005, we do not currently expect a negative impact on our ability to recognize the projected benefit of Section 29 credits in 2005.

Under currently enacted law, the credit under IRC Section 29 will cease to be available for synthetic fuel sold after December 31, 2007.

(iii) Guarantees

In the ordinary course of business, **Cinergy** enters into various agreements providing financial or performance assurances to third parties on behalf of certain unconsolidated subsidiaries and joint ventures. These agreements are entered into primarily to support or enhance the creditworthiness otherwise attributed to these entities on a stand–alone basis, thereby facilitating the extension of sufficient credit to accomplish their intended commercial purposes. The guarantees have various termination dates, from short–term (less than one year) to open–ended.

In many cases, the maximum potential amount of an outstanding guarantee is an express term, set forth in the guarantee agreement, representing the maximum potential obligation of **Cinergy** under that guarantee (excluding, at times, certain legal fees to which a guaranty beneficiary may be entitled). In those cases where there is no maximum potential amount expressly set forth in the guarantee agreement, we calculate the maximum potential amount by considering the terms of the guaranteed transactions, to the extent such amount is estimable.

Cinergy had guaranteed borrowings by individuals under the Director, Officer, and Key Employee Stock Purchase Program. Under these guarantees, **Cinergy** would have been obligated to pay the debt's principal and any related interest in the event of an unexcused breach of a guaranteed payment obligation by certain directors, officers, and key employees. This program terminated pursuant to its terms during the first quarter of 2005 and as of March 31, 2005, all borrowings had been repaid by the participants.

Cinergy Corp. has also provided performance guarantees on behalf of certain unconsolidated subsidiaries and joint ventures. These guarantees support performance under various agreements and instruments (such as construction contracts, operations and maintenance agreements, and energy service agreements). **Cinergy Corp.** may be liable in the event of an unexcused breach of a guaranteed performance obligation by an unconsolidated subsidiary. **Cinergy Corp.** has estimated its maximum potential liability to be $52 million under these guarantees as of March 31, 2005. **Cinergy Corp.** may also have recourse to third parties for claims required to be paid under certain of these guarantees. The majority of these guarantees expire at the completion of the underlying performance agreement, the majority of which expire from 2016 to 2019.

Cinergy has entered into contracts that include indemnification provisions as a routine part of its business activities. Examples of these contracts include purchase and sale agreements and operating agreements. In general, these provisions indemnify the counterparty for matters such as breaches of representations and warranties and covenants contained in the contract. In some cases, particularly with respect to purchase and sale agreements, the potential liability for certain indemnification obligations is capped, in whole or in part (generally at an aggregate amount not exceeding the sale price), and subject to a deductible amount before any payments would become due. In other cases (such as indemnifications for willful misconduct of employees in a joint venture), the maximum potential liability is not estimable given that the magnitude of any claims under those indemnifications would be a function of the extent of damages actually incurred. **Cinergy** has estimated the maximum potential liability, where estimable, to be $128 million under these indemnification provisions. The termination period for the majority of matters provided by indemnification provisions in these types of agreements generally ranges from 2005 to 2009.

We believe the likelihood that **Cinergy** would be required to perform or otherwise incur any significant losses associated with any or all of the guarantees described in the preceding paragraphs is remote.

7. Financial Information by Business Segment

As discussed in the 2004 10–K, we conduct operations through our subsidiaries, and manage through the following three reportable segments:

- Regulated Business Unit (Regulated);
- Commercial Business Unit (Commercial); and
- Power Technology and Infrastructure Services Business Unit (Power Technology and Infrastructure).

Regulated consists of **PSI's** regulated generation and transmission and distribution operations, and **CG&E** and its subsidiaries' regulated electric and gas transmission and distribution systems. Regulated plans, constructs, operates, and maintains **Cinergy's** transmission and distribution systems and delivers gas and electric energy to consumers. Regulated also earns revenues from wholesale customers primarily by these customers transmitting electric power through **Cinergy's** transmission system. These businesses are subject to cost of service rate making where rates to be charged to customers are based on prudently incurred costs over a test period plus a reasonable rate of return.

Commercial manages our wholesale generation and energy marketing and trading activities. Commercial also performs energy risk management activities, provides customized energy solutions and is responsible for all of our international operations.

Power Technology and Infrastructure primarily manages Cinergy Ventures, LLC (Ventures), **Cinergy's** venture capital subsidiary. Ventures identifies, invests in, and integrates new energy technologies into **Cinergy's** existing businesses, focused primarily on operational efficiencies and clean energy technologies. In addition, Power Technology and Infrastructure manages our investments in other energy infrastructure and telecommunication service providers.

Following are the financial results by business unit. Certain prior year amounts have been reclassified to conform to the current presentation.

Financial results by business unit for the quarters ended March 31, 2005, and March 31, 2004, are as indicated below.

	Cinergy Business Units					
	Regulated	Commercial	Power Technology and Infrastructure	Total	Reconciling Eliminations(1)	Consolidated
			(in millions)			
Quarter ended March 31, 2005						
Operating revenues						
External customers	**$ 912**	**$ 432**	**$ —**	**$ 1,344**	**$ —**	**$ 1,344**
Intersegment revenues	**12**	**45**	**—**	**57**	**(57)**	**—**
Gross margins						
Electric	**442**	**179**	**—**	**621**	**—**	**621**(3)
Gas	**98**	**6**	**—**	**104**	**—**	**104**(4)
Segment profit (loss)(2)	**76**	**45**	**(4)**	**117**	**—**	**117**
Quarter ended March 31, 2004						
Operating revenues						
External customers	$ 913	$ 376	$ —	$ 1,289	$ —	$ 1,289
Intersegment revenues	24	50	—	74	(74)	—
Gross margins						
Electric	406	159	—	565	—	565(3)
Gas	104	23	—	127	—	127(4)
Segment profit (loss)(2)	81	45	(23)	103	—	103

(1) The Reconciling Eliminations category eliminates the intersegment revenues of Commercial and Regulated.

(2) Management utilizes segment profit (loss), after taxes, to evaluate segment performance.

(3) Electric gross margin is calculated as *Electric operating revenues* less *Fuel, emission allowances, and purchased power* expense from the Condensed Consolidated Statements of Income.

(4) Gas gross margin is calculated as *Gas operating revenues* less *Gas purchased* expense from the Condensed Consolidated Statements of Income.

Total segment assets at March 31, 2005, and December 31, 2004, are as indicated below:

	Cinergy Business Units					
	Regulated	Commercial	Power Technology and Infrastructure	Total	All Other(1)	Consolidated
			(in millions)			
Total segment assets at March 31, 2005	**$ 8,973**	**$ 5,853**	**$ 127**	**$ 14,953**	**$ 78**	**$ 15,031**
Total segment assets at December 31, 2004	$ 9,774	$ 4,992	$ 136	$ 14,902	$ 80	$ 14,982

(1) The All Other category represents miscellaneous corporate items which are not allocated to business units for purposes of segment performance measurement.

8. Earnings Per Common Share (EPS)

A reconciliation of EPS – basic to EPS – diluted is presented below for the quarters ended March 31, 2005 and 2004:

		Income	Shares		EPS
		(in thousands, except per share amounts)			
Quarter Ended March 31, 2005					
EPS – basic:	**$**	**117,356**	**195,647**	**$**	**0.60**
Effect of dilutive securities:					
Common stock options			**627**		
Directors' compensation plans			**148**		
Stock purchase contracts			**290**		
EPS – diluted:	**$**	**117,356**	**196,712**	**$**	**0.60**
Quarter Ended March 31, 2004					
EPS – basic:	$	103,015	179,261	$	0.57
Effect of dilutive securities:					
Common stock options			835		
Directors' compensation plans			148		
Contingently issuable common stock			574		
Stock purchase contracts			1,108		
EPS – diluted:	$	103,015	181,926	$	0.57

Options to purchase shares of common stock are excluded from the calculation of EPS – diluted, if they are considered to be anti–dilutive. Share amounts of 1.5 million and 0.9 million were excluded from the EPS – diluted calculation for the quarters ended March 31, 2005 and 2004, respectively.

Also excluded from the EPS – diluted calculation for the quarter ended March 31, 2004 are 9.7 million shares, issuable pursuant to the stock purchase contracts issued by **Cinergy Corp.** in December 2001 associated with the preferred trust securities transaction. As discussed in the 2004 10–K, in January and February 2005, **Cinergy Corp.** issued a total of 9.2 million shares of common stock associated with these preferred stock securities.

9. Transfer of Generating Assets

The KPSC has conditionally approved and the FERC has approved **ULH&P's** planned acquisition of **CG&E's** 68.9 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. **ULH&P** is currently seeking approval of the transaction from the Securities and Exchange Commission (SEC), wherein the Ohio Consumers' Counsel has intervened in opposition. The transfer, which will be at net book value, will not affect current electric rates for **ULH&P's** customers, as power will be provided under the same terms as under the current wholesale power contract with **CG&E** through December 31, 2006. Assuming receipt of SEC approval, we would anticipate the transfer to take place in the third quarter of 2005.

10. Subsequent Events

Merger Agreement

On May 8, 2005, Duke Energy Corporation (Duke) agreed to acquire all outstanding shares of Cinergy where each share of Cinergy stock is exchanged for 1.56 shares of Duke stock. The transaction is expected to close in approximately 12 months, however that timing is contingent on various regulatory approvals that could take longer to obtain. A discussion of the details of this agreement follows.

Duke, Cinergy Corp., Deer Holding Corp., a Delaware corporation ("Holdco"), Deer Acquisition Corp., a North Carolina corporation ("Merger Sub A"), and Cougar Acquisition Corp., a Delaware corporation ("Merger Sub B"), entered into an Agreement and Plan of Merger (together with the exhibits thereto, the "Merger Agreement"). Each of Holdco, Merger Sub A and Merger Sub B are newly–formed, wholly–owned direct or indirect subsidiaries of Duke, and Merger Sub A and Merger Sub B are direct wholly–owned subsidiaries of Holdco.

The Merger Agreement provides that Merger Sub A will merge with and into Duke (the "Duke Merger") and each share of Duke common stock will be cancelled and converted into the right to receive one share of Holdco common stock. In the Duke Merger, Duke will be the surviving corporation and continue as a wholly–owned subsidiary of Holdco and the former shareholders of Duke will be shareholders of Holdco. As a result of the Duke Merger, Duke will shift into a holding company structure wherein Duke will become a wholly–owned direct subsidiary Holdco.

Following the Duke Merger, Duke (as a subsidiary of Holdco) may convert to a limited liability company (the "Duke Conversion") and be renamed "Duke Power LLC." If the Duke Conversion occurs, Duke Power LLC will be a limited liability company whose membership or other equity interests will be held by Holdco. Following the Duke Conversion, Duke Power LLC will initiate one or more restructuring transactions as described in the Merger Agreement, including the distribution of certain subsidiaries of Duke Power LLC to Holdco.

Following the latest of the consummation of the Duke Merger and any of the restructuring transactions, Merger Sub B will merge with and into Cinergy (the "Cinergy Merger" and, together with the Duke Merger, the "Mergers") and each share of Cinergy common stock will be cancelled and converted into the right to receive 1.56 shares of Holdco common stock. In the Cinergy Merger, Cinergy will be the surviving corporation and will continue as a wholly–owned subsidiary of Holdco and the former shareholders of Cinergy will be shareholders of Holdco.

All outstanding options at the effective time of the Mergers, whether vested or unvested, will be converted into options to acquire shares of Holdco common stock. Each outstanding option to acquire one share of Duke common stock will be converted into an option to acquire one share of Holdco common stock at the same exercise price. Each outstanding option to acquire one share of Cinergy common stock will be converted into an option to acquire 1.56 shares of Holdco common stock at an equitably adjusted exercise price. The options to acquire Holdco common stock will be issued subject to the same terms and conditions as were applicable under the Duke or Cinergy option plan pursuant to which each option was initially issued.

In connection with the signing of the Merger Agreement, Duke announced that it would suspend the voluntary portion of its share repurchase program pending further assessment.

The Merger Agreement provides that following the effective time of the Mergers, Holdco will have a fifteen member board of directors, which will include ten directors named by Duke and five directors named by Cinergy. Paul M. Anderson, Chairman and Chief Executive Officer of Duke, will be the Chairman of the Board of Directors of Holdco, with certain additional responsibilities for analyzing potential strategic alternatives regarding the separation of the gas and electric businesses. James E. Rogers, Chairman, President and Chief Executive Officer of Cinergy, will be the President and Chief Executive Officer of Holdco.

Duke and Cinergy have each made customary representations, warranties and covenants in the Merger Agreement, including, among others, covenants to conduct their businesses in the ordinary course between the execution of the Merger Agreement and the consummation of the Mergers and covenants not to engage in certain kinds of transactions during that period. During such period, Cinergy will not increase its regular quarterly cash dividend without the prior written consent of Duke and Duke may increase its regularly quarterly cash dividend up to $0.31 per share without the prior written consent of Cinergy. In addition, Duke and Cinergy have made certain additional customary covenants, including, among others, covenants, subject to certain exceptions, (A) to cause a stockholder meeting to be held to consider approval of the Mergers and the other transactions contemplated by the Merger Agreement, (B) not to solicit proposals relating to alternative business combination transactions, and (C) not to enter into discussions concerning, or provide confidential information in connection with, alternative business combination transactions.

Consummation of the Mergers is subject to customary conditions, including, among others, (i) approval of the stockholders of each of Duke and Cinergy, (ii) absence of any material adverse effect, (iii) expiration or termination of the applicable Hart–Scott–Rodino Act waiting period, (iv) absence of any order or injunction prohibiting the consummation of the Mergers, (v) the registration statement of Holdco filed on Form S–4 shall have become effective, (vi) shares of Holdco common stock shall have been approved for listing on the New York Stock Exchange, (vii) subject to certain exceptions, the accuracy of representations and warranties with respect to Duke's and Cinergy's business, as applicable, (viii) receipt of customary tax opinions, and (ix) receipt of all required statutory approvals from, among others, the Federal Energy Regulatory Commission, the Securities and Exchange Commission under the Public Utility Holding Company Act of 1935, the Nuclear Regulatory Commission, the Federal Communications Commission, and state public service and utility commissions.

The Merger Agreement contains certain termination rights for both Duke and Cinergy, and further provides that, upon termination of the Merger Agreement under specified circumstances, a party would be required to pay the other party's fees and expenses in an amount not to exceed $35 million or a termination fee of $300 million in the case of a fee payable by Cinergy to Duke or a termination fee of $500 million in the case of a fee payable by Duke to Cinergy. The termination fee is payable by Cinergy under specified circumstances, including (i) if Cinergy enters into a definitive agreement with respect to certain business combinations (other than the Merger Agreement), or (ii) if Duke terminates the Merger Agreement following a withdrawal by Cinergy's Board of Directors of its recommendation of the Merger Agreement and the Mergers under certain circumstances. The termination fee is payable by Duke under specified circumstances, including (i) if Duke enters into a definitive agreement with respect to certain business combinations (other than the Merger Agreement), or (ii) if Cinergy terminates the Merger Agreement following a withdrawal by Duke's Board of Directors of its recommendation of the Merger Agreement and the Mergers under certain circumstances.

Wheatland Generating Facility Acquisition

On May 6, 2005, **PSI** and **CG&E** signed a definitive agreement with subsidiaries of Allegheny Energy, Inc. to acquire the 512–megawatt Wheatland generating facility for approximately $100 million. The Wheatland facility, located in Knox County, Indiana, has four natural gas–fired simple cycle combustion turbines and is directly connected to the **Cinergy** transmission system. Its output will be used to bolster the reserve margins on the **PSI** and/or **CG&E** systems. Under the transaction agreement, **PSI** and **CG&E** may each take a share of ownership of the plant or either one may acquire the entire ownership interest, with the ownership structure to be determined shortly before closing. The transaction is subject to receipt of required regulatory approvals and other customary conditions. **Cinergy** expects to close the acquisition in the fourth quarter of 2005.

In this report **Cinergy** (which includes **Cinergy Corp.** and all of our regulated and non–regulated subsidiaries) is, at times, referred to in the first person as "we", "our", or "us".

CAUTIONARY STATEMENTS REGARDING FORWARD–LOOKING INFORMATION

This document includes forward–looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward–looking statements are based on management's beliefs and assumptions. These forward–looking statements are identified by terms and phrases such as "anticipate", "believe", "intend", "estimate", "expect", "continue", "should", "could", "may", "plan", "project", "predict", "will", and similar expressions.

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 materially from those indicated in any forward–looking statement include, but are not limited to:

- Factors affecting operations, such as:

  (1) unanticipated weather conditions;

  (2) unscheduled generation outages;

  (3) unusual maintenance or repairs;

  (4) unanticipated changes in costs, including costs of coal and emission allowances;

  (5) environmental incidents; and

  (6) electric transmission or gas pipeline system constraints.

- Legislative and regulatory initiatives and legal developments.

- Additional competition in electric or gas markets and continued industry consolidation.

- Financial or regulatory accounting principles including costs of compliance with existing and future environmental requirements.

- Changing market conditions and other factors related to physical energy and financial trading activities.

- The performance of projects undertaken by our non–regulated businesses 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.

We undertake no obligation to update the information contained herein.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In this report, **Cinergy** (which includes **Cinergy Corp.** and all of its regulated and non–regulated subsidiaries) is, at times, referred to in the first person as "we", "our", or "us".

The following discussion should be read in conjunction with the accompanying financial statements and related notes included elsewhere in this report and the combined Form 10–K for the year ended December 31, 2004 (2004 10–K). We have reclassified certain prior–year amounts in the financial statements of **Cinergy**, The Cincinnati Gas & Electric Company (**CG&E**), PSI Energy, Inc. (**PSI**), and The Union Light, Heat and Power Company (**ULH&P**) to conform to current presentation. The following discussions of results are not necessarily indicative of the results to be expected in any future period.

RECENT DEVELOPMENTS

Merger Agreement

On May 8, 2005, Duke Energy Corporation, a North Carolina corporation ("Duke"), Cinergy Corp., a Delaware corporation ("Cinergy"), Deer Holding Corp., a Delaware corporation ("Holdco"), Deer Acquisition Corp., a North Carolina corporation ("Merger Sub A"), and Cougar Acquisition Corp., a Delaware corporation ("Merger Sub B"), entered into an Agreement and Plan of Merger (together with the exhibits thereto, the "Merger Agreement"). Each of Holdco, Merger Sub A and Merger Sub B are newly–formed, wholly–owned direct or indirect subsidiaries of Duke, and Merger Sub A and Merger Sub B are direct wholly–owned subsidiaries of Holdco.

On May 9, 2005, Duke and Cinergy issued a joint press release announcing the execution of the Merger Agreement. A copy of such press release was filed as Exhibit 99.1 in Cinergy's 8–K dated May 10, 2005.

The Merger Agreement provides that Merger Sub A will merge with and into Duke (the "Duke Merger") and each share of Duke common stock will be cancelled and converted into the right to receive one share of Holdco common stock. In the Duke Merger, Duke will be the surviving corporation and continue as a wholly–owned subsidiary of Holdco and the former shareholders of Duke will be shareholders of Holdco. As a result of the Duke Merger, Duke will shift into a holding company structure wherein Duke will become a wholly–owned direct subsidiary Holdco.

Following the Duke Merger, Duke (as a subsidiary of Holdco) may convert to a limited liability company (the "Duke Conversion") and be renamed "Duke Power LLC." If the Duke Conversion occurs, Duke Power LLC will be a limited liability company whose membership or other equity interests will be held by Holdco. Following the Duke Conversion, Duke Power LLC will initiate one or more restructuring transactions as described in the Merger Agreement, including the distribution of certain subsidiaries of Duke Power LLC to Holdco.

Following the latest of the consummation of the Duke Merger and any of the restructuring transactions, Merger Sub B will merge with and into Cinergy (the "Cinergy Merger" and, together with the Duke Merger, the "Mergers") and each share of Cinergy common stock will be cancelled and converted into the right to receive 1.56 shares of Holdco common stock. In the Cinergy Merger, Cinergy will be the surviving corporation and will continue as a wholly–owned subsidiary of Holdco and the former shareholders of Cinergy will be shareholders of Holdco.

All outstanding options at the effective time of the Mergers, whether vested or unvested, will be converted into options to acquire shares of Holdco common stock. Each outstanding option to acquire one share of Duke common stock will be converted into an option to acquire one share of Holdco common stock at the same exercise price. Each outstanding option to acquire one share of Cinergy common stock will be converted into an option to acquire 1.56 shares of Holdco common stock at an equitably adjusted exercise price. The options to acquire Holdco common stock will be issued subject to the same terms and conditions as were applicable under the Duke or Cinergy option plan pursuant to which each option was initially issued.

In connection with the signing of the Merger Agreement, Duke announced that it would suspend the voluntary portion of its share repurchase program pending further assessment.

The Merger Agreement provides that following the effective time of the Mergers, Holdco will have a fifteen member board of directors, which will include ten directors named by Duke and five directors named by Cinergy. Paul M. Anderson, Chairman and Chief Executive Officer of Duke, will be the Chairman of the Board of Directors of Holdco, with certain additional responsibilities for analyzing potential strategic alternatives regarding the separation of the gas and electric businesses. James E. Rogers, Chairman, President and Chief Executive Officer of Cinergy, will be the President and Chief Executive Officer of Holdco.

Duke and Cinergy have each made customary representations, warranties and covenants in the Merger Agreement, including, among others, covenants to conduct their businesses in the ordinary course between the execution of the Merger Agreement and the consummation of the Mergers and covenants not to engage in certain kinds of transactions during that period. During such period, Cinergy will not increase its regular quarterly cash dividend without the prior written consent of Duke and Duke may increase its regularly quarterly cash dividend up to $0.31 per share without the prior written consent of Cinergy. In addition, Duke and Cinergy have made certain additional customary covenants, including, among others, covenants, subject to certain exceptions, (A) to cause a stockholder meeting to be held to consider approval of the Mergers and the other transactions contemplated by the Merger Agreement, (B) not to solicit proposals relating to alternative business combination transactions, and (C) not to enter into discussions concerning, or provide confidential information in connection with, alternative business combination transactions.

Consummation of the Mergers is subject to customary conditions, including, among others, (i) approval of the stockholders of each of Duke and Cinergy, (ii) absence of any material adverse effect, (iii) expiration or termination of the applicable Hart–Scott–Rodino Act waiting period, (iv) absence of any order or injunction prohibiting the consummation of the Mergers, (v) the registration statement of Holdco filed on Form S–4 shall have become effective, (vi) shares of Holdco common stock shall have been approved for listing on the New York Stock Exchange, (vii) subject to certain exceptions, the accuracy of representations and warranties with respect to Duke's and Cinergy's business, as applicable, (viii) receipt of customary tax opinions, and (ix) receipt of all required statutory approvals from, among others, the Federal Energy Regulatory Commission, the Securities and Exchange Commission under the Public Utility Holding Company Act of 1935, the Nuclear Regulatory Commission, the Federal Communications Commission, and state public service and utility commissions.

The Merger Agreement contains certain termination rights for both Duke and Cinergy, and further provides that, upon termination of the Merger Agreement under specified circumstances, a party would be required to pay the other party's fees and expenses in an amount not to exceed $35 million or a termination fee of $300 million in the case of a fee payable by Cinergy to Duke or a termination fee of $500 million in the case of a fee payable by Duke to Cinergy. The termination fee is payable by Cinergy under specified circumstances, including (i) if Cinergy enters into a definitive agreement with respect to certain business combinations (other than the Merger Agreement), or (ii) if Duke terminates the Merger Agreement following a withdrawal by Cinergy's Board of Directors of its recommendation of the Merger Agreement and the Mergers under certain circumstances. The termination fee is payable by Duke under specified circumstances, including (i) if Duke enters into a definitive agreement with respect to certain business combinations (other than the Merger Agreement), or (ii) if Cinergy terminates the Merger Agreement following a withdrawal by Duke's Board of Directors of its recommendation of the Merger Agreement and the Mergers under certain circumstances.

The foregoing description of the Merger Agreement does not purport to be complete and is qualified in its entirety by reference to the Merger Agreement, which was filed as Exhibit 2.1 in Cinergy's 8–K dated May 10, 2005.

Employment Arrangements and Agreement

At the effective time of the Mergers, Paul M. Anderson shall be Chairman of the Board of Directors of Holdco. In addition to the duties of the Chairman of the Board of Directors of Holdco set forth in the Holdco By–laws, Mr. Anderson shall have management responsibilities for analyzing potential strategic alternatives regarding the separation of Duke's gas and electric businesses.

At the effective time of the Mergers, James E. Rogers shall become President and Chief Executive Officer of Holdco. Duke, Cinergy, Holdco and Mr. Rogers have executed a term sheet (the "Rogers Employment Agreement Term Sheet") pursuant to which the parties agree to amend the existing employment agreement for Mr. Rogers in certain respects to reflect the Merger Agreement and the transactions contemplated thereby (as so amended, the "Rogers Employment Agreement"). The Rogers Employment Agreement will be assumed by Holdco effective upon the completion of the Mergers. The Rogers Employment Agreement provides for a three–year term of employment commencing upon completion of the Mergers, which shall renew automatically for subsequent one–year periods thereafter if neither Mr. Rogers nor Holdco gives notice prior to or as of a specified date.

The Rogers Employment Agreement provides that the parties will negotiate in good faith to restructure the current compensation arrangements for Mr. Rogers to provide that he shall be paid substantially in the form of equity compensation by which the current Duke Chief Executive Officer is presently compensated, in any event on terms no less favorable than Mr. Rogers' existing compensation arrangements.

If Mr. Rogers' employment is involuntarily terminated without cause, or Mr. Rogers terminates with "good reason" on or prior to the second anniversary of the completion of the Mergers, or within two years following a change in control of Holdco, then he will receive an amount no less than the economic value to which he would otherwise be entitled under his existing employment agreement had he terminated employment under such circumstances immediately following the completion of the Mergers. If such termination of employment occurs at any time following the second anniversary of the completion of the Mergers (other than within two years following a change in control of Holdco), then he will receive an amount no less than the economic value to which he would otherwise be entitled under his existing employment agreement had he terminated employment immediately prior to the occurrence of a change in control of Cinergy (and, in either case, such economic value shall be determined without regard to the form of his then–restructured compensation arrangements). The required relocation of Mr. Rogers to Charlotte, North Carolina will not constitute a "good reason" trigger under the Rogers Employment Agreement.

Effective upon the completion of the Merger, Cinergy will waive the limitation on Mr. Rogers' ability to sell, while still employed, certain shares of stock of Cinergy acquired upon the exercise of Cinergy stock options, provided that Mr. Rogers will be subject to any future Duke/Holdco stock ownership guidelines.

A copy of the Rogers Employment Agreement Term Sheet was filed as Exhibit 10.1 in Cinergy's 8–K dated May 10, 2005.

In connection with the signing of the Merger Agreement, Cinergy entered into amendments to the employment agreements of certain of its named executive officers (each an "Amendment to Employment Agreement"), including each of Messrs. Cyrus, Manly and Turner pursuant to which each of the executives has agreed to waive his right to resign for good reason and collect severance benefits solely as a result of being required to relocate to Charlotte, North Carolina or, for some executives, Houston, Texas in connection with the Mergers. In addition, the good reason definitions were amended to eliminate the executives' right to resign for good reason and collect severance due to changes to the executives' title and to add a right to resign for good reason and collect severance pay in the event that Mr. Rogers fails to continue to serve as Chief Executive Officer of Holdco (other than as a result of his death, disability, termination for cause or his voluntary resignation without good reason).

A form of the Amendment to Employment Agreement was filed as Exhibit 10.2 in Cinergy's 8–K dated May 10, 2005.

EXECUTIVE SUMMARY

In Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A), we explain our general operating environment, as well as our results of operations, liquidity, capital resources, future expectations/trends, market risk sensitive instruments, and accounting matters. Specifically, we discuss the following:

- factors affecting current and future operations;
- why results changed from period to period;

- potential sources of cash for future capital expenditures; and
- how these items affect our overall financial condition.

Organization

Cinergy Corp., a Delaware corporation organized in 1993, owns all outstanding common stock of **CG&E** and **PSI**, both of which are public utilities. As a result of this ownership, we are considered a utility holding company. Because we are a holding company with material utility subsidiaries operating in multiple states, we are registered with and are subject to regulation by the Securities and Exchange Commission (SEC) under the Public Utility Holding Company Act of 1935, as amended (PUHCA). Our other principal subsidiaries are Cinergy Services, Inc. (Services) and Cinergy Investments, Inc. (Investments).

CG&E, an Ohio corporation organized in 1837, is a combination electric and gas public utility company that provides service in the southwestern portion of Ohio and, through **ULH&P**, in nearby areas of Kentucky. **CG&E** is responsible for the majority of our power marketing and trading activity. **CG&E's** principal subsidiary, **ULH&P**, a Kentucky corporation organized in 1901, provides electric and gas service in northern Kentucky.

PSI, an Indiana corporation organized in 1942, is a vertically integrated and regulated electric utility that provides service in north central, central, and southern Indiana.

The following table presents further information related to the operations of our domestic utility companies **CG&E**, **PSI**, and **ULH&P** (our utility operating companies):

	Principal Line(s) of Business
CG&E and subsidiaries	• Generation, transmission, distribution, and sale of electricity • Sale and/or transportation of natural gas • Electric commodity marketing and trading operations
PSI	• Generation, transmission, distribution, and sale of electricity
ULH&P(1)	• Transmission, distribution, and sale of electricity • Sale and transportation of natural gas

(1) See Note 9 of the "Notes to Condensed Financial Statements" in "Item 1. Financial Statements" for further discussion of the possible transfer of generation assets.

Services is a service company that provides our subsidiaries with a variety of centralized administrative, management, and support services. Investments holds most of our non–regulated, energy–related businesses and investments, including natural gas marketing and trading operations (which are primarily conducted through Cinergy Marketing & Trading, LP, one of its subsidiaries).

Financial Highlights

Net income for **Cinergy** for the quarters ended March 31, 2005, and 2004 was as follows:

	Cinergy			
	2005	2004	Change	% Change
	(in millions)			
Net income	**$ 117**	$ 103	$ 14	14 %

The increase in net income was primarily due to the following factors:

- Increases in rate tariff adjustments resulting from the **PSI** base retail electric rate case increase in May 2004 and the implementation of **CG&E's** rate stabilization plan (RSP) in January 2005;
- An increase in gross margins on power marketing, trading, and origination contracts; and
- Impairment charges recognized in the first quarter of 2004 related to a technology investment in our Power Technology and Infrastructure Services Business Unit (Power Technology and Infrastructure).

These increases were partially offset by the following factors:

- Lower Commercial Business Unit (Commercial) gas gross margins resulting from losses on forward gas contracts; and

- A decrease in electric gross margins relating to certain activities in our asset optimization business. This decrease was comprised of losses on forward power contracts partially offset by increases in margins from the sale of emission allowances.

For further information, see "2005 Quarterly Results of Operations – **Cinergy**".

Forward–looking Challenges and Risks

Environmental Challenges

Cinergy faces many uncertainties with regard to future environmental legislation and the impact of this legislation on our generating assets and our decisions to construct new assets. In March 2005, the Environmental Protection Agency (EPA) finalized two rulemakings that will require significant reductions in sulfur dioxide (SO_2), nitrogen oxides (NO_X), and mercury emissions from power plants. However, various states and environmental groups have challenged certain EPA regulatory determinations contending that the new mercury rule does not require enough reductions. Additionally, multi–emissions reductions legislation is still being discussed in the Senate, although the outcome of these discussions is still highly uncertain at this time. Presently, greenhouse gas (GHG) emissions, which principally consist of carbon dioxide (CO_2), are not regulated, and while several legislative proposals have been introduced in Congress to reduce utility GHG emissions, none have been passed. Nevertheless, we anticipate a mandatory program to reduce GHG emissions will exist in the future. In 2004, **Cinergy's** utility operating companies began an environmental construction program to reduce overall plant emissions that is estimated to cost approximately $1.8 billion over the next five years. We believe that our construction program optimally balances these uncertainties and provides a level of emission reduction that will be required and/or economical to **Cinergy** under a variety of possible regulatory outcomes. See "Environmental Issues" in "Liquidity and Capital Resources" for further information.

Midwest Independent Transmission System Operator, Inc. (Midwest ISO) Energy Markets

Effective April 1, 2005 the Midwest ISO began operating under the Energy Markets Tariff (sometimes referred to as a Locational Marginal Pricing (LMP) market or MISO Day 2 market). The implementation of an LMP market introduces new scheduling requirements, new products for mitigating transmission congestion risks, and new pricing points for the purchase and sale of power. We have been operating under the Energy Markets Tariff throughout April and continue to work with the Midwest ISO to monitor the implementation of the new market. See "Midwest ISO Energy Markets" in "Future Expectations/Trends" for further details regarding these new markets.

Rising Coal and Emission Allowance Prices

The prices of coal and SO2 emission allowances increased dramatically in 2004, as compared to 2003, and have continued to increase in 2005. Contributing to the increases in coal and SO2 prices have been (1) increases in demand for electricity, (2) environmental regulation, and (3) decreases in the number of suppliers of coal from prior years. **CG&E's** RSP allows for recovery of fuel and emission allowance expenses effective January 1, 2005 for retail non–residential customers in Ohio. As part of the RSP, we will begin recovering these costs from residential customers in Ohio effective January 1, 2006. We continue to recover these costs from **PSI** retail customers through previously established rate recovery mechanisms. To the extent that these increased fuel and SO2 prices are not offset by regulatory recovery or increases in the market price of power for wholesale transactions, they will negatively impact ongoing earnings. The impact of these price increases on earnings in 2005 is discussed in more detail in "2005 Quarterly Results of Operations".

2005 QUARTERLY RESULTS OF OPERATIONS – CINERGY

Given the dynamics of our business, which include regulatory revenues with directly offsetting expenses and commodity trading operations for which results are primarily reported on a net basis, we have concluded that a discussion of our results on a gross margin basis is most appropriate. Electric gross margins represent electric operating revenues less the related direct costs of fuel, emission allowances, and purchased power. Gas gross margins represent gas operating revenues less the related direct cost of gas purchased. Within each of these areas, we will discuss the key drivers of our results. Gross margins for **Cinergy** for the Regulated Business Unit (Regulated) and Commercial for the quarters ended March 31, 2005, and 2004 were as follows:

	Cinergy							
	Regulated				Commercial			
	2005	2004	Change	% Change	**2005**	2004	Change	% Change
				(in millions)				
Electric gross margin(1)	**$442**	$406	$36	9 %	**$179**	$159	$20	13 %
Gas gross margin(2)	**98**	104	(6)	(6)	**6**	23	(17)	(74)

(1) Electric gross margin is calculated as *Electric operating revenues* less *Fuel, emission allowances, and purchased power* expense from the Condensed Consolidated Statements of Income.

(2) Gas gross margin is calculated as *Gas operating revenues* less *Gas purchased* expense from the Condensed Consolidated Statements of Income.

Cooling degree days and heating degree days are metrics commonly used in the utility industry as a measure of the impact weather has on results of operations. Cooling degree days and heating degree days in **Cinergy's** service territory for the quarters ended March 31, 2005, and 2004 were as follows:

	Cinergy			
	2005	2004	Change	% Change
Cooling degree days(1)	—	1	(1)	(100) %
Heating degree days(2)(3)	**2,081**	2,210	(129)	(6)

(1) Cooling degree days are the differences between the average temperature for each day and 65 degrees, assuming the average temperature is greater than 65 degrees.

(2) Heating degree days are the differences between the average temperature for each day and 59 degrees, assuming the average temperature is less than 59 degrees.

(3) Beginning in January 2005, we modified our heating degree days base temperature from 65 degrees to 59 degrees to more accurately reflect current consumer behavior. Prior year amounts have been updated to reflect this change.

Regulated

Gross Margins

The nine percent increase in Regulated's electric gross margins was attributable to a $43 million increase resulting primarily from a higher price received per megawatt hour (MWh) due to **PSI's** base retail electric rate increase in May 2004. Partially offsetting this increase was a decline of $6 million in **PSI** rate tariff adjustments primarily associated with construction work in progress tracking mechanisms.

The six percent decrease in Regulated's gas gross margins was primarily due to milder weather during the first quarter of 2005, as compared to 2004, and a decline in non–weather related demand. As noted in the previous table, heating degree days were down six percent in **Cinergy's** service territory.

Commercial

Gross Margins

The 13 percent increase in Commercial's electric gross margins was primarily due to the following factors:

- A $12 million increase in rate tariff adjustments resulting from the implementation of **CG&E's** RSP in January 2005;
- A $12 million increase in gross margins on power marketing, trading, and origination contracts attributable to favorable market price movements in the first quarter of 2005; and
- A $4 million increase due to growth in non–weather related demand and the return of certain **CG&E** retail customers to full electric service.

These increases were partially offset by:

- A $14 million increase in **CG&E's** average price of fuel without a matching increase in the price of power charged to residential and non–retail customers; and
- A $4 million decrease in margins resulting from certain transactions occurring in our asset optimization business. We actively manage our non–regulated generation portfolio through a mix of real–time and forward sales of power and the corresponding purchase of fuel (primarily coal) and emission allowances. When power is sold forward, we typically purchase the fuel and emission allowances required to produce the power, thereby locking in our eventual margin at the time of delivery. The market values of these commodities change independently over time. At times, the value of the fuel and emission allowances becomes more valuable than the output of electricity. In these instances, we will purchase forward power to be used to deliver against forward power sales, and in turn sell the fuel and/or emission allowances. The combination of these transactions yields better economic returns than simply producing the power with the inventory of fuel and emission allowances.

  The fuel and emission allowance transactions typically follow the accrual method of accounting. However, generally accepted accounting principles (GAAP) requires that certain forward sales of power (those classified as derivatives) use the mark–to–market (MTM) method of accounting. This differing accounting treatment for the various components of the generation portfolio can lead to volatility in reported results. Our gross margins reflect $24 million of unrealized losses in 2005 and $11 million of unrealized gains in 2004 (representing a $35 million change quarter on quarter) as a result of forward power sales and the use of MTM accounting. Increases in the market value of any offsetting fuel and emission allowances purchases are not recognized under the accrual method of accounting until sold.

  During 2005, we recognized margins of $31 million more than the comparable period in 2004 as a result of selling emission allowances which were no longer needed to meet our forward power sales commitments. This gain reflects unprecedented increases in prices of SO_2 emission allowances throughout much of 2004 and into early 2005. Based on projected generation, we have sufficient fuel and emission allowances to meet our forward power sales commitments over the next several years, and we will continue to evaluate and optimize our generation resources so as to make decisions that produce the best economic returns for these assets.

Commercial's gas gross margins under GAAP decreased 74 percent for the quarter ended March 31, 2005, as compared to 2004. Margins for the gas marketing and trading business decreased, in part, due to timing differences in revenue recognition between physical storage activities and the associated derivative contracts that hedge the physical storage. Our gas marketing and trading business regularly hedges its price exposure of natural gas held in storage by selling derivative contracts for winter month delivery. The majority of the gas held in storage is designated as being hedged under Statement of Financial Accounting Standards No. 133's, *Accounting for Derivative Instruments and Hedging Activities*, fair value hedge accounting model, which allows the gas to be accounted for at its fair value (based on spot prices). Under GAAP, the derivative contracts hedging the gas are accounted for at fair value (based on forward winter prices). Conversely, the agreements with pipelines to store this natural gas until the winter periods are not derivatives and are not adjusted for changes in fair value (see footnote 1 in the following table). Significant increases in natural gas prices during the first quarter of 2005, especially prices for 2006 winter months, resulted in an unrealized loss on the derivative contracts that is included in current earnings.

For a more complete understanding of our gas marketing and trading results, we have prepared the following table, which reconciles the gas margins under GAAP, the impact of adjusting these margins for the fair value of pipeline agreements and certain gas held in storage, and the resulting adjusted gas gross margins:

		2005		2004		Change
				(in millions)		
Gas margins, as reported (GAAP)	**$**	**6**	$	23	$	(17)
Fair value adjustments not recognized under GAAP (1)		**12** (2)		(4)		16
Adjusted gas gross margins	**$**	**18**	$	19	$	(1)

(1) Relates to fair value of storage agreements. The value of a storage agreement is the ability to store and optimize gas between periods of lower prices (typically summer) and periods of higher prices (typically winter). A large component of the fair value is therefore the differences between winter prices and spot prices. As this spread gets wider, the value of a storage agreement increases.

(2) The magnitude of the adjustment in 2005 is driven by forward price increases in the winter months of 2006 that are significantly larger than spot price increases, which caused a recognized loss on the derivative sales offset by an unrecognized gain on the related storage agreements.

Adjusted gas gross margins represent a more economic view of the business with all elements of the business reflected at fair value. Adjusted gas gross margins remained relatively flat for the quarter ended March 31, 2005, as compared to 2004.

Other Operating Revenues and Costs of Fuel Resold

The increase in *Other Operating Revenues* was primarily due to the following factors:

- A $26 million increase in Commercial's revenues from coal origination resulting from increases in coal prices and the number of coal origination contracts. Coal origination includes contract structuring and marketing of physical coal.
- An $11 million increase in Commercial's revenues from the sale of synthetic fuel.

Costs of fuel resold includes Commercial's costs of coal origination activities and the production of synthetic fuel. These costs have increased in 2005, which is consistent with the increases in the associated revenues as previously discussed.

The following explanations correspond with the line items on the Condensed Consolidated Statements of Income for **Cinergy**. However, only the line items that varied significantly from prior periods are discussed.

Other Operating Expenses

	Cinergy			
	2005	2004	Change	% Change
	(in millions)			
Operation and maintenance	**$ 332**	$ 311	$ 21	7 %
Depreciation	**126**	105	21	20
Taxes other than income taxes	**79**	82	(3)	(4)

Operation and Maintenance

The seven percent increase in *Operation and Maintenance* expense was primarily due to the following factors:

- Increased regulatory asset amortization of $8 million related to **CG&E's** Regulatory Transition Charge (RTC);
- A $4 million increase in operation expenses for non–regulated service subsidiaries, including those that started operations, or became fully consolidated, during 2004 or 2005; and
- Maintenance expenses, primarily generation related, were higher by $4 million, partially due to planned outages at various **PSI** generating stations.

Depreciation

The 20 percent increase in *Depreciation* expense was primarily due to a) higher depreciation rates, as a result of changes in useful lives of production assets and an increased rate for cost of removal, b) recovery of deferred depreciation costs, and c) the addition of depreciable plant for pollution control equipment, all of which are recovered from ratepayers.

Miscellaneous Income (Expense) – Net

The increase in *Miscellaneous Income (Expense) – Net* was primarily due to a $27 million impairment charge recognized in the first quarter of 2004 related to a technology investment in Power Technology and Infrastructure.

2005 QUARTERLY RESULTS OF OPERATIONS – CG&E

Summary of Results

Net income for **CG&E** for the quarters ended March 31, 2005, and 2004 was as follows:

	CG&E and subsidiaries			
	2005	2004	Change	% Change
	(in millions)			
Net income	$ **85**	$ 77	$ 8	10 %

The increase in net income was primarily due to the following factors:

- Increases in rate tariff adjustments resulting from the implementation of **CG&E's** RSP;
- An increase in gross margins on power marketing, trading, and origination contracts; and
- An increase due to growth in non–weather related demand and the return of certain retail customers to full electric service.

These increases were partially offset by:

- A decrease in electric gross margins relating to certain activities in our asset optimization business. This decrease was comprised of losses on forward power contracts partially offset by increases in margins from the sale of emission allowances; and
- Higher operating costs.

Gross Margins

Gross margins for **CG&E** for the quarters ended March 31, 2005, and 2004 were as follows:

	CG&E and subsidiaries			
	2005	2004	Change	% Change
	(in millions)			
Electric gross margin(1)	$ **319**	$ 296	$ 23	8%
Gas gross margin(2)	**99**	104	(5)	(5)

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(1) Electric gross margin is calculated as *Electric operating revenues* less *Fuel, emission allowances, and purchased power* expense from the Condensed Consolidated Statements of Income.

(2) Gas gross margin is calculated as *Gas operating revenues* less *Gas purchased* expense from the Condensed Consolidated Statements of Income.

Cooling degree days and heating degree days in **CG&E's** service territory for the quarters ended March 31, 2005, and 2004 were as follows:

	CG&E and subsidiaries			
	2005	2004	Change	% Change
Cooling degree days(1)	**—**	—	—	— %
Heating degree days(2)(3)	**1,989**	2,143	(154)	(7)

(1) Cooling degree days are the differences between the average temperature for each day and 65 degrees, assuming the average temperature is greater than 65 degrees.

(2) Heating degree days are the differences between the average temperature for each day and 59 degrees, assuming the average temperature is less than 59 degrees.

(3) Beginning in January 2005, we modified our heating degree days base temperature from 65 degrees to 59 degrees to more accurately reflect current consumer behavior. Prior year amounts have been updated to reflect this change.

Electric Gross Margins

The eight percent increase in **CG&E's** electric gross margins was primarily due to the following factors:

- A $12 million increase in rate tariff adjustments resulting from the implementation of **CG&E's** RSP in January 2005;
- A $9 million increase in gross margins on power marketing, trading, and origination contracts attributable to favorable market price movements in the first quarter of 2005; and
- A $7 million increase due to growth in non–weather related demand and the return of certain retail customers to full electric service.

These increases were partially offset by:

- A $14 million increase in the average price of fuel without a matching increase in the price of power charged to residential and non–retail customers; and
- A $4 million decrease in margins resulting from certain transactions occurring in our asset optimization business. We actively manage our non–regulated generation portfolio through a mix of real–time and forward sales of power and the corresponding purchase of fuel (primarily coal) and emission allowances. When power is sold forward, we typically purchase the fuel and emission allowances required to produce the power, thereby locking in our eventual margin at the time of delivery. The market values of these commodities change independently over time. At times, the value of the fuel and emission allowances becomes more valuable than the output of electricity. In these instances, we will purchase forward power to be used to deliver against forward power sales, and in turn sell the fuel and/or emission allowances. The combination of these transactions yields better economic returns than simply producing the power with the inventory of fuel and emission allowances.

The fuel and emission allowance transactions typically follow the accrual method of accounting. However, GAAP requires that certain forward sales of power (those classified as derivatives) use the MTM method of accounting. This differing accounting treatment for the various components of the generation portfolio can lead to volatility in reported results. Our gross margins reflect \$24 million of unrealized losses in 2005 and \$11 million of unrealized gains in 2004 (representing a \$35 million change quarter on quarter) as a result of forward power sales and the use of MTM accounting. Increases in the market value of any offsetting fuel and emission allowances purchases are not recognized under the accrual method of accounting until sold.

During 2005, we recognized margins of \$31 million more than the comparable period in 2004 as a result of selling emission allowances which were no longer needed to meet our forward power sales commitments. This gain reflects unprecedented increases in prices of SO_2 emission allowances throughout much of 2004 and into early 2005. Based on projected generation, we have sufficient fuel and emission allowances to meet our forward power sales commitments over the next several years, and we will continue to evaluate and optimize our generation resources so as to make decisions that produce the best economic returns for these assets.

Gas Gross Margins

The five percent decrease in **CG&E's** gas gross margins was primarily due to milder weather during the first quarter of 2005, as compared to 2004, and a decline in non–weather related demand. As noted in the previous table, heating degree days were down seven percent in **CG&E's** service territory.

Other Operating Revenues and Costs of Fuel Resold

The increase in *Other Operating Revenues* was due to a $33 million increase in revenues from coal origination resulting from increases in coal prices and the number of coal origination contracts. This increase includes $11 million of sales to non–regulated affiliates.

Costs of fuel resold represents the costs of coal origination activities. These costs have increased in 2005, which is consistent with the increase in the associated revenues as previously discussed.

The following explanations correspond with the line items on the Condensed Consolidated Statements of Income for **CG&E**. However, only the line items that varied significantly from prior periods are discussed.

Other Operating Expenses

	CG&E and subsidiaries			
	2005	2004	Change	% Change
	(in millions)			
Operation and maintenance	**$ 162**	$ 150	$ 12	8 %
Depreciation	**45**	44	1	2
Taxes other than income taxes	**59**	64	(5)	(8)

Operation and Maintenance

The eight percent increase in *Operation and Maintenance* expense was primarily due to increased regulatory asset amortization of $8 million related to **CG&E's** RTC.

Taxes Other than Income Taxes

The eight percent decrease in *Taxes other than income taxes* was primarily due to the deferral of property taxes through **CG&E's** RSP and the decrease in the estimated property tax rate.

Income Taxes

CG&E's effective income tax rate increased for the first quarter of 2005, as compared to 2004. The increase was primarily a result of the resolution of certain tax matters and a decrease in the Ohio Coal Credit from $3 to $1 per ton.

2005 QUARTERLY RESULTS OF OPERATIONS – PSI

Summary of Results

Net income for **PSI** for the quarters ended March 31, 2005, and 2004 was as follows:

	PSI			
	2005	2004	Change	% Change
	(in millions)			
Net income	$ **42**	$ 41	$ 1	2 %

Net income for **PSI** was relatively flat for the first quarter of 2005, as compared to 2004. The **PSI** base retail electric rate case in May 2004 was partially offset by increases in operation and maintenance expenses.

Electric Gross Margins

Gross margins for **PSI** for the quarters ended March 31, 2005, and 2004 were as follows:

	PSI			
	2005	2004	Change	% Change
	(in millions)			
Electric gross margin(1)	$ **293**	$ 261	$ 32	12%

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(1) Electric gross margin is calculated as *Electric operating revenues* less *Fuel, emission allowances, and purchased power* expense from the Condensed Consolidated Statements of Income.

Cooling degree days and heating degree days in **PSI's** service territory for the quarters ended March 31, 2005, and 2004 were as follows:

	PSI			
	2005	2004	Change	% Change
Cooling degree days(1)	**—**	2	(2)	(100)%
Heating degree days(2)(3)	**2,172**	2,277	(105)	(5)

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(1) Cooling degree days are the differences between the average temperature for each day and 65 degrees, assuming the average temperature is greater than 65 degrees.

(2) Heating degree days are the differences between the average temperature for each day and 59 degrees, assuming the average temperature is less than 59 degrees.

(3) Beginning in January 2005, we modified our heating degree days base temperature from 65 degrees to 59 degrees to more accurately reflect current consumer behavior. Prior year amounts

have been updated to reflect this change.

The change in degree days did not have a material effect on electric gross margins for the period.

The 12 percent increase in **PSI's** electric gross margins was attributable to a $43 million increase resulting primarily from a higher price received per MWh due to **PSI's** base retail electric rate increase in May 2004. Partially offsetting this increase was a decline of $6 million in rate tariff adjustments primarily associated with construction work in progress tracking mechanisms.

The following explanations correspond with the line items on the Condensed Consolidated Statements of Income for **PSI**. However, only the line items that varied significantly from prior periods are discussed.

Other Operating Expenses

	PSI			
	2005	2004	Change	% Change
		(in millions)		
Operation and maintenance	$ **121**	$ 109	$ 12	11 %
Depreciation	**67**	49	18	37
Taxes other than income taxes	**16**	16	—	—

Operation and Maintenance

The 11 percent increase in *Operation and Maintenance* expense was primarily due to the following factors:

- Maintenance expenses, primarily generation and distribution related, were higher by $5 million, partially due to planned outages at various generating stations; and
- Increased expenses of $2 million related to amortization of deferred merger costs, which were approved for recovery through **PSI's** base retail electric rate case.

Depreciation

The 37 percent increase in *Depreciation* expense was primarily due to a) higher depreciation rates, as a result of changes in useful lives of production assets and an increased rate for cost of removal, b) recovery of deferred depreciation costs, and c) the addition of depreciable plant for pollution control equipment, all of which are recovered from ratepayers.

Interest Expense

The 24 percent increase in *Interest Expense* was primarily due to an increase in average long–term debt outstanding. This expense was partially offset by interest income received on restricted deposits obtained through these incremental borrowings, which is recorded in *Miscellaneous Income – Net*, associated with the additional long–term debt outstanding.

2005 QUARTERLY RESULTS OF OPERATIONS – ULH&P

Summary of Results

Electric and gas gross margins and net income for **ULH&P** for the quarters ended March 31, 2005 and 2004, were as follows:

	ULH&P			
	2005	2004	Change	% Change
	(in millions)			
Electric gross margin(1)	**$ 15**	$ 17	$ (2)	(12)%
Gas gross margin(2)	**18**	17	1	6
Net income	**6**	8	(2)	(25)

(1) Electric gross margin is calculated as *Electric operating revenues* less *Electricity purchased from parent company for resale* expense from the Condensed Statements of Income.

(2) Gas gross margin is calculated as *Gas operating revenues* less *Gas purchased* expense from the Condensed Statements of Income.

The 12 percent decrease in electric gross margins was due, in part, to milder weather during the first quarter of 2005. The six percent increase in gas gross margins was primarily due to an increase in rate tariff adjustments associated with the gas main replacement program and the demand–side management program, which encourages efficient customer gas usage. Partially offsetting this increase was a decline resulting from milder weather during the first quarter of 2005.

The 25 percent decrease in net income for the quarter was primarily due to the decreased electric gross margins as previously discussed. Also contributing to the decrease were higher costs associated with transmission and the demand–side management program. Partially offsetting this decrease was a decline in income taxes primarily as a result of a reduction of the Kentucky corporate income tax rate from 8.25 percent to seven percent. The rate is scheduled to decrease to six percent effective January 1, 2007.

LIQUIDITY AND CAPITAL RESOURCES

Capital Requirements

Environmental Issues

Environmental Protection Agency Regulations

In March 2005, the EPA issued the Clean Air Interstate Rule (CAIR), formerly the Interstate Air Quality Rule, which would require states to revise their State Implementation Plan (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 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. At the same time, the EPA issued the Clean Air Mercury Rule (CAMR) which requires reductions in mercury emissions from coal–fired power plants. The final regulation also adopts a two–phase cap and trade approach that requires mercury reductions of 70 percent by 2018. Under both CAIR and 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 and environmental organizations have challenged certain EPA regulatory determinations contending that CAMR does not require enough reductions. At this time we cannot predict the outcome of this matter.

Over the 2005–2009 time period, we expect to spend approximately $1.8 billion to reduce mercury, SO_2, and NO_X emissions. These estimates include $1.7 billion in costs to comply with CAIR and CAMR. These estimates also 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 60 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. See Note 6(b)(*i*) of the "Notes to Condensed Financial Statements" in "Item 1. Financial Statements" for more details. **CG&E** would receive partial recovery of depreciation and financing costs related to environmental compliance projects for 2005–2008 through its recently approved RSP. See Note 6(b)(*ii*) of the "Notes to Condensed Financial Statements" in "Item 1. Financial Statements" for more details.

In June 2004, the EPA made final state non–attainment area designations to implement the revised ozone standard. In January 2005, the EPA made final state non–attainment area designations to implement the new fine particulate standard. 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 May 2004, the EPA issued proposed revisions to its 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. Although 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 has deferred making a final determination until finalizing additional guidelines under the regional haze program. The final rule is expected in June 2005. In light of the EPA's ongoing rulemaking efforts and the fact that the states have yet to announce how they will implement the final rule, at this time it is not possible to predict whether the regional haze rule will have a material effect on our financial position or results of operations.

Clear Skies Legislation

President Bush has proposed environmental legislation that would combine a series of Clean Air Act (CAA) requirements, including the recent mercury, SO_2, and NO_x reduction regulations for coal–fired power plants with a legislative solution that includes trading and specific emissions reductions and timelines to meet those reductions. The President's "Clear Skies Initiative" would seek an overall 70 percent reduction in emissions from power plants over a phased–in reduction schedule beginning in 2010 and continuing through 2018. When the Clear Skies Initiative was stalled in Congress, the EPA finalized the CAIR and CAMR regulations to accomplish Clear Skies' goals within the existing framework of the CAA. Clear Skies has been reintroduced in the Senate in 2005, but its prospects for passage are uncertain in the current session. At this time we cannot predict whether this or any multi–emissions bill will be passed.

Energy Bill

A comprehensive energy policy bill, which included the repeal of the PUHCA; tax incentives for gas and electric distribution lines, combined heat and power and renewable energy projects, and pollution control equipment; and a business carry forward credit for Internal Revenue Code Section 29 (IRC Section 29) investments, passed in the House in April 2005. The Senate is still considering an Energy package. It is not possible to predict when or if a final bill will pass in 2005.

Environmental Lawsuits

We are currently involved in the following lawsuits which are discussed in more detail in Note 6(a) of the "Notes to Condensed Financial Statements" in "Item 1. Financial Statements". An unfavorable outcome of any of these lawsuits could have a material impact on our liquidity and capital resources.

- CAA Lawsuit
- CO_2 Lawsuit
- Selective Catalytic Reduction Units at Gibson Station
- Zimmer Station Lawsuit
- Manufactured Gas Plant Sites
- Asbestos Claims Litigation

Pension and Other Postretirement Benefits

Cinergy maintains qualified defined benefit pension plans covering substantially all United States employees meeting certain minimum age and service requirements. Plan assets consist of investments in equity and debt securities. 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 (ERISA). Although mitigated by strong performance in 2003 and 2004, ongoing retiree payments and the decline in market value of the investment portfolio in 2002 reduced the assets held in trust to satisfy plan obligations. Additionally, continuing low long–term interest rates have increased the liability for funding purposes. As a result of these events, our near term funding targets have increased substantially. **Cinergy** has adopted a five–year plan to reduce, or eliminate, the unfunded pension obligation initially measured as of January 1, 2003. This unfunded obligation will be recalculated as of January 1 of each year in the five–year plan.

Because this unfunded obligation is the difference between the liability determined actuarially on an ERISA basis and the market value of plan assets as of January 1, 2003, the liability determined by this calculation is different than the pension liability calculated for accounting purposes reported on **Cinergy's** Condensed Consolidated Balance Sheets.

Cinergy's minimum required contributions in calendar year 2004 totaled $16 million. Actual contributions in 2004 were $117 million, reflecting additional discretionary contributions of $101 million under the aforementioned five–

year plan. Due to the significant 2004 and previous calendar year contributions, **Cinergy's** minimum required contributions in calendar year 2005 are expected to be zero. Should **Cinergy** continue funding under the five–year plan, discretionary contributions are expected to be $102 million in 2005, which is an increase from the $72 million disclosed in the 2004 10–K. This $30 million increase is primarily the result of a change in the retirement age assumption which increased the near–term funding estimates. Actual contributions for the first quarter of 2005 were zero. **Cinergy** may consider making discretionary contributions in 2006 and future periods; however, at this time, we are unable to determine the amount of those contributions. Estimated contributions fluctuate based on changes in market performance of plan assets and actuarial assumptions. Absent the occurrence of interim events that could materially impact these targets, we will update our expected target contributions annually as the actuarial funding valuations are completed and make decisions about future contributions at that time.

Other Investing Activities

Our ability to invest in growth initiatives is limited by certain legal and regulatory requirements, including the PUHCA. The PUHCA limits the types of non–utility businesses in which **Cinergy** and other registered holding companies under the PUHCA can invest as well as the amount of capital that can be invested in permissible non–utility businesses. Also, the timing and amount of investments in the non–utility businesses is dependent on the development and favorable evaluations of opportunities. Under the PUHCA restrictions, we are allowed to invest, or commit to invest, in certain non–utility businesses, including:

- Exempt Wholesale Generators (EWG) and Foreign Utility Companies (FUCO)

  An EWG is an entity, certified by the Federal Energy Regulatory Commission (FERC), devoted exclusively to owning and/or operating, and selling power from one or more electric generating facilities. An EWG whose generating facilities are located in the United States is limited to making only wholesale sales of electricity. An entity claiming status as an EWG must provide notification thereof to the SEC under the PUHCA.

  A FUCO is a company all of whose utility assets and operations are located outside the United States and which are used for the generation, transmission, or distribution of electric energy for sale at retail or wholesale, or the distribution of gas at retail. A FUCO may not derive any income, directly or indirectly, from the generation, transmission, or distribution of electric energy for sale or the distribution of gas at retail within the United States. An entity claiming status as a FUCO must provide notification thereof to the SEC under the PUHCA.

  Cinergy has been granted SEC authority under the PUHCA to invest (including by way of guarantees) an aggregate amount in EWGs and FUCOs equal to the sum of (1) our average consolidated retained earnings from time to time plus (2) $2 billion through June 30, 2005. As of March 31, 2005, we had invested or committed to invest $0.7 billion in EWGs and FUCOs, leaving available investment capacity under the order of $2.8 billion. In February 2005, **Cinergy** filed an application with the SEC under the PUHCA requesting an extension of this authority through December 31, 2008. At this time, we are unable to predict whether the SEC will approve this request.

- Qualifying Facilities and Energy–Related Non–utility Entities

  SEC regulations under the PUHCA permit **Cinergy** and other registered holding companies to invest and/or guarantee an amount equal to 15 percent of consolidated capitalization (consolidated capitalization is the sum of *Notes payable and other short–term obligations*, *Long–term debt* (including amounts due within one year), Cumulative Preferred Stock of Subsidiaries, and total Common Stock Equity) in domestic qualifying cogeneration and small power production plants (qualifying facilities) and certain other domestic energy–related non–utility entities. At March 31, 2005, we had invested and/or guaranteed $1.0 billion of the $1.4 billion available. In August 2004, **Cinergy** filed an application with the SEC requesting authority under the PUHCA to increase its investment and/or guarantee authority by $2 billion above the current authorized amount. At this time, we are unable to predict whether the SEC will approve this request.

- Energy–Related Assets

Cinergy has been granted SEC authority under the PUHCA to invest up to $1 billion in non–utility Energy–Related Assets within the United States, Canada, and Mexico. Energy–Related Assets include natural gas exploration, development, production, gathering, processing, storage and transportation facilities and equipment, liquid oil reserves and storage facilities, and associated assets, facilities and equipment, but would exclude any assets, facilities, or equipment that would cause the owner or operator thereof to be deemed a public utility company. As of March 31, 2005, we did not have any investments in these Energy–Related Assets.

- Infrastructure Services Companies

Cinergy has been granted SEC authority under the PUHCA to invest up to $500 million through June 30, 2005 in companies that derive or will derive substantially all of their operating revenues from the sale of Infrastructure Services including:

- Design, construction, retrofit, and maintenance of utility transmission and distribution systems;
- Installation and maintenance of natural gas pipelines, water and sewer pipelines, and underground and overhead telecommunications networks; and
- Installation and servicing of meter reading devices and related communications networks, including fiber optic cable.

At March 31, 2005, we had invested $30 million in Infrastructure Services companies. In February 2005, **Cinergy** filed an application with the SEC under PUHCA requesting authority to invest up to $100 million in Infrastructure Services companies through December 31, 2008, which is a $400 million reduction in **Cinergy's** current authority. At this time, we are unable to predict whether the SEC will approve this request.

Guarantees

We are subject to an SEC order under the PUHCA, which limits the amounts **Cinergy Corp.** can have outstanding under guarantees at any one time to $2 billion. As of March 31, 2005, we had $759 million outstanding under the guarantees issued, of which 96 percent represents guarantees of obligations reflected on **Cinergy's** Condensed Consolidated Balance Sheets. The amount outstanding represents **Cinergy Corp.'s** guarantees of liabilities and commitments of its consolidated subsidiaries, unconsolidated subsidiaries, and joint ventures. In February 2005, **Cinergy** filed an application with the SEC under the PUHCA requesting authority to have an aggregate amount of guarantees outstanding at any point in time not to exceed $3 billion. At this time, we are unable to predict whether the SEC will approve this request.

See Note 6(c)(*iii*) of the "Notes to Condensed Financial Statements" in "Item 1. Financial Statements" for a discussion of guarantees in accordance with Financial Accounting Standards Board Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (Interpretation 45). Interpretation 45 requires disclosure of maximum potential liabilities for guarantees issued on behalf of unconsolidated subsidiaries and joint ventures and under indemnification clauses in various contracts. The Interpretation 45 disclosure differs from the PUHCA restrictions in that it requires a calculation of maximum potential liability, rather than actual amounts outstanding; it excludes guarantees issued on behalf of consolidated subsidiaries; and it includes potential liabilities under indemnification clauses.

Marketing & Trading Liquidity Risks

Cinergy has certain contracts in place, primarily with trading counterparties, that require the issuance of collateral in the event our debt ratings are downgraded below investment grade. Based upon our March 31, 2005 trading portfolio, if such an event were to occur, **Cinergy** would be required to issue up to $381 million in collateral related to its gas and power trading operations, of which $154 million is related to **CG&E**.

Capital Resources

Cinergy, **CG&E**, **PSI**, and **ULH&P** meet their current and future capital requirements through a combination of funding sources including, but not limited to, internally generated cash flows, tax–exempt bond issuances, capital lease and operating lease structures, the securitization of certain asset classes, short–term bank borrowings, issuance of commercial paper, and issuances of long–term debt and equity. Funding decisions are based on market conditions, market access, relative pricing information, borrowing duration and current versus forecasted cash needs. **Cinergy**, **CG&E**, **PSI**, and **ULH&P** are committed to maintaining balance sheet health, responsibly managing capitalization, and maintaining adequate credit ratings. **Cinergy**, **CG&E**, **PSI**, and **ULH&P** believe that they have adequate financial resources to meet their future needs.

Sale of Accounts Receivable

CG&E, **PSI**, and **ULH&P** have an agreement with Cinergy Receivables Company, LLC (Cinergy Receivables), an affiliate, to sell, on a revolving basis, nearly all of the retail accounts receivable and related collections of **CG&E**, **PSI**, and **ULH&P**. Cinergy Receivables funds its purchases with borrowings from commercial paper conduits that obtain a security interest in the receivables. This program accelerates the collection of cash for **CG&E**, **PSI**, and **ULH&P** related to these retail receivables. **Cinergy Corp.** does not consolidate Cinergy Receivables because it meets the requirements to be accounted for as a qualifying special purpose entity (SPE). A decline in the long–term senior unsecured credit ratings of **CG&E**, **PSI**, and **ULH&P** below investment grade would result in the termination of the sale program and discontinuance of future sales of receivables.

Notes Payable and Other Short–term Obligations

We are required to secure authority to issue short–term debt from the SEC under the PUHCA and from the Public Utilities Commission of Ohio (PUCO). The SEC under the PUHCA regulates the issuance of short–term debt by **Cinergy Corp.**, **PSI**, and **ULH&P**. The PUCO has regulatory jurisdiction over the issuance of short–term debt by **CG&E**.

	Short–term Regulatory Authority March 31, 2005 (in millions) Authority	Outstanding
Cinergy Corp.	$ 5,000 (1)	$ 155
CG&E and subsidiaries	665 (2)	80
PSI	600	144
ULH&P	65 (2)	—

(1) **Cinergy Corp.**, under the PUHCA, has approval to increase total capitalization (excluding retained earnings and accumulated other comprehensive income (loss)), which may be any combination of debt and equity securities, by $5 billion. Outside this requirement, **Cinergy Corp.** is not subject to specific regulatory debt authorizations.

(2) In December 2004, **Cinergy** and **ULH&P** requested approval from the SEC for an increase in **ULH&P's** authority from $65 million to $150 million to coincide with the completion of its pending transaction with **CG&E** in which **ULH&P** will acquire interests in three of **CG&E's** electric generating stations. At this time, we are unable to predict whether the SEC will approve this request.

For the purposes of quantifying regulatory authority, short–term debt includes revolving credit line borrowings, uncommitted credit line borrowings, intercompany money pool obligations, and commercial paper.

Cinergy Corp.'s short–term borrowings consist primarily of unsecured revolving lines of credit and the sale of commercial paper. **Cinergy Corp.'s** $2 billion revolving credit facilities and $1.5 billion commercial paper program also support the short–term borrowing needs of **CG&E, PSI,** and **ULH&P**. In addition, **Cinergy Corp., CG&E**, and **PSI** maintain uncommitted lines of credit. These facilities are not firm sources of capital but rather informal agreements to lend money, subject to availability, with pricing determined at the time of advance. The following table summarizes our *Notes payable and other short–term obligations* and *Notes payable to affiliated companies*:

	Short–term Borrowings March 31, 2005				
	Established Lines	Outstanding	Unused	Standby Liquidity(1)	Available Revolving Lines of Credit
			(in millions)		
Cinergy					
Cinergy Corp.					
Revolving lines(2)	$ 2,000	$ —	$ 2,000	$ 167	$ 1,833
Uncommitted lines	40	—	40		
Commercial paper(3)		155			
Utility operating companies					
Uncommitted lines	75	—	75		
Pollution control notes		248			
Non–regulated subsidiaries					
Revolving lines(4)	162	20	142	—	142
Short–term debt		2			
Pollution control notes		25			
Cinergy Total		$ 450			$ 1,975
CG&E and subsidiaries					
Uncommitted lines	$ 15	$ —	$ 15		
Pollution control notes		112			
Money pool		80			
CG&E Total		$ 192			
PSI					
Uncommitted lines	$ 60	$ —	$ 60		
Pollution control notes		136			
Money pool		144			
PSI Total		$ 280			
ULH&P					
Money pool		$ —			
ULH&P Total		$ —			

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(1) Standby liquidity is reserved against the revolving lines of credit to support the commercial paper program and outstanding letters of credit (currently $155 million and $12 million, respectively).

(2) Consists of a three–year $1 billion facility and a five–year $1 billion facility. The three–year facility was entered into in April 2004 and matures in April 2007. The five–year facility was entered into in December 2004, matures in December 2009, and contains $500 million sublimits each for **CG&E** and **PSI**.

(3) **Cinergy Corp.'s** commercial paper program limit is $1.5 billion. The commercial paper program is supported by **Cinergy Corp.'s** revolving lines of credit.

(4) Of the $162 million, $150 million relates to a three–year senior revolving credit facility that Cinergy Canada, Inc. entered into in December 2004 and matures in December 2007.

At March 31, 2005, **Cinergy Corp.** had $1.8 billion remaining unused and available capacity relating to its $2 billion revolving credit facilities. These revolving credit facilities include the following:

Credit Facility	Expiration	Established Lines	Outstanding and Committed	Unused and Available
		(in millions)		
Five–year senior revolving	December 2009			
Direct borrowing			$ —	
Commercial paper support			—	
Total five–year facility(1)		$ 1,000	—	$ 1,000
Three–year senior revolving	April 2007			
Direct borrowing			—	
Commercial paper support			155	
Letter of credit support			12	
Total three–year facility		1,000	167	833
Total Credit Facilities		$ 2,000	$ 167	$ 1,833

(1) **CG&E** and **PSI** each have $500 million borrowing sublimits on this facility.

In our credit facilities, **Cinergy Corp.** has covenanted to maintain:

- a consolidated net worth of $2 billion; and
- a ratio of consolidated indebtedness to consolidated total capitalization not in excess of 65 percent.

As part of **CG&E's** $500 million sublimit under the $1 billion five–year credit facility, **CG&E** has covenanted to maintain:

- a consolidated net worth of $1 billion; and
- a ratio of consolidated indebtedness to consolidated total capitalization not in excess of 65 percent.

As part of **PSI's** $500 million sublimit under the $1 billion five–year credit facility, **PSI** has covenanted to maintain:

- a consolidated net worth of $900 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 facilities 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.

The latter two events, however, are subject to dollar–based materiality thresholds. As of March 31, 2005, **Cinergy**, **CG&E**, and **PSI** are in compliance with all of their debt covenants.

Long–term Debt

We are required to secure authority to issue long–term debt from the SEC under the PUHCA and the state utility commissions of Ohio, Kentucky, and Indiana. The SEC under the PUHCA regulates the issuance of long–term debt by **Cinergy Corp.** The respective state utility commissions regulate the issuance of long–term debt by our utility operating companies.

A current summary of our long–term debt authorizations at March 31, 2005, was as follows:

	Authorized	Used	Available
		(in millions)	
Cinergy Corp.			
PUHCA total capitalization(1)(2)	$ 5,000	$ 1,596	$ 3,404
CG&E and subsidiaries(3)			
State Public Utility Commissions	$ 575	$ —	$ 575
State Public Utility Commission – Tax–Exempt	250	94	156
PSI			
State Public Utility Commission	$ 500	$ —	$ 500
State Public Utility Commission – Tax–Exempt	250	209	41
ULH&P			
State Public Utility Commission(4)	$ 75	$ —	$ 75

(1) **Cinergy Corp.**, under the PUHCA, has approval to increase total capitalization (excluding retained earnings and accumulated other comprehensive income (loss)), which may be any combination of debt and equity securities, by $5 billion. Outside this requirement, **Cinergy Corp.** is not subject to specific regulatory debt authorizations.

(2) In February 2005, **Cinergy** filed an application with the SEC under the PUHCA to issue an additional $5 billion in any combination of debt and equity securities from time to time through December 31, 2008. At this time, we are unable to predict whether the SEC will approve this request.

(3) Includes amounts for **ULH&P**.

(4) In April 2005, the Kentucky Public Service Commission (KPSC) granted **ULH&P** financing authority to issue and sell up to $500 million principal amount of secured and unsecured debt; enter into inter–company promissory notes up to an aggregate principal amount of $200 million; and borrow up to a maximum of $200 million aggregate principal amount of tax–exempt debt through December 31, 2006.

Cinergy Corp. has an effective shelf registration statement with the SEC relating to the issuance of up to $750 million in any combination of common stock, preferred stock, stock purchase contracts or unsecured debt securities, of which $323 million remains available for issuance. **CG&E** has an effective shelf registration statement with the SEC relating to the issuance of up to $800 million in any combination of unsecured debt securities, first mortgage bonds, or preferred stock, all of which remains available for issuance. **PSI** has an effective shelf registration statement with the SEC relating to the issuance of up to $800 million in any combination of unsecured debt securities, first mortgage bonds, or preferred stock, all of which remains available for issuance. **ULH&P** has an effective shelf registration statement with the SEC for the issuance of up to $75 million in unsecured debt securities, $35 million of which remains available for issuance. **ULH&P** also has an effective shelf registration statement with the SEC relating to the issuance of up to $40 million in first mortgage bonds, of which $20 million remains available for issuance.

Off–Balance Sheet Arrangements

As discussed in the 2004 10–K, **Cinergy** uses off–balance sheet arrangements from time to time to facilitate financing of various projects. **Cinergy's** primary off–balance sheet arrangement involves the sale of accounts receivable to a qualifying SPE.

In 2001, **Cinergy Corp.** issued $316 million notional amount of combined securities, a component of which was stock purchase contracts. These contracts obligated the holder to purchase common shares of **Cinergy Corp.** stock by February 2005. Since the stock purchase contracts were detachable and classified in equity, the change in their fair value was not recorded in equity or earnings and therefore the stock purchase contracts were considered off–balance sheet arrangements. In January and February 2005, the stock purchase contracts were settled, resulting in the issuance of common stock that is recorded on **Cinergy's** Condensed Consolidated Balance Sheets as Common Stock Equity.

Securities Ratings

As of March 31, 2005, the major credit rating agencies rated our securities as follows:

	Fitch(1)	Moody's(2)	S&P(3)
Cinergy Corp.			
Corporate Credit	BBB+	Baa2	BBB+
Senior Unsecured Debt	BBB+	Baa2	BBB
Commercial Paper	F–2	P–2	A–2
Preferred Trust Securities	BBB+	Baa2	BBB
CG&E			
Senior Secured Debt	A–	A3	A–
Senior Unsecured Debt	BBB+	Baa1	BBB
Junior Unsecured Debt	BBB	Baa2	BBB–
Preferred Stock	BBB	Baa3	BBB–
Commercial Paper	F–2	P–2	Not Rated
PSI			
Senior Secured Debt	A–	A3	A–
Senior Unsecured Debt	BBB+	Baa1	BBB
Junior Unsecured Debt	BBB	Baa2	BBB–
Preferred Stock	BBB	Baa3	BBB–
Commercial Paper	F–2	P–2	Not Rated
ULH&P			
Senior Unsecured Debt	BBB+	Baa1	BBB

(1) Fitch Ratings (Fitch)

(2) Moody's Investors Service (Moody's)

(3) Standard & Poor's Ratings Services (S&P)

The highest investment grade credit rating for Fitch is AAA, Moody's is Aaa1, and S&P is AAA.

The lowest investment grade credit rating for Fitch is BBB–, Moody's is Baa3, and S&P is BBB–.

On May 10, 2005 S&P placed its ratings of **Cinergy Corp.** and its subsidiaries, on CreditWatch with negative implications. Moody's and Fitch have both affirmed their existing ratings. This action is in response to the announcement of the merger of Duke and **Cinergy** and the uncertainty around the final details of the transaction. See "Recent Developments" for further discussion of the transaction.

A security rating is not a recommendation to buy, sell, or hold securities. These securities ratings may be revised or withdrawn at any time, and each rating should be evaluated independently of any other rating.

Equity

As discussed in the 2004 10–K, in January and February 2005, **Cinergy Corp.** issued a total of 9.2 million shares of common stock pursuant to certain stock purchase contracts that were issued as a component of combined securities in December 2001. Net proceeds from the transaction of $316 million were used to reduce short–term debt.

Cinergy issues new **Cinergy Corp.** common stock shares to satisfy obligations under certain of its employee stock plans and the Cinergy Corp. Direct Stock Purchase and Dividend Reinvestment Plan. During the first quarter of 2005, **Cinergy** issued 1.3 million shares under these plans.

FUTURE EXPECTATIONS/TRENDS

In the "Future Expectations/Trends" section, we discuss developments in the electric and gas industry and other matters. Each of these discussions will address the current status and potential future impact on our financial position or results of operations.

Electric Industry

Regulatory Outlook

Kentucky

The KPSC has conditionally approved and the FERC has approved **ULH&P's** planned acquisition of **CG&E's** 68.9 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. **ULH&P** is currently seeking approval of the transaction from the Securities and Exchange Commission (SEC), wherein the Ohio Consumers' Counsel has intervened in opposition. The transfer, which will be at net book value, will not affect current electric rates for **ULH&P's** customers, as power will be provided under the same terms as under the current wholesale power contract with **CG&E** through December 31, 2006. Assuming receipt of SEC approval, we would anticipate the transfer to take place in the third quarter of 2005.

FERC and Midwest ISO

Midwest ISO Energy Markets

The Midwest ISO is a regional transmission organization established in 1998 as a non–profit organization which maintains functional control over the combined transmission systems of its members, including **Cinergy**. In March 2004, the Midwest ISO filed with the FERC proposed changes to its existing transmission tariff to add terms and conditions to implement a centralized economic dispatch platform supported by a Day–Ahead and Real–Time Energy Market design, including LMP and Financial Transmission Rights (FTRs) (Energy Markets Tariff). The FERC has issued orders that, among other things, conditionally approve the start–up of the Energy Markets Tariff which occurred April 1, 2005. The FERC issued orders in response to requests for rehearing on certain matters in the FERC's original orders. **Cinergy** intends to appeal the FERC orders to a federal appeals court.

Specifically, the Energy Markets Tariff manages system reliability through the use of a market–based congestion management system and includes a centralized dispatch platform, the intent of which is to dispatch the most economic resources to meet load requirements reliably and efficiently in the Midwest ISO region, which covers a large portion of 15 midwestern states and one Canadian province. The Energy Markets Tariff uses LMP (i.e., the energy price for the next MW may vary throughout the Midwest ISO market based on transmission congestion and energy losses), and the allocation or auction of FTRs, which are instruments that hedge against congestion costs occurring in the Day–Ahead market. The Energy Markets Tariff also includes market monitoring and mitigation measures as well as a resource adequacy proposal, that proposes both an interim solution for participants providing and having access to adequate generation resources and a proposal to develop a long–term solution to resource adequacy concerns. The Midwest ISO performs a day–ahead unit commitment and dispatch forecast for all resources in its market and also performs the real–time resource dispatch for resources under its control on a five minute basis. The **Cinergy** utility operating companies will seek to recover costs that they incur related to the Energy Markets Tariff. We have been operating under the Energy Markets Tariff throughout April. We continue to work with the Midwest ISO to monitor the implementation of the new market and at this time we do not believe it will have a material impact on our results of operations or financial position.

Presently, GHG emissions, which principally consist of CO_2, are not regulated, and while several legislative proposals have been introduced in Congress to reduce utility GHG emissions, none have been passed. Nevertheless, we anticipate a mandatory program to reduce GHG emissions will exist in the future. We expect that any regulation of GHGs will impose costs on **Cinergy.** Depending on the details, any GHG regulation could mean:

- Increased capital expenditures associated with investments to improve plant efficiency or install CO_2 emission reduction technology (to the extent that such technology exists) or construction of alternatives to coal generation;
- Increased operating and maintenance expense;
- Our older, more expensive generating stations may operate fewer hours each year because the addition of CO_2 costs could cause their generation to be less economic; and
- Increased expenses associated with the purchase of CO_2 emission allowances, should such an emission allowances market be created.

We would plan to seek recovery of the costs associated with a GHG program in rate regulated states where cost recovery is permitted.

In September 2003, **Cinergy** announced a voluntary GHG management commitment to reduce its GHG emissions during the period from 2010 through 2012 by five percent below our 2000 level, maintaining those levels through 2012. **Cinergy** expects to spend $21 million between 2004 and 2010 on projects to reduce or offset its GHG emissions. **Cinergy** is committed to supporting the President's voluntary initiative, addressing shareholder interest in the issue, and building internal expertise in GHG management and GHG markets. Our voluntary commitment includes the following:

- Measuring and inventorying company–related sources of GHG emissions;
- Identifying and pursuing cost–effective GHG emission reduction and offsetting activities;
- Funding research of more efficient and alternative electric generating technologies;
- Funding research to better understand the causes and consequences of climate change;
- Encouraging a global discussion of the issues and how best to manage them; and
- Participating in discussions to help shape the policy debate.

Cinergy is also studying the feasibility of constructing a commercial integrated coal gasification combined cycle (IGCC) generating station. The IGCC plant would be expected to run more efficiently than traditionally constructed coal–fired generation and would thus contribute fewer CO_2 tons per megawatt of electricity produced.

Other Matters

Synthetic Fuel Production

In July 2002, Cinergy Capital & Trading, Inc. acquired a coal–based synthetic fuel production facility. The synthetic fuel produced at this facility qualifies for tax credits (through 2007) in accordance with IRC Section 29 if certain requirements are satisfied. The three key requirements are that (a) the synthetic fuel differs significantly in chemical composition from the coal used to produce such synthetic fuel, (b) the fuel produced is sold to an unrelated entity and (c) the fuel was produced from a facility that was placed in service before July 1, 1998. In addition to the existing plant, we have recently purchased an additional synthetic fuel plant.

During the third quarter of 2004, several unrelated entities announced that the IRS had challenged or threatened to challenge the placed in service dates of some of the entities' synthetic fuel plants. A successful IRS challenge could result in disallowance of all credits previously claimed for fuel produced by the subject plants. **Cinergy's** sale of synthetic fuel has generated $244 million in tax credits through March 31, 2005. The IRS is currently auditing **Cinergy** for the 2002 and 2003 tax years. It is reasonable to anticipate that the IRS will evaluate the various key requirements for claiming our Section 29 credits related to synthetic fuel. **Cinergy** received a private letter ruling from the IRS in connection with the acquisition of the facility that specifically addressed the significant chemical change requirement. Additionally, although not addressed in the letter ruling, we believe that our facility's in service date meets the Section 29 requirements.

IRC Section 29 also provides for a phase–out of the credit based on the average price of crude oil during a calendar year. The phase–out is based on a prescribed calculation and definition of crude oil prices. We believe that crude oil prices would need to average approximately $60 per barrel from May through December 2005 for any credits to be phased out for 2005. The credits would be entirely phased out if crude oil prices were to average approximately $80 per barrel during that same time period. Based on recent forecasts of crude oil prices for the remainder of 2005, we do not currently expect a negative impact on our ability to recognize the projected benefit of Section 29 credits in 2005.

Under currently enacted law, the credit under IRC Section 29 will cease to be available for synthetic fuel sold after December 31, 2007.

Ohio Taxes

The Governor of Ohio has proposed sweeping changes to Ohio's tax law which, as currently proposed, would phase out the Ohio corporate franchise tax. The franchise tax would be replaced by a "Commercial Activity Tax". If approved as currently proposed, these changes could impact **Cinergy's** and **CG&E's** net deferred tax liabilities. The proposed law is still under consideration by the Ohio legislature and, as a result, the ultimate financial impact on **Cinergy** and **CG&E** is uncertain.

MARKET RISK SENSITIVE INSTRUMENTS

Energy Commodities Sensitivity

The transactions associated with Commercial's energy marketing and trading activities and substantial investment in generation assets give rise to various risks, including price risk. Price risk represents the potential risk of loss from adverse changes in the market price of electricity or other energy commodities. As Commercial continues to develop its energy marketing and trading business, its exposure to movements in the price of electricity and other energy commodities may become greater. As a result, we may be subject to increased future earnings volatility.

As discussed in the 2004 10–K, Commercial's energy marketing and trading activities principally consist of Marketing & Trading's natural gas marketing and trading operations and **CG&E's** power marketing and trading operations.

Changes in Fair Value

The changes in fair value of the energy risk management assets and liabilities for **Cinergy** and **CG&E** for the quarters ended March 31, 2005 and 2004 are presented in the table below.

	Change in Fair Value			
	March 31, 2005		March 31, 2004	
	Cinergy(1)	**CG&E**	**Cinergy(1)**	**CG&E**
	(in millions)			
Fair value of contracts outstanding at the beginning of period	**$ 82**	**$ 36**	$ 41	$ 20
Other changes in fair value(2)	**(1)**	**2**	49	28
Option premiums paid/(received)	**13**	**6**	6	1
Contracts settled	**(78)**	**(28)**	(48)	(10)
Fair value of contracts outstanding at end of period	**$ 16**	**$ 16**	$ 48	$ 39

(1) The results of **Cinergy** also include amounts related to non–registrants.

(2) Represents changes in fair value recognized in income, primarily attributable to fluctuations in price. This amount includes both realized and unrealized gains on energy trading contracts.

The following are the balances at March 31, 2005 and 2004 of our energy risk management assets and liabilities:

	March 31, 2005		March 31, 2004	
	Cinergy(1)	**CG&E**	Cinergy(1)	CG&E
	(in millions)			
Energy risk management assets – current	**$ 451**	**$ 244**	$ 352	$ 122
Energy risk management assets – non–current	**239**	**108**	114	49

Energy risk management liabilities – current	**(427)**	**(232)**	(330)	(108)
Energy risk management liabilities – non–current	**(247)**	**(104)**	(88)	(24)
	$ 16	**$ 16**	$ 48	$ 39

(1) The results of **Cinergy** also include amounts related to non–registrants.

The following table presents the expected maturity of the energy risk management assets and liabilities as of March 31, 2005 for **Cinergy** and **CG&E**:

	Fair Value of Contracts at March 31, 2005				
	Maturing				
Source of Fair Value(1)	**Within 12 months**	**12–36 months**	**36–60 months**	**Thereafter**	**Total Fair Value**
			(in millions)		
Cinergy(2)					
Prices actively quoted	$ 3	$ (2)	$ —	$ —	$ 1
Prices based on models and other valuation methods(3)	21	(6)	2	(2)	15
Total	$ 24	$ (8)	$ 2	$ (2)	$ 16
CG&E					
Prices actively quoted	$ 8	$ 7	$ —	$ —	$ 15
Prices based on models and other valuation methods(3)	3	(5)	3	—	1
Total	$ 11	$ 2	$ 3	$ —	$ 16

(1) While liquidity varies by trading regions, active quotes are generally available for two years for standard electricity transactions and three years for standard gas transactions. Non–standard transactions are classified based on the extent, if any, of modeling used in determining fair value. Long–term transactions can have portions in both categories depending on the length.

(2) The results of **Cinergy** also include amounts related to non–registrants.

(3) A substantial portion of these amounts include option values.

Generation Portfolio Risks

Cinergy optimizes the value of its non–regulated portfolio. The portfolio includes generation assets (power and capacity), fuel, and emission allowances and we manage all of these components as a portfolio. We use models that forecast future generation output, fuel requirements, and emission allowance requirements based on forward power, fuel and emission allowance markets. The component pieces of the portfolio are bought and sold based on this model in order to manage the economic value of the portfolio. With the issuance of Statement of Financial Accounting Standards No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities* (Statement 149), most forward power transactions from management of the portfolio are accounted for at fair value. The other component pieces of the portfolio are typically not subject to Statement 149 and are accounted for using the accrual method, where changes in fair value are not recognized. As a result, we are subject to earnings volatility via MTM gains or losses from changes in the value of the contracts accounted for using fair value. A hypothetical $1.00 per MWh increase or decrease consistently applied to all forward power prices would have resulted in an increase or decrease in fair value of these contracts of approximately $4.5 million as of March 31, 2005. See "2005 Quarterly Results of Operations" for further discussion of the impact on current quarter results.

Energy Trading Credit Risk

Cinergy's extension of credit for energy marketing and trading is governed by a Corporate Credit Policy. Written guidelines approved by **Cinergy's** Risk Policy Committee document the management approval levels for credit limits, evaluation of creditworthiness, and credit risk mitigation procedures. **Cinergy** analyzes net credit exposure and establishes credit reserves based on the counterparties' credit rating, payment history, and length of the outstanding obligation. Exposures to credit risks are monitored daily by the Corporate Credit Risk function, which is independent of all trading operations. Energy commodity prices can be extremely volatile and the market can, at times, lack liquidity. Because of these issues, credit risk for energy commodities is generally greater than with other commodity trading.

The following tables provide information regarding **Cinergy's** and **CG&E's** exposure on energy trading contracts as of March 31, 2005. The tables include accounts receivable and energy risk management assets, which are net of accounts payable and energy risk management liabilities with the same counterparties when we have the right of offset. The credit collateral shown in the following tables includes cash and letters of credit.

Cinergy(1)

Rating	Total Exposure Before Credit Collateral	Credit Collateral	Net Exposure	Percentage of Total Net Exposure	Number of Counterparties Greater than 10% of Total Net Exposure	Net Exposure of Counterparties Greater than 10% of Total Net Exposure(4)
			(in millions)			
Investment Grade(2)	$ 784	$ 147	$ 637	81%	—	$ —
Internally Rated–Investment Grade(3)	129	33	96	12	—	—
Non–Investment Grade	62	34	28	3	—	—
Internally Rated–Non–Investment Grade	75	46	29	4	—	—
Total	$ 1,050	$ 260	$ 790	100%	—	$ —

(1) Includes amounts related to non–registrants.

(2) Includes counterparties rated Investment Grade or the counterparties' obligations are guaranteed or secured by an Investment Grade entity.

(3) Counterparties include a variety of entities, including investor–owned utilities, privately held companies, cities and municipalities. **Cinergy** assigns internal credit ratings to all counterparties within our credit risk portfolio, applying fundamental analytical tools. Included in this analysis is a review of (but not limited to) counterparty financial statements with consideration given to off–balance sheet obligations and assets, specific business environment, access to capital, and indicators from debt and equity capital markets.

(4) Exposures, positive or negative, with counterparties that are related to one another are not aggregated when no right of offset exists and as a result, credit is extended and evaluated on a separate basis.

CG&E

Rating	Total Exposure Before Credit Collateral	Credit Collateral	Net Exposure	Percentage of Total Net Exposure	Number of Counterparties Greater than 10% of Total Net Exposure	Net Exposure of Counterparties Greater than 10% of Total Net Exposure(3)
			(in millions)			
Investment Grade(1)	$ 200	$ 49	$ 151	94%	2	$ 37
Internally Rated–Investment Grade(2)	4	1	3	2	—	—
Non–Investment Grade	27	26	1	1	—	—
Internally Rated–Non–Investment Grade	5	—	5	3	—	—
Total	$ 236	$ 76	$ 160	100%	2	$ 37

(1) Includes counterparties rated Investment Grade or the counterparties' obligations are guaranteed or secured by an Investment Grade entity.

(2) Counterparties include various cities and municipalities.

(3) Exposures, positive or negative, with counterparties that are related to one another are not aggregated when no right of offset exists and as a result, credit is extended and evaluated on a separate basis.

ACCOUNTING MATTERS

Critical Accounting Estimates

Preparation of financial statements and related disclosures in compliance with GAAP requires the use of assumptions and estimates regarding future events, including the likelihood of success of particular investments or initiatives, estimates of future prices or rates, legal and regulatory challenges, and anticipated recovery of costs. Therefore, the possibility exists for materially different reported amounts under different conditions or assumptions. We consider an accounting estimate to be critical if: 1) the accounting estimate requires us to make assumptions about matters that were reasonably uncertain at the time the accounting estimate was made, and 2) changes in the estimate are reasonably likely to occur from period to period.

Cinergy's 2004 10–K includes a discussion of accounting policies that are critical to the presentation of **Cinergy's** financial position and results of operations. These include:

- Fair Value Accounting for Energy Marketing and Trading;
- Regulatory Accounting;
- Income Taxes;
- Contingencies;
- Impairment of Long–Lived Assets; and
- Impairment of Unconsolidated Investments.

Accounting Changes

Asset Retirement Obligations

In March 2005, the Financial Accounting Standards Board (FASB) issued Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (Interpretation 47), an interpretation of Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* (Statement 143). Statement 143 requires recognition of legal obligations associated with the retirement or removal of long–lived assets at the time the obligations are incurred. Interpretation 47 clarifies that a conditional asset retirement obligation (which occurs when the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity) is a legal obligation within the scope of Statement 143. As such, the fair value of a conditional asset retirement obligation must be recognized as a liability when incurred if the liability's fair value can be reasonably estimated. Interpretation 47 also clarifies when sufficient information exists to reasonably estimate the fair value of an asset retirement obligation.

Cinergy will adopt Interpretation 47 on December 31, 2005. Upon adoption of Interpretation 47 **Cinergy** will recognize the impact, if any, of additional liabilities for conditional asset retirement obligations as a cumulative effect of a change in accounting principle. We have begun evaluating the impact of adopting this new interpretation and are currently unable to predict whether the implementation of this accounting standard will be material to our financial position or results of operations.

Share–Based Payment

In December 2004, the FASB issued a replacement of Statement of Financial Accounting Standards No. 123, *Accounting for Stock–Based Compensation* (Statement 123), *Statement of Financial Accounting Standards No. 123 (revised 2004), Share–Based Payment* (Statement 123R). This standard will require accounting for all stock–based compensation arrangements under the fair value method in addition to other provisions.

In 2003, we prospectively adopted accounting for our stock–based compensation plans using the fair value recognition provisions of Statement 123, as amended by Statement of Financial Accounting Standards No. 148, *Accounting for Stock–Based Compensation–Transition and Disclosure* (Statement 148), for all employee awards granted or with terms modified on or after January 1, 2003. Therefore, the impact of implementation of Statement 123R on stock options within our stock–based compensation plans is not expected to be material. Statement 123R contains certain provisions that will modify the accounting for various stock–based compensation plans other than stock options. We are in the process of evaluating the impact of this new standard on these plans. **Cinergy** will adopt Statement 123R on January 1, 2006.

Income Taxes

In October 2004, the American Jobs Creation Act (AJCA) was signed into law. The AJCA includes a one–time deduction of 85 percent of certain foreign earnings that are repatriated, as defined in the AJCA. **Cinergy** has not fully completed its evaluation of the effects of the AJCA on its foreign investment strategy. However, based on the evaluation to date, it does not appear that the effects of the provision will have a material impact on our financial position or results of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

This information is provided in, and incorporated by reference from, the "Market Risk Sensitive Instruments" section in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations".

ITEM 4. CONTROLS AND PROCEDURES

Disclosure controls and procedures are our controls and other procedures that are designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 (Exchange Act) is recorded, processed, summarized, and reported, within the time periods specified in the Securities and Exchange Commission's (SEC) rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we have evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2005, and, based upon this evaluation, our chief executive officer and chief financial officer have concluded that these controls and procedures are effective in providing reasonable assurance that information requiring disclosure is recorded, processed, summarized, and reported within the timeframe specified by the SEC's rules and forms.

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we have evaluated any change in our internal control over financial reporting (as such term is defined in Rules 13a–15(f) and 15d–15(f) under the Exchange Act) during the fiscal quarter ended March 31, 2005 and found no change that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

CLEAN AIR ACT (CAA) 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 State Implementation Plan (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 Environmental Protection Agency (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 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. In addition, three northeast states and two environmental groups have intervened in the case. The case is currently in discovery, and the United States Federal District Court for the Southern District of Indiana has set the case for trial by jury commencing in February 2006.

In March 2000, the United States also filed in the United States District Court for the Southern District of Ohio an amended complaint in a separate lawsuit alleging violations of the CAA relating to PSD, NSR, and Ohio SIP requirements regarding various generating stations, including a generating station operated by Columbus Southern Power Company (CSP) and jointly-owned by CSP, The Dayton Power and Light Company (DP&L), and **CG&E**. The EPA is seeking injunctive relief and civil penalties of up to $27,500 per day for each violation. This suit is being defended by CSP. In April 2001, the United States District Court for the Southern District of Ohio in that case ruled that the Government and the intervening plaintiff environmental groups cannot seek monetary damages for alleged violations that occurred prior to November 3, 1994; however, they are entitled to seek injunctive relief for such alleged violations. Neither party appealed that decision. This matter is scheduled for trial commencing June 2005.

In addition, **Cinergy** and **CG&E** have been informed by DP&L that in June 2000, the EPA issued a Notice of Violation (NOV) to DP&L for alleged violations of PSD, NSR, and Ohio SIP requirements at a station operated by DP&L and jointly-owned by DP&L, CSP, and **CG&E**. The NOV indicated the EPA may (1) issue an order requiring compliance with the requirements of the Ohio SIP, or (2) bring a civil action seeking injunctive relief and civil penalties of up to $27,500 per day for each violation. In September 2004, Marilyn Wall and the Sierra Club brought a lawsuit against **CG&E**, DP&L and CSP for alleged violations of the CAA at this same generating station.

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.

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. **Cinergy** intends to defend these lawsuits vigorously in court

and filed motions to dismiss with the other defendants in September 2004. We are not able to predict whether resolution of these matters would have a material effect on our financial position or results of operations.

SELECTIVE CATALYTIC REDUCTION UNITS (SCR) AT GIBSON STATION

In May 2004, SCRs and other pollution control equipment became operational at Units 4 and 5 of **PSI's** Gibson Station in accordance with compliance deadlines under the nitrogen oxide SIP Call. In June and July 2004, Gibson Station temporarily shut down the equipment on these units due to a concern that portions of the plume from those units' stacks appeared to break apart and descend to ground level, at certain times, under certain weather conditions. As a result, and, working with the City of Mt. Carmel, Illinois, Illinois EPA, Indiana Department of Environmental Management (IDEM), EPA, and the State of Illinois, we developed a protocol regarding the use of the SCRs while we explored alternatives to address this issue. After the protocol was finalized, the Illinois Attorney General brought an action in Wabash County Circuit Court against **PSI** seeking a preliminary injunction to enforce the protocol. In August 2004, the court granted that preliminary injunction. **PSI** is appealing that decision to the Fifth District Appellate Court, but we cannot predict the ultimate outcome of that appeal or of the underlying action by the Illinois Attorney General.

In April 2005, we completed the installation of a permanent control system to address this issue. The new control system will support all five Gibson generating units. We will seek recovery of any related capital as well as increased emission allowance expenditures through the regulatory process. We do not believe costs related to resolving this matter will have a material impact on our financial position or results of operations.

ZIMMER STATION LAWSUIT

In November 2004, a citizen of the Village of Moscow, Ohio, the town adjacent to **CG&E's** Zimmer Station, brought a purported class action in the United States District Court for the Southern District of Ohio seeking monetary damages and injunctive relief against **CG&E** for alleged violations of the CAA, the Ohio SIP, Ohio laws against nuisance and common law nuisance. **CG&E** filed a motion to dismiss the lawsuit on primarily procedural grounds and we intend to defend against these claims vigorously. The plaintiffs have filed a number of additional notices of intent to sue and a second lawsuit raising claims similar to those in the original claim. At this time, we cannot predict whether the outcome of this matter will have a material impact on our financial position or results of operations.

MANUFACTURED GAS PLANT (MGP) SITES

Coal tar residues, related hydrocarbons, and various metals have been found in at least 22 sites that **PSI** or its predecessors previously owned and sold in a series of transactions with Northern Indiana Public Service Company (NIPSCO) and Indiana Gas Company, Inc. (IGC). The 22 sites are in the process of being studied and will be remediated, if necessary. In 1998 NIPSCO, IGC, and **PSI** entered into Site Participation and Cost Sharing Agreements to allocate liability and responsibilities between them. The IDEM oversees investigation and cleanup of all of these sites. Thus far, **PSI** has primary responsibility for investigating, monitoring and, if necessary, remediating nine of these sites. In December 2003, **PSI** entered into a voluntary remediation plan with the state of Indiana, providing a formal framework for the investigation and cleanup of the sites.

In April 1998, **PSI** filed suit in Hendricks County in the state of Indiana against its general liability insurance carriers. **PSI** sought a declaratory judgment to obligate its insurance carriers to (1) defend MGP claims against **PSI** and compensate **PSI** for its costs of investigating, preventing, mitigating, and remediating damage to property and paying claims related to MGP sites; or (2) pay **PSI's** cost of defense. **PSI** settled, in principle, its claims with all but one of the insurance carriers in January 2005 prior to commencement of the trial. With respect to the lone insurance carrier, a jury returned a verdict against **PSI** in February 2005. **PSI** has appealed this decision. At the present time, **PSI** cannot predict the outcome of this litigation, including the outcome of the appeal.

PSI has accrued costs related to investigation, remediation, and groundwater monitoring for those sites where such costs are probable and can be reasonably estimated. We will continue to investigate and remediate the sites as outlined in the voluntary remediation plan. As additional facts become known and investigation is completed, we will assess whether the likelihood of incurring additional costs becomes probable. Until all investigation and remediation is complete, we are unable to determine the overall impact on our financial position or results of operations.

CG&E and **ULH&P** have performed site assessments on certain of their sites where we believe MGP activities have occurred at some point in the past and have found no imminent risk to the environment. At the present time, **CG&E** and **ULH&P** cannot predict whether investigation and/or remediation will be required in the future at any of these sites.

ASBESTOS CLAIMS LITIGATION

CG&E and **PSI** have been named as defendants or co–defendants in lawsuits related to asbestos at their electric generating stations. Currently, there are approximately 120 pending lawsuits. In these lawsuits, plaintiffs claim to have been exposed to asbestos–containing products in the course of their work at the **CG&E** and **PSI** generating stations. The plaintiffs further claim that as the property owner of the generating stations, **CG&E** and **PSI** should be held liable for their injuries and illnesses based on an alleged duty to warn and protect them from any asbestos exposure. A majority of the lawsuits to date have been brought against **PSI**. The impact on **CG&E's** and **PSI's** financial position or results of operations of these cases to date has not been material.

Of these lawsuits, one case filed against **PSI** has been tried to verdict. The jury returned a verdict against **PSI** in the amount of approximately $500,000 on a negligence claim and a verdict for **PSI** on punitive damages. **PSI** received an adverse ruling in its initial appeal of the negligence claim verdict, but the Indiana Supreme Court accepted the transfer of the case and heard oral argument in June 2004. In addition, **PSI** has settled a number of other lawsuits for amounts, which neither individually nor in the aggregate, are material to **PSI's** financial position or results of operations.

At this time, **CG&E** and **PSI** are not able to predict the ultimate outcome of these lawsuits or the impact on **CG&E's** and **PSI's** financial position or results of operations.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The number of shares (or units) provided in the table below represent shares purchased by the plan trustee on behalf of the 401(k) Excess Plan.

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
January 1 – January 31	—	$ —	—	—
February 1 – February 28	1,507	$ 41.44	—	—
March 1 – March 31	8,395	$ 39.79	—	—

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The annual meeting of shareholders of **Cinergy Corp.**, was held on May 5, 2005, in Covington, Kentucky.

At the meeting, shareholders ratified the selection of Deloitte and Touche, the members of Deloitte Touche Tohmatsu and their respective affiliates, as the Company's independent auditors and elected three Class II directors to the board of **Cinergy Corp.** to serve for three–year terms ending in 2008, as set forth below:

Directors	Votes For	Votes Withheld
Class II		
Thomas E. Petry	174,474,563	2,845,620
Mary L. Schapiro	174,442,147	2,878,036
Philip R. Sharp	174,375,726	2,944,457

In lieu of the annual meeting of shareholders of The Cincinnati Gas & Electric Company (**CG&E**), a resolution was duly adopted via unanimous written consent of **Cinergy Corp.**, **CG&E's** sole shareholder, effective May 3, 2005 electing the following members to the Board of Directors for one–year terms expiring in 2006:

- Michael J. Cyrus
- James E. Rogers
- James L. Turner

The annual meeting of shareholders of PSI Energy, Inc. (**PSI**) was held on May 5, 2005, in Covington, Kentucky. Proxies were not solicited for the annual meeting. **Cinergy Corp.** owns all of the 53,913,701 outstanding shares, representing a like number of votes, of the common stock of **PSI**. By unanimous vote, the following members to the Board of Directors were elected at the annual meeting for one–year terms expiring in 2006:

- Michael G. Browning
- Kay E. Pashos
- James E. Rogers

None of the 650,989 outstanding shares, representing 423,331 votes, of the preferred stock of **PSI**, were present or voted at the annual meeting.

ITEM 5. OTHER INFORMATION

On May 6, 2005, **PSI** and **CG&E** signed a definitive agreement with subsidiaries of Allegheny Energy, Inc. to acquire the 512–megawatt Wheatland generating facility for approximately $100 million. The Wheatland facility, located in Knox County, Indiana, has four natural gas–fired simple cycle combustion turbines and is directly connected to the **Cinergy** transmission system. Its output will be used to bolster the reserve margins on the **PSI** and/or **CG&E** systems. Under the transaction agreement, **PSI** and **CG&E** may each take a share of ownership of the plant or either one may acquire the entire ownership interest, with the ownership structure to be determined shortly before closing. The transaction is subject to receipt of required regulatory approvals and other customary conditions. **Cinergy** expects to close the acquisition in the fourth quarter of 2005.

William J. Grealis, Executive Vice President of Cinergy Corp., has retired from the Company effective June 1, 2005.

ITEM 6. EXHIBITS

The documents listed below are being furnished or filed on behalf of **Cinergy Corp.**, The Cincinnati Gas & Electric Company (**CG&E**), PSI Energy, Inc. (**PSI**), and The Union Light, Heat and Power Company (**ULH&P**). Exhibits not identified as previously furnished or filed are furnished or filed herewith:

Exhibit Designation	Registrant	Nature of Exhibit	Previously Filed as Exhibit to:
Additional Exhibits			
10–ffff	**Cinergy Corp.**	Retirement and Consulting Agreement and Waiver and Release of Liability, dated May 4, 2005, between **Cinergy Corp.** and William J. Grealis	
Certificates			
31–a	**Cinergy Corp.** **CG&E** **PSI** **ULH&P**	Certification by James E. Rogers pursuant to Rule 13a–14(a)/15d–14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes–Oxley Act of 2002.	
31–b	**Cinergy Corp.** **CG&E** **PSI** **ULH&P**	Certification by James L. Turner pursuant to Rule 13a–14(a)/15d–14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes–Oxley Act of 2002.	
32–a	**Cinergy Corp.** **CG&E** **PSI** **ULH&P**	Certification by James E. Rogers pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes–Oxley Act of 2002.	
32–b	**Cinergy Corp.** **CG&E** **PSI** **ULH&P**	Certification by James L. Turner pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes–Oxley Act of 2002.	

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, each of the Registrants has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CINERGY CORP.

THE CINCINNATI GAS & ELECTRIC COMPANY

PSI ENERGY, INC.

THE UNION LIGHT, HEAT AND POWER COMPANY

Registrants

Date: May 10, 2005

/s/ Lynn J. Good

Lynn J. Good
(duly authorized officer
and
principal accounting officer)

CINERGY CORP.
RETIREMENT AND CONSULTING AGREEMENT

This Separation and Retirement Agreement (the "Agreement"), which is effective as of this 5th day of May, 2005, is entered into by and between William J. Grealis (the "Executive") and Cinergy Services, Inc. (the "Company"), with the mutual exchange of promises as consideration.

Recitals

WHEREAS, the Executive intends to terminate voluntarily his employment and retire effective as of June 1, 2005 (the "Termination Date");

WHEREAS, in connection with the Executive's termination of employment, the Company is willing to provide certain benefits to the Executive, provided that the Executive (i) executes and does not timely revoke this Agreement and a waiver and release, in the form attached to this Agreement as Exhibit A (the "Waiver and Release") of all claims that the Executive might assert against the Company, its parent company, any of their subsidiaries and/or affiliated entities, and any successors or assigns to the foregoing (collectively, "Cinergy") and certain related entities and individuals as set forth therein and (ii) complies with his obligations hereunder; and

WHEREAS, the parties have agreed to enter into this Agreement, which has been specifically negotiated between the Executive and Cinergy.

NOW, THEREFORE, the Company and the Executive enter into the following Agreement:

Agreement

1. Retirement.

a. Termination of Employment. The Executive will retire, and his employment with Cinergy will terminate, effective as of the close of business on the Termination Date.

b. Effect on Other Agreements. Effective as of the Termination Date, this Agreement will replace and supersede any and all prior employment, separation and retirement agreements between Cinergy and the Executive, including but not limited to the Employment Agreement between the Executive and Cinergy dated as of October 11, 2002 (the "Employment Agreement"); provided, however, that Section 3(b)(ii) of the Employment Agreement, and each provision of the Employment Agreement that defines any defined term that is used in Section 3(b)(ii) of the Employment Agreement, but only with respect to such definition, shall remain in full force and effect. Notwithstanding the foregoing, the supplemental retirement benefit provided under Section 3(b)(ii) of the Employment Agreement shall be calculated as if the Executive retired on February 1, 2005 if such retirement date would result in the Executive receiving a larger supplemental retirement benefit than if he retired on the first potential retirement date following the Termination Date; provided, however, that consistent with Q&A–18(b) of IRS Notice 2005–1, any additional benefit to which the Executive is entitled pursuant to this sentence (i) shall be treated as a

"material modification" of Section 3(b)(ii) of the Employment Agreement only to the extent of such additional benefit, and (ii) shall be administered and distributed in a manner that complies with the provisions of Section 409A of the Internal Revenue Code of 1986, as amended, so as to prevent the inclusion in gross income of such additional benefit in a taxable year that is prior to the taxable year or years in which such benefit would otherwise actually be distributed or made available to the Executive or his beneficiaries.

2. Consideration. In exchange for entering into this Agreement and satisfying the conditions set forth herein, the Executive will receive the following consideration. The benefits described below in this Section only shall be provided to the Executive if he satisfies each of the conditions specified below and, upon presentation to the Executive, the Executive timely executes and does not timely revoke the Waiver and Release. Notwithstanding anything herein to the contrary, Cinergy may withhold from any amounts payable under this Agreement such federal, state, local or other taxes as it reasonably determines are required to be withheld pursuant to any applicable law or regulation.

a. Consulting Arrangement. In consideration for performing the consulting services specified in Section 7, the Executive shall be provided a retainer in the amount of $1,200,000, payable in a single lump sum as soon as reasonably practicable after the expiration of the revocation period described in the Waiver and Release.

b. Restrictive Covenants. In consideration for satisfying his obligations pursuant to Section 9(b), the Executive shall be provided a payment in the amount of $1,500,000, payable in a single lump sum as soon as reasonably practicable after the expiration of the revocation period described in the Waiver and Release.

c. Retirement Benefits. In consideration for satisfying all of his obligations under this Agreement other than those contained in Sections 7 and 9(b), including but not limited to those contained in Sections 8, 9(c), 10, 11 and 13, the benefits described below in this Section 2(c) shall be provided to the Executive in a single lump sum as soon as reasonably practicable after the expiration of the revocation period described in the Waiver and Release.

i. Lump Sum Payment. Cinergy agrees to pay the Executive a lump sum cash payment equal to $1,659,241. The Executive acknowledges and agrees that the amount listed in the preceding sentence includes any amount to which he would otherwise be entitled under the Cinergy Corp. Annual Incentive Plan for the 2005 performance period and for accrued vacation pay.

ii. Relocation Benefits. The Executive will be entitled to reimbursement from Cinergy for the reasonable costs of relocating from the Cincinnati, Ohio, area to a new primary residence in a manner that is consistent with the terms of Cinergy's Relocation Program. Notwithstanding the foregoing, if the Executive becomes employed by another employer and is eligible to receive relocation benefits under another employer-provided plan, any benefits provided to the Executive hereunder will be secondary to those provided under the other employer-provided relocation plan. The Executive must report to Cinergy any such relocation benefits that he actually receives under another employer-provided plan.

3. <u>Basis for Entitlement</u>. The Executive acknowledges that he would not be entitled to the benefits described in Section 2 of this Agreement absent his termination of employment, his execution of this Agreement and the Waiver and Release and his satisfaction of his obligations under this Agreement.

4. <u>Adequate Consideration</u>. The Executive agrees that the benefits described in this Agreement constitute good, valuable and sufficient consideration for the obligations the Executive assumes herein and in the Waiver and Release. The benefits offered in exchange for the Executive's execution of this Agreement and the Waiver and Release exceed in kind and scope that to which the Executive would have otherwise been legally entitled.

5. <u>Future Employment</u>. The Executive waives any right to assert any claim or demand for reemployment with Cinergy. The Executive, however, may accept an offer of reemployment with Cinergy in the event such an offer is made.

6. <u>Acknowledgement</u>. The Executive acknowledges and agrees that it is the policy of Cinergy to comply with all applicable federal, state and local laws and regulations. The Executive affirms that he has reported all compliance issues and violations of federal, state and local law or regulation or Cinergy policy of which he had knowledge during the term of his employment, if any. The Executive represents and acknowledges that he has no further or additional knowledge or information regarding compliance issues or possible violations of federal, state or local law or regulations or Cinergy policy other than what the Executive may have previously raised, if any.

7. <u>Consulting Arrangement</u>.

a. The Executive agrees to serve as a business consultant to Cinergy for a period of three (3) years beginning on the Termination Date (the "Consulting Period"). The consulting services will be performed at reasonable times when and as needed, as determined by mutual agreement between Cinergy and the Executive.

b. The consulting services to be provided by the Executive during the Consulting Period will consist of consultation with, and advice to, the officers and managerial employees of Cinergy, as requested by Cinergy, on matters relating to Cinergy's business affairs about which the Executive has knowledge and experience, and shall include but not be limited to the following.

i. General strategic issues, including mergers and acquisitions.

ii. Strategic environmental issues and regulatory relations, including state and federal regulatory matters and Cinergy's policies relating to new environmental regulations and laws, carbon compliance and coal gasification.

iii. Mentoring and executive development oversight.

c. The parties acknowledge that the Executive (i) has unique and valuable expertise relating to Cinergy's provision of Broadband over Powerline Services ("BPL Services"), (ii) is currently a member of the Board and audit committee of Current Communications Group, LLC and (iii) is currently a member of the Boards of ACcess Broadband, LLC and CCB Communications, LLC. The Executive agrees that the consulting services that he shall provide during the Consulting Period may include overseeing Cinergy's

deployment of BPL Services in Cinergy's service territory and elsewhere through Cinergy's investment in ACcess Broadband, LLC and CCB Communications, LLC.

d. The parties understand and agree that all of the consulting services to be provided by the Executive under this Agreement will be performed by him as an independent contractor and not as an employee of Cinergy. The Executive will not have any authority to act as an agent or representative of Cinergy, except to the extent expressly authorized in writing by Cinergy. The Executive will perform his consulting services to the best of his abilities. The Executive's duties pursuant to this Section are purely those of a consultant, and Cinergy is free to accept or reject his advice, as it deems appropriate. Cinergy is responsible for all actions it chooses to take based on the Executive's advice, and Cinergy agrees to indemnify and hold the Executive harmless for the results of those actions, including all losses and damages resulting from any legal or regulatory action.

e. Cinergy will reimburse the Executive for all expenses authorized by Cinergy and incurred by the Executive in the performance of consulting services during the Consulting Period, including but not limited to telephone, duplication, secretarial services, mail and courier services, and normal supplies that may reasonably be required. Reimbursement will be made within thirty (30) days of Cinergy's receipt of reasonable and customary documentation. For any travel requested and authorized by Cinergy, the Executive will be reimbursed for all reasonable and customary expenses, including transportation, parking, food, and lodging.

f. Nothing in this Section will (i) prohibit the Executive from seeking or accepting other employment, engaging in any other consulting services, or participating in any other endeavor for profit, as he deems appropriate, provided that, in so doing, he does not breach any of his other obligations under this Agreement or (ii) be construed as requiring the Executive to reside or work near Cinergy's headquarters.

8. <u>Nondisclosure of Confidential Information</u>. The Executive acknowledges that the information, observations and data obtained by him while employed by Cinergy concerning the business or affairs of Cinergy (unless and except to the extent the foregoing become generally known to and available for use by the public other than as a result of the Executive's acts or omissions to act) (hereinafter defined as "Confidential Information") are the property of Cinergy and he was and is required to hold in a fiduciary capacity all Confidential Information obtained by him while employed by Cinergy for the benefit of Cinergy as well as the successors and assigns thereof. Therefore, the Executive agrees that he shall not disclose any Confidential Information without the prior written consent of the Chief Legal Officer or the Chief Executive Officer of Cinergy Corp. (which may be withheld for any reason or no reason) unless and except to the extent that such disclosure is required by any subpoena or other legal process (in which event the Executive will give the Chief Legal Officer of Cinergy Corp. prompt notice of such subpoena or other legal process in order to permit Cinergy to seek appropriate protective orders), and that he shall not use any Confidential Information for his own account without the prior written consent of the Chief Executive Officer of Cinergy Corp. (which may be withheld for any reason or no reason). As soon as practicable following the last day of the Consulting Period, the Executive shall deliver to the Company to the attention of Mr. Timothy Verhagen, Vice President, Human Resources, Cinergy Corp., 221 East Fourth Street, 30 AT II, Cincinnati, Ohio 45202, all memoranda, notes, plans, records, reports, computer tapes and software and other documents and data (and copies thereof) relating to the Confidential Information, or to the work product or the business of Cinergy which he may possess or have under his control. The Executive's

obligations under this Section are in addition to, and not in limitation of or preemption of, all other obligations of confidentiality which the Executive may have to Cinergy under general legal or equitable principles, and federal, state or local law.

9. Non–Solicitation, Non–Competition and Non–Disparagement.

a. In General. The Executive acknowledges that in the course of his employment with Cinergy he may have become familiar with trade secrets and customer lists of, and other confidential information concerning, Cinergy and that his services have been of special, unique and extraordinary value to Cinergy.

b. Non–Solicitation and Non–Competition. The Executive agrees that during the Consulting Period he will not in any manner, directly or indirectly, induce or attempt to induce any employee of Cinergy to quit or abandon his or her employ. The Executive agrees that at no time during the Consulting Period will he: (i) become employed by, enter into a consulting arrangement with, or otherwise agree to perform personal services for, a Competitor, (ii) acquire an ownership interest in a Competitor, provided that the Executive may, for investment purposes, own not more than 3% of the outstanding stock of any class of a Competitor that is publicly traded, or (iii) solicit any customers or vendors of Cinergy on behalf of or for the benefit of a Competitor or otherwise call on, service or solicit competing business from customers of Cinergy. For purposes of this Agreement, the term "Competitor" means any person or entity that sells goods or services that are directly competitive with those sold by a business that (1) is being conducted by Cinergy at the time in question or (2) was being conducted by Cinergy on the Termination Date. Notwithstanding anything in the preceding sentence, goods or services will not be deemed to be competitive with those of Cinergy solely as a result of the Executive being employed by or otherwise associated with a business that is in competition with Cinergy but as to which the Executive does not have direct or indirect responsibilities for the products or services involved.

c. Non–Disparagement. Except as required by subpoena or other legal process (in which event the Executive will give the Chief Legal Officer of Cinergy Corp. prompt notice of such subpoena or other legal process in order to permit Cinergy or any affected individual to seek appropriate protective orders), the Executive further agrees that he will refrain from publishing or providing any oral or written statements about Cinergy, any of its current or former officers, executives, directors, employees, agents or representatives or any initiative, program or policy of Cinergy relating to any matter whatsoever that are disparaging, slanderous, libelous or defamatory, or that disclose private or confidential information about their business affairs, or that constitute an intrusion into their private lives, or that give rise to unreasonable publicity about their private lives, or that place them in a false light before the public, or that constitute a misappropriation of their name or likeness. Except as required by subpoena or other legal process (in which event Cinergy will give the Executive prompt notice of such subpoena or other legal process in order to permit the Executive to seek appropriate protective orders), Cinergy further agrees to refrain from publishing or providing any oral or written statements about the Executive that are disparaging, slanderous, libelous or defamatory, or that disclose private or confidential information about his business affairs, or that constitute an intrusion into his private life, or that give rise to unreasonable publicity about his private life, or that place him in a false light before the public, or that constitute a misappropriation of his name or likeness.

d. Revision. If, at the time of enforcement of this Section, a court holds that the restrictions stated herein are unreasonable under circumstances then existing, the parties hereto agree that the maximum period or scope reasonable under such circumstances will be substituted for the stated period or scope and that the court will be allowed to revise the restrictions contained herein to cover the maximum period or scope permitted by law. The parties acknowledge that any alleged breach of this Section could result in a claim for legal and/or equitable damages by the aggrieved party.

10. Cooperation With Litigation. Upon the Company's request, the Executive agrees to render reasonable assistance to Cinergy in connection with any litigation or investigation relating to Cinergy's business, provided that rendering such assistance does not impose an unreasonable burden on the Executive or interfere in any significant respect with the Executive's employment or other business pursuits following the Termination Date. Such assistance shall include, but not be limited to, providing truthful information, attending meetings, assisting with interrogatories, giving depositions and making court appearances. The Executive agrees to promptly notify the Chief Legal Officer of Cinergy Corp. of any requests for information or testimony that the Executive receives in connection with any litigation or investigation relating to Cinergy's business. The Company agrees to pay reasonable compensation to the Executive for the Executive's assistance in connection with any litigation or investigation relating to Cinergy's business, but only if such assistance is provided after the end of the Consulting Period.

11. Intellectual Property. The Executive acknowledges that any and all writing, documents, inventions (whether or not patentable), discoveries, trade secrets, computer programs or instructions (whether in source code, object code, or any other form), algorithms, formulae, plans, customer lists, memoranda, tests, research, designs, specifications, models, data, diagrams, flow charts, and/or techniques (whether reduced to written form or otherwise) that the Executive made, conceived, discovered, or developed, either solely or jointly with any other person, at any time during the term of his employment, whether during working hours or at Cinergy's facilities or at any other time or location, and whether upon the request or suggestion of Cinergy or otherwise, that relate to or are useful in any way in connection with any business carried on by Cinergy (collectively, "Intellectual Work Product") will be the sole and exclusive property of Cinergy. The Executive will promptly and fully disclose all Intellectual Work Product to Cinergy. Any Intellectual Work Product not generally known to and available for use by the public shall be considered to be Confidential Information as defined herein. The Executive acknowledges that all Intellectual Work Product that is copyrightable will be considered a work made for hire under United States Copyright Law. To the extent that any copyrightable Intellectual Work Product may not be considered a work made for hire under the applicable provisions of the Copyright Law, or to the extent that, notwithstanding the foregoing provisions, the Executive may retain an interest in any Intellectual Work Product that is not copyrightable, the Executive hereby irrevocably assigns and transfers to Cinergy any and all right, title, or interest that the Executive may have in the Intellectual Work Product under copyright, patent, trade secret and trademark law, in perpetuity or for the longest period otherwise permitted by law, without the necessity of further consideration. Cinergy will be entitled to obtain and hold in its own name all copyrights, patents, trade secrets and trademarks with respect thereto. At the sole request and expense of Cinergy, the Executive will assist Cinergy in acquiring and maintaining copyright, patent, trade secret and trademark protection upon, and confirming its title to, such Intellectual Work Product. The Executive's assistance will include signing all applications

for copyright and patent applications and other papers, cooperating in legal proceedings and taking any other steps considered desirable by Cinergy.

12. Breach of this Agreement. Because the Executive's services are unique and because the Executive has access to Confidential Information and Intellectual Work Product, the parties agree that Cinergy would be damaged irreparably in the event any of the provisions of Sections 8, 9, 10, 11 and 13 were not performed in accordance with their specific terms or were otherwise breached and that money damages would be an inadequate remedy for any such non–performance or breach. In the event that the Executive breaches or threatens to breach any provision of this Agreement or the Waiver and Release, the Executive agrees that Cinergy shall be entitled to seek any and all equitable and legal relief provided by law, specifically including immediate and permanent injunctive relief to prevent any breach or threatened breach of any of such provisions and to enforce such provisions specifically (without posting a bond or other security). The Executive hereby waives any claim that Cinergy has an adequate remedy at law. In addition, and to the extent not prohibited by law, the Executive agrees that Cinergy shall be entitled to an award of all costs and attorneys' fees reasonably incurred by Cinergy in any successful effort to enforce the terms of this Agreement. The Executive agrees that the foregoing relief shall not be construed to limit or otherwise restrict Cinergy's ability to pursue any other remedy provided by law, including the recovery of any actual, compensatory or punitive damages. Moreover, if the Executive pursues any claims that he has waived in the Waiver and Release or otherwise breaches this Agreement, (i) the Executive agrees to immediately reimburse the Company for all amounts received by the Executive pursuant to this Agreement to the fullest extent permitted by law, and (ii) the Company will be relieved of any and all obligations to make future payments to the Executive pursuant to this Agreement.

13. Return of Corporate Property. Except as otherwise provided in this Agreement, the Executive agrees to return to Cinergy all keys, identification badges, electronic passes, credit cards, computer programs, and other property belonging to Cinergy when requested and to do so by Cinergy's representative.

14. Continuing Obligations. The Executive hereby affirms and acknowledges the Executive's continuing obligations to comply with the post–termination covenants contained in this Agreement, including, but not limited to, the provisions of Sections 7, 8, 9, 10, 11, 12 and 13 of this Agreement and the Waiver and Release. The Executive acknowledges that the restrictions contained therein are valid and reasonable in every respect, are necessary to protect Cinergy's legitimate business interests and hereby affirmatively waives any claim or defense to the contrary.

15. No Admission of Liability. The parties acknowledge that this Agreement is entered into solely for the purpose of ending their employment relationship on an amicable basis and shall not be construed as an admission of liability or wrongdoing by any party and that each party expressly denies any such liability or wrongdoing.

16. No Reliance. The Executive does not rely, and has not relied, upon any representation or statement made by Cinergy or by any of Cinergy's employees, officers, agents, stockholders, directors or attorneys with regard to the subject matter, basis or effect of this Agreement other than those specifically contained herein. The Executive expressly agrees to defend, indemnify and hold harmless Cinergy and its directors, officers, employees, agents, representatives and insurers from and against any and all tax assessments, tax liens, penalties or interest assessed by the Internal Revenue Service, or any other federal, state or

local taxing authority against the Executive on account of, arising out of or in any way connected with this Agreement. Notwithstanding the foregoing, in the event that any benefits paid or payable to the Executive or for his benefit pursuant to the terms of this Agreement or any other plan or arrangement in connection with, or arising out of, his employment with Cinergy or a change in ownership or effective control of Cinergy or of a substantial portion of its assets ("Payments") would be subject to any excise tax pursuant to Section 4999 of the Internal Revenue Code of 1986, as amended, then the Executive will be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by the Executive of all taxes (including any interest, penalties, additional tax, or similar items imposed with respect thereto and the excise tax), including any excise tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the excise tax imposed upon or assessable against the Executive due to the Payments.

17. Severability. The parties agree that each and every paragraph, sentence, clause, term and provision of this Agreement is severable and that, if any portion of this Agreement should be deemed not enforceable for any reason, such portion shall be stricken and the remaining portion or portions thereof should continue to be enforced to the fullest extent permitted by applicable law.

18. Consultation With Attorney Advised. The Executive is advised to consult with an attorney prior to executing this Agreement. The Executive acknowledges being given that advice. The Executive represents that he has read and fully understands all of the provisions of this Agreement. The Executive represents that he is voluntarily signing this Agreement.

19. Binding Effect of Agreement. This Agreement, once signed by each of the Executive and the Chief Executive Officer of Cinergy Corp., will be binding upon and will operate for the benefit of the heirs, executors, administrators, assigns, and successors in interest of the Executive and Cinergy. Cinergy agrees that in the event of a sale, merger, acquisition, or other change in structure (including the cessation or restructuring of any part of Cinergy's business) and/or ownership, Cinergy will ensure that the contract language pertaining to the transaction confirms the continuing liability of Cinergy (and its assigns and successors in interest) to the Executive under this Agreement. The Executive agrees that Cinergy Services, Inc. (and/or any of its authorized employees) is authorized to act for Cinergy with respect to all aspects pertaining to this Agreement, including the administration and interpretation of this Agreement.

20. Complete Agreement. Except as otherwise expressly provided in this Agreement, the terms of this Agreement constitute the entire Agreement between the parties and supersede all previous communications, representations, and agreements, oral or written, between the parties with respect to the subject matter of this Agreement. No agreement or understanding modifying this Agreement will be binding on either party unless it is in writing and signed by an authorized representative of the party sought to be bound. If any part of this Agreement is adjudged by a court of competent jurisdiction (or the arbitrator(s) pursuant to Section 21) to be contrary to law, then this Agreement will, in all other respects, remain effective and binding to the full extent permitted by law.

21. Arbitration.

a. Any dispute between the parties under this Agreement, the breach thereof, the Executive's employment with Cinergy, or the termination thereof, shall be resolved (except as provided below) through informal arbitration by an arbitrator selected under the rules of the American Arbitration Association (located in Cincinnati, Ohio) and the arbitration shall be conducted in that location under the rules of said Association, to the extent they do not conflict with this Agreement.

b. Within thirty days of the notice of a demand for arbitration, both parties shall exchange with one another documents in their respective possession that are relevant to the dispute. There shall be no interrogatories or depositions taken in preparation for the arbitration; provided, however, that the arbitrator may permit limited deposition discovery in extraordinary circumstances and if necessary to avoid manifest injustice. The grieving party shall file a written statement explaining his or its claim, including relevant documentation, within forty–five days of the notice for arbitration; the opposing party shall respond within thirty days thereafter; and the grieving party may reply within fifteen days of the response. After this period of limited discovery, a live hearing before the arbitrator will occur. The arbitrator shall have the right only to interpret and apply the provisions of this Agreement and may not change any of its provisions. The determination of the arbitrator shall be conclusive and binding upon the parties and judgment upon the same may be entered in any court having jurisdiction thereof. The arbitrator shall give written notice to the parties stating his or their determination, and shall furnish to each party a signed copy of such determination.

c. The expenses of arbitration will be borne equally by the Executive and the Company, and each party will bear its own costs, including attorneys' fees; provided, however, that the arbitrator shall have the power to award such expenses and costs, including attorneys' fees, to the prevailing party in accordance with applicable law and to require Cinergy at the beginning of the proceedings to fully or partially reimburse (or provide an advance to) the Executive for expenses (but not for costs, including attorneys' fees) in the event the Executive can demonstrate that the amount of the expenses is an unreasonable impediment to adjudication of his claims in arbitration. If the arbitrator awards a monetary amount to either party in excess of $1,000,000, the party against whom the award was made may seek judicial resolution of the dispute under a de novo standard before any court with appropriate jurisdiction over the matter.

d. Notwithstanding the foregoing, Cinergy shall not be required to seek or participate in arbitration regarding any breach by the Executive of his agreements in Sections 8, 9, 10, 11 or 13 hereof, but may pursue its remedies for such breach in a court of competent jurisdiction in Cincinnati, Ohio. Any arbitration or action pursuant to this Section will be governed by and construed in accordance with the substantive laws of the State of Ohio, without giving effect to the principles of conflict of laws of such State.

22. Governing Law. This Agreement will be interpreted, enforced, and governed under the laws of the State of Ohio, without regard to any principles of conflicts of laws.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed, effective as of the date above written.

CINERGY SERVICES, INC.

By: /s/ James E. Rogers
James E. Rogers
Chairman and Chief Executive Officer

EXECUTIVE

/s/ William J. Grealis
William J. Grealis

EXHIBIT A

*****

WAIVER AND RELEASE AGREEMENT

THIS WAIVER AND RELEASE AGREEMENT (this "Waiver and Release") is entered into by and between William J. Grealis (the "Executive") and Cinergy Services, Inc. (the "Company") (collectively, the "Parties").

WHEREAS, the Parties have entered into the Retirement and Consulting Agreement dated May 5, 2005 (the "Agreement");

WHEREAS, the Executive's employment has been terminated in accordance with the terms of the Agreement;

WHEREAS, the Executive is required to sign this Waiver and Release in order to receive the payment of certain compensation under the Agreement following termination of employment; and

WHEREAS, the Company has agreed to sign this Waiver and Release.

NOW, THEREFORE, in consideration of the promises and agreements contained herein and other good and valuable consideration, the sufficiency and receipt of which are hereby acknowledged, and intending to be legally bound, the Parties agree as follows:

1. This Waiver and Release is effective on the date hereof and will continue in effect as provided herein.

2. In consideration of the payments to be made and the benefits to be received by the Executive pursuant to the Agreement (the "Benefits"), which the Executive acknowledges are in addition to payment and benefits to which the Executive would be entitled to but for the Agreement, the Executive, on behalf of himself, his heirs, representatives, agents and assigns by dower or otherwise hereby COVENANTS NOT TO SUE OR OTHERWISE VOLUNTARILY PARTICIPATE IN ANY LAWSUIT AGAINST, FULLY RELEASES, INDEMNIFIES, HOLDS HARMLESS and OTHERWISE FOREVER DISCHARGES (i) Cinergy, (ii) its compensation, benefit, incentive (including, but not limited to, individual incentive, annual incentive, long–term incentive and annual bonus), pension, welfare and other plans and arrangements, and any predecessor or successor to any such plans and arrangements and (iii) any of its current or former officers, directors, agents, executives, employees, attorneys, insurers, shareholders, predecessors, successors or assigns, from any and all actions, charges, claims, demands, damages or liabilities of any kind or character whatsoever, known or unknown, which the Executive now has or may have had whether or not based on or arising out of the Executive's employment relationship with Cinergy or the termination of that employment relationship through the date of execution of this Waiver and Release, other than workers' compensation claims filed prior to the date of execution of this Waiver and Release. The Executive acknowledges and understands that in the event the Executive files a charge or complaint with the Equal Employment Opportunity Commission ("EEOC"), the Ohio Civil Rights Commission ("OCRC"), the Indiana Civil Rights Commission ("ICRC"),

the Texas Workforce Commission Civil Rights Division ("TWCCRD"), the Occupational Safety and Health Administration ("OSHA") or the Secretary of Labor, the Executive shall be entitled to no relief, reinstatement, remuneration, damages, back pay, front pay, or compensation whatsoever from Cinergy as a result of such charge or complaint. The Executive understands and agrees that he is waiving and releasing any and all actions and causes of action, suits, debts, claims, complaints and demands of any kind whatsoever, in law or in equity, including, but not limited to, the following:

a. Those arising under any federal, state or local statute, ordinance or common law governing or relating to the Parties' employment relationship including, but not limited to, (i) any claims on account of, arising out of or in any way connected with the Executive's hiring by Cinergy, employment with Cinergy or the termination of that employment; (ii) any claims alleged or which could have been alleged in any charge or complaint against Cinergy, including, but not limited to, those with the EEOC, OCRC, ICRC, TWCCRD, OSHA and the Secretary of Labor; (iii) any claims relating to the conduct, including action or inaction, of any executive, employee, officer, director, agent or other representative of Cinergy; (iv) any claims of discrimination, harassment or retaliation on any basis; (v) any claims arising from any legal restrictions on an employer's right to separate its employees; (vi) any claims for personal injury, compensatory or punitive damages, front pay, back pay, liquidated damages, treble damages, legal and/or attorneys' fees, expenses and litigation costs or other forms of relief; (vii) any claims for compensation and benefits; (viii) any cause of action or claim that could have been asserted in any litigation or other dispute resolution process, regardless of forum (judicial, arbitral or other), against any employee, officer, director, agent or other representative of Cinergy; (ix) any claim for, or right to, arbitration, and any claim alleged or which could have been alleged in any charge, complaint or request for arbitration against Cinergy; (x) any claim on account of, arising out of or in any way connected with any employment agreement between the Executive and Cinergy; (xi) any claim on account of, arising out of or in any way connected with the alleged termination of the Executive's employment for "good reason"; (xii) any claim on account of, arising out of or in any way connected with medical, dental, life insurance or other welfare benefit plan coverage; and (xiii) all other causes of action sounding in contract, tort or other common law basis, including, but not limited to: (a) the breach of any alleged oral or written contract; (b) negligent or intentional misrepresentations; (c) wrongful discharge; (d) just cause dismissal; (e) defamation; (f) interference with contract or business relationship; (g) negligent or intentional infliction of emotional distress; (h) promissory estoppel; (i) claims in equity or public policy; (j) assault; (k) battery; (l) breach of employee handbooks, manuals or other policies; (m) breach of fiduciary duty; (n) false imprisonment; (o) fraud; (p) invasion of privacy; (q) whistleblower claims; and (r) negligence, negligent hiring, retention or supervision; and

b. Those arising under any law relating to sex, age, race, color, religion, handicap or disability, harassment, veteran status, sexual orientation, retaliation, or national origin or Appalachian origin discrimination including, without limitation, any rights or claims arising under Title VII of the Civil Rights Act of 1866 and 1964, as amended, 42 U.S.C. §§ 1981 and 2000(e) et seq.; the Civil Rights Act of 1991; the Age Discrimination in Employment Act of 1967, as amended, 29 U.S.C. §§ 621 et seq., as amended by the Older Workers Benefit Protection Act; the Americans with Disabilities Act of 1990, as amended, 42 U.S.C. §§ 12,101 et seq.; Sections 806 and 1107 of the Sarbanes–Oxley Act of 2002; the Fair Labor Standards Act of 1938, 29 U.S.C. §§ 201 et seq.; the National Labor Relations Act, 29 U.S.C. §§ 151 et seq.; the Occupational Safety and Health Act, 29 U.S.C. §§ 651 et seq.; the Worker Adjustment and Retraining Notification Act, 29 U.S.C. §§ 2101, et seq.; Ohio Civil Rights Statutes, Ohio Revised Code Chapter 4112 et seq.; the Ohio Whistleblower Act, Ohio Revised Code § 4113.51, et seq.; Ohio Workers' Compensation Retaliation Statute, Ohio Revised Code § 4123.90; the Indiana Civil Rights Act, IC § 22–9–1–12.1 et seq.; Indiana Equal Pay Statute, IC § 20–8.1–6.1 et seq.; Indiana Workers' Compensation Statute, IC § 22–3–1–1 et seq., Indiana Whistleblower Statute, IC § 22–5–3–3 et seq.; the Texas Commission on Human Rights Act, Tex. Lab. Code. Ann. §§21.001 et seq.; Tex. Lab. Code. Ann. §§21.051; Tex. Lab. Code. Ann. §§21.055, Texas Workers' Compensation Act, Texas Whistleblower Act, as such statutes may be amended from time to time; and

c. Those arising out of the Employee Retirement Income Security Act of 1974; and

d. Those arising out of the Family and Medical Leave Act, 29 U.S.C. §§ 2601 et seq.; and

e. Those arising under the civil rights, labor and employment laws of any state, municipality or local ordinance; and

f. Any claim for reinstatement, compensatory damages, back pay, front pay, interest, punitive damages, special damages, legal and/or attorneys' fees, expenses and litigation costs including expert fees; and

g. Any other federal or state statute that affords employees or individuals protection of any kind whatsoever.

3. The Parties acknowledge that it is their mutual and specific intent that this Waiver and Release fully complies with the requirements of the Older Workers Benefit Protection Act (29 U.S.C. § 626) and any similar law governing the release of claims. Accordingly, the Executive hereby acknowledges that:

a. The Executive has consulted with an attorney prior to executing this Waiver and Release and acknowledges being given the advice to do so. The Executive represents that the Executive has read and fully understands all of the provisions of this Waiver and Release. The Executive represents that the Executive is voluntarily signing this Waiver and Release.

b. The Executive has been offered at least twenty–one (21) days in which to review and consider this Waiver and Release.

c. The Executive waives any right to assert any claim or demand for reemployment with Cinergy.

4. The Parties agree that this Waiver and Release shall not become effective and enforceable until the date this Waiver and Release is signed by both Parties or seven (7) calendar days after its execution by the Executive, whichever is later. The Executive may revoke this Waiver and Release for any reason by providing written notice of such intent to the Company within seven (7) days after he has signed this Waiver and Release, thereby forfeiting the Executive's right to receive any Benefits and rendering this Waiver and Release null and void in its entirety.

5. The Executive hereby affirms and acknowledges his continued obligations to comply with the post–termination covenants contained in the Agreement, including but not limited to, the provisions of Sections 8, 9, 10, 11, 12 and 13 of the Agreement. The Executive acknowledges that the restrictions contained therein are valid and reasonable in every respect, are necessary to protect Cinergy's legitimate business interests and hereby affirmatively waives any claim or defense to the contrary.

6. In the event that the Executive breaches or threatens to breach any provision of this Waiver and Release, he agrees that Cinergy shall be entitled to seek any and all equitable and legal relief provided by law, specifically including immediate and permanent injunctive relief. The Executive hereby waives any claim that Cinergy has an adequate remedy at law. In addition, and to the extent not prohibited by law, the Executive agrees that Cinergy shall be entitled to an award of all costs and attorneys' fees incurred by Cinergy in any successful effort to enforce the terms of this Waiver and Release. The Executive agrees that the foregoing relief shall not be construed to limit or otherwise restrict Cinergy's ability to pursue any other remedy provided by law, including the recovery of any actual, compensatory or punitive damages. Moreover, if the Executive pursues any claims against the Company subject to the foregoing Waiver and Release, the Executive agrees to immediately reimburse the Company for the value of all Benefits received to the fullest extent permitted by law.

7. Cinergy hereby releases the Executive, his heirs, representatives, agents and assigns from any and all known claims, causes of action, grievances, damages and demands of any kind or nature based on acts or omissions committed by the Executive during and in the course of his employment with the Company provided such act or omission was committed in good faith and occurred within the scope of his normal duties and responsibilities.

8. The Parties acknowledge that this Waiver and Release is entered into solely for the purpose of ending their employment relationship on an amicable basis and shall not be construed as an admission of liability or wrongdoing by either Party and that both Cinergy and the Executive have expressly denied any such liability or wrongdoing.

9. Each of the promises and obligations shall be binding upon and shall inure to the benefit of the heirs, executors, administrators, assigns and successors in interest of each of the Parties.

10. The Parties agree that each and every paragraph, sentence, clause, term and provision of this Waiver and Release is severable and that, if any portion of this Waiver and Release should be deemed not enforceable for any reason, such portion shall be stricken and the remaining portion or portions thereof should continue to be enforced to the fullest extent permitted by applicable law.

11. This Waiver and Release shall be governed by and interpreted in accordance with the laws of the State of Ohio without regard to any applicable state's choice of law provisions.

12. The Executive represents and acknowledges that in signing this Waiver and Release he does not rely, and has not relied, upon any representation or statement made by Cinergy or by any of Cinergy's employees, officers, agents, stockholders, directors or attorneys with regard to the subject matter, basis or effect of this Waiver and Release other than those specifically contained herein.

13. This Waiver and Release represents the entire agreement between the Parties concerning the subject matter hereof, shall supersede any and all prior agreements which may otherwise exist between them concerning the subject matter hereof (specifically excluding, however, the post–termination obligations contained in the Agreement or any other legally–binding document), and shall not be altered, amended, modified or otherwise changed except by a writing executed by both Parties.

14. Capitalized words and terms used throughout this Waiver and Release that are not defined in this Waiver and Release shall have the meaning given to such word or term in the Agreement.

PLEASE READ CAREFULLY. WITH RESPECT TO THE EMPLOYEE, THIS

WAIVER AND RELEASE INCLUDES A COMPLETE RELEASE OF ALL KNOWN

AND UNKNOWN CLAIMS.

IN WITNESS WHEREOF, the Parties have themselves signed, or caused a duly authorized agent thereof to sign, this Waiver and Release on their behalf and thereby acknowledge their intent to be bound by its terms and conditions.

EMPLOYEE	CINERGY SERVICES, INC.
Signed: /s/ William J. Grealis	By: /s/ James E. Rogers
Printed: William J. Grealis	Title: Chairman and Chief Executive Officer
Dated: May 5, 2005	Dated: May 5, 2005

Exhibit 31.a

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER

PURSUANT TO SECTION 302 OF THE SARBANES–OXLEY ACT OF 2002

I, James E. Rogers, certify that:

1. I have reviewed this quarterly report on Form 10–Q of Cinergy Corp., The Cincinnati Gas & Electric Company, PSI Energy, Inc., and The Union Light, Heat and Power Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrants as of, and for, the periods presented in this report;

4. The registrants' other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) for the registrants and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for Cinergy Corp. and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrants, including their consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrants' disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrants' internal control over financial reporting that occurred during the registrants' most recent fiscal quarter (the registrants' fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrants' internal control over financial reporting; and

5. The registrants' other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrants' auditors and the audit committee of the registrants' board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrants' ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrants' internal control over financial reporting.

Date: May 10, 2005

/s/ James E. Rogers

James E. Rogers
Chief Executive Officer

Exhibit 31.b

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER

PURSUANT TO SECTION 302 OF THE SARBANES–OXLEY ACT OF 2002

I, James L. Turner, certify that:

1. I have reviewed this quarterly report on Form 10–Q of Cinergy Corp., The Cincinnati Gas & Electric Company, PSI Energy, Inc., and The Union Light, Heat and Power Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrants as of, and for, the periods presented in this report;

4. The registrants' other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) for the registrants and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for Cinergy Corp. and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrants, including their consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrants' disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrants' internal control over financial reporting that occurred during the registrants' most recent fiscal quarter (the registrants' fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrants' internal control over financial reporting; and

5. The registrants' other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrants' auditors and the audit committee of the registrants' board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrants' ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrants' internal control over financial reporting.

Date: May 10, 2005

/s/ James L. Turner

James L. Turner
Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES–OXLEY ACT OF 2002**

In connection with the Quarterly Report of Cinergy Corp., The Cincinnati Gas & Electric Company, PSI Energy, Inc. and The Union Light, Heat and Power Company (the "Companies") on Form 10–Q for the period ending March 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James E. Rogers, Chief Executive Officer of the Companies, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes–Oxley Act of 2002, to the best of my knowledge and belief, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Companies.

Date: May 10, 2005

/s/ James E. Rogers
James E. Rogers
Chief Executive Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES–OXLEY ACT OF 2002

In connection with the Quarterly Report of Cinergy Corp., The Cincinnati Gas & Electric Company, PSI Energy, Inc. and The Union Light, Heat and Power Company (the "Companies") on Form 10–Q for the period ending March 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James L. Turner, Chief Financial Officer of the Companies, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes–Oxley Act of 2002, to the best of my knowledge and belief, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Companies.

Date: May 10, 2005

/s/ James L. Turner
James L. Turner
Chief Financial Officer

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10–Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended **September 30, 2004**

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to ______

Commission File Number	Registrant, State of Incorporation, Address and Telephone Number	I.R.S. Employer Identification No.
1–11377	**CINERGY CORP.** (A Delaware Corporation) 139 East Fourth Street Cincinnati, Ohio 45202 (513) 421–9500	31–1385023
1–1232	**THE CINCINNATI GAS & ELECTRIC COMPANY** (An Ohio Corporation) 139 East Fourth Street Cincinnati, Ohio 45202 (513) 421–9500	31–0240030
1–3543	**PSI ENERGY, INC.** (An Indiana Corporation) 1000 East Main Street Plainfield, Indiana 46168 (513) 421–9500	35–0594457
2–7793	**THE UNION LIGHT, HEAT AND POWER COMPANY** (A Kentucky Corporation)	31–0473080

139 East Fourth Street

Cincinnati, Ohio 45202

(513) 421--9500

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether each registrant is an accelerated filer (as defined in Rule 12b–2 of the Act).

Cinergy Corp.	Yes ☒	No ☐
The Cincinnati Gas & Electric Company	Yes ☐	No ☒
PSI Energy, Inc.	Yes ☐	No ☒
The Union Light, Heat and Power Company	Yes ☐	No ☒

This combined Form 10–Q is separately filed by **Cinergy Corp.**, **The Cincinnati Gas & Electric Company**, **PSI Energy, Inc.**, and **The Union Light, Heat and Power Company**. Information contained herein relating to any individual registrant is filed by such registrant on its own behalf. Each registrant makes no representation as to information relating to the other registrants.

The Union Light, Heat and Power Company meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10–Q and is therefore filing its company specific information with the reduced disclosure format specified in General Instruction H(2) of Form 10–Q.

As of October 31, 2004, shares of common stock outstanding for each registrant were as listed:

Registrant	Description	Shares
Cinergy Corp.	Par value $.01 per share	181,244,979
The Cincinnati Gas & Electric Company	Par value $8.50 per share	89,663,086
PSI Energy, Inc.	Without par value, stated value $.01 per share	53,913,701
The Union Light, Heat and Power Company	Par value $15.00 per share	585,333

TABLE OF CONTENTS

CINERGY CORP.

AND SUBSIDIARY COMPANIES

3

CINERGY CORP.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Quarter Ended September 30 2004	Quarter Ended September 30 2003	Year to Date September 30 2004	Year to Date September 30 2003
	(in thousands, except per share amounts) (unaudited)			
Operating Revenues				
Electric	**$994,074**	$920,638	**$2,764,468**	$2,512,954
Gas	**65,298**	124,533	**524,226**	638,378
Other	**69,211**	46,806	**182,284**	142,525
Total Operating Revenues	**1,128,583**	1,091,977	**3,470,978**	3,293,857
Operating Expenses				
Fuel and purchased power	**333,771**	329,997	**914,404**	840,332
Gas purchased	**19,792**	79,582	**290,728**	368,896
Operation and maintenance	**412,720**	323,401	**1,184,451**	985,528
Depreciation	**122,099**	98,522	**341,287**	300,145
Taxes other than income taxes	**57,001**	55,828	**204,320**	200,535
Total Operating Expenses	**945,383**	887,330	**2,935,190**	2,695,436
Operating Income	**183,200**	204,647	**535,788**	598,421
Equity in Earnings of Unconsolidated Subsidiaries	**8,016**	4,956	**18,095**	11,652
Miscellaneous Income (Expense) – Net	**(944)**	12,296	**(11,419)**	27,678
Interest Expense	**71,775**	73,905	**209,446**	193,734
Preferred Dividend Requirement of Subsidiary Trust	**—**	—	**—**	11,940
Preferred Dividend Requirements of Subsidiaries	**858**	858	**2,574**	2,574
Income Before Taxes	**117,639**	147,136	**330,444**	429,503
Income Taxes	**24,716**	35,155	**76,002**	102,121
Income Before Discontinued Operations and Cumulative Effect of Changes in Accounting Principles	**92,923**	111,981	**254,442**	327,382
Discontinued operations, net of tax	**—**	—	**—**	8,875
Cumulative effect of changes in accounting principles, net of tax (Note 1(d)(*ii*))	**—**	—	**—**	26,462
Net Income	**$92,923**	$111,981	**$254,442**	$362,719
Average Common Shares Outstanding	**180,881**	177,751	**180,129**	175,944
Earnings Per Common Share – Basic (Note 10)				
Income before discontinued operations and cumulative effect of changes in accounting principles	**$0.51**	$0.63	**$1.41**	$1.86
Discontinued operations, net of tax	**—**	—	**—**	0.05
Cumulative effect of changes in accounting principles, net of tax	**—**	—	**—**	0.15
Net income	**$0.51**	$0.63	**$1.41**	$2.06
Earnings Per Common Share – Diluted (Note 10)				

Income before discontinued operations and cumulative effect of changes in accounting principles	**$0.50**	$0.62	**$1.39**	$1.84
Discontinued operations, net of tax	**—**	—	**—**	0.05
Cumulative effect of changes in accounting principles, net of tax	**—**	—	**—**	0.15
Net income	**$0.50**	$0.62	**$1.39**	$2.04
Dividends Declared Per Common Share	**$0.47**	$0.46	**$1.41**	$1.38

The accompanying notes as they relate to Cinergy Corp. are an integral part of these condensed consolidated financial statements.

CINERGY CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	September 30 2004	December 31 2003
	(dollars in thousands)	
	(unaudited)	
Current Assets		
Cash and cash equivalents	$ **152,374**	$ 169,120
Restricted deposits	**140,944**	92,813
Notes receivable, current	**84,171**	189,854
Accounts receivable less accumulated provision for doubtful accounts of $5,724 at September 30, 2004, and $7,884 at December 31, 2003	**822,989**	1,074,518
Fuel, emission allowances, and supplies	**436,113**	357,625
Energy risk management current assets	**469,592**	305,058
Prepayments and other	**127,847**	53,609
Total Current Assets	**2,234,030**	2,242,597
Property, Plant, and Equipment – at Cost		
Utility plant in service	**10,049,768**	9,732,123
Construction work in progress	**282,488**	275,459
Total Utility Plant	**10,332,256**	10,007,582
Non–regulated property, plant, and equipment	**4,620,851**	4,527,943
Accumulated depreciation	**5,159,602**	4,908,019
Net Property, Plant, and Equipment	**9,793,505**	9,627,506
Other Assets		
Regulatory assets	**992,917**	1,012,151
Investments in unconsolidated subsidiaries	**516,732**	494,520
Energy risk management non–current assets	**136,756**	97,334
Notes receivable, non–current	**199,005**	213,853
Other investments	**120,964**	184,044
Goodwill and other intangible assets	**61,426**	45,349
Other	**187,995**	197,351
Total Other Assets	**2,215,795**	2,244,602
Assets of Discontinued Operations	**—**	4,501
Total Assets	$ **14,243,330**	$ 14,119,206

The accompanying notes as they relate to Cinergy Corp. are an integral part of these condensed consolidated financial statements.

CINERGY CORP.

CONDENSED CONSOLIDATED BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS' EQUITY

	September 30 2004	December 31 2003
	(dollars in thousands) (unaudited)	
Current Liabilities		
Accounts payable	$ **1,078,526**	$ 1,240,423
Accrued taxes	**137,099**	217,993
Accrued interest	**61,191**	68,952
Notes payable and other short–term obligations (Note 4)	**1,196,763**	351,412
Long–term debt due within one year	**220,413**	839,103
Energy risk management current liabilities	**396,148**	296,122
Other	**145,072**	107,438
Total Current Liabilities	**3,235,212**	3,121,443
Non–Current Liabilities		
Long–term debt (Note 3)	**3,935,936**	4,131,909
Deferred income taxes	**1,648,069**	1,557,981
Unamortized investment tax credits	**101,977**	108,884
Accrued pension and other postretirement benefit costs	**602,698**	662,834
Accrued cost of removal	**520,844**	490,856
Energy risk management non–current liabilities	**133,328**	64,861
Other	**221,509**	205,344
Total Non–Current Liabilities	**7,164,361**	7,222,669
Liabilities of Discontinued Operations	**—**	11,594
Commitments and Contingencies (Note 6)		
Total Liabilities	**10,399,573**	10,355,706
Cumulative Preferred Stock of Subsidiaries		
Not subject to mandatory redemption	**62,818**	62,818
Common Stock Equity (Note 2)		
Common stock – $.01 par value; authorized shares – 600,000,000; issued shares – 181,122,065 at September 30, 2004, and 178,438,369 at December 31, 2003; outstanding shares – 180,995,556 at September 30, 2004, and 178,336,854 at December 31, 2003	**1,811**	1,784
Paid–in capital	**2,272,651**	2,195,985
Retained earnings	**1,551,848**	1,551,003
Treasury shares at cost – 126,509 shares at September 30, 2004, and 101,515 shares at December 31, 2003	**(4,026)**	(3,255)
Accumulated other comprehensive loss	**(41,345)**	(44,835)
Total Common Stock Equity	**3,780,939**	3,700,682
Total Liabilities and Shareholders' Equity	**$ 14,243,330**	$ 14,119,206

The accompanying notes as they relate to Cinergy Corp. are an integral part of these condensed consolidated financial statements.

CINERGY CORP.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN COMMON STOCK EQUITY

(dollars in thousands, except per share amounts)
(unaudited)

	Common Stock	Paid–in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Common Stock Equity
Quarter Ended September 30, 2004						
Balance at July 1, 2004 (180,323,246 shares)	**$ 1,804**	**$ 2,248,084**	**$ 1,543,883**	**$ (3,966)**	**$ (39,804)**	**$ 3,750,001**
Comprehensive income:						
Net income			**92,923**			**92,923**
Other comprehensive loss, net of tax effect of $1,162						
Foreign currency translation adjustment					**(741)**	**(741)**
Unrealized loss on investment trusts					**(662)**	**(662)**
Cash flow hedges					**(138)**	**(138)**
Total comprehensive income						**91,382**
Issuance of common stock – net (675,273 shares)	**7**	**20,989**				**20,996**
Treasury shares purchased (2,963 shares)				**(60)**		**(6**
Dividends on common stock ($0.47 per share)			**(84,873)**			**(84,873)**
Other		**3,578**	**(85)**			**3,493**
Ending balance at September 30, 2004 (180,995,556 shares)	**$ 1,811**	**$ 2,272,651**	**$ 1,551,848**	**$ (4,026)**	**$ (41,345)**	**$ 3,780,939**
Quarter Ended September 30, 2003						
Balance at July 1, 2003 (176,947,118 shares)	$ 1,769	$ 2,135,968	$ 1,495,502	$ —	$ (24,423)	$ 3,608,816
Comprehensive income:						
Net income			111,981			111,981
Other comprehensive income (loss), net of tax effect of $2,532						
Foreign currency translation adjustment					(8,365)	(8,365)
Minimum pension liability adjustment					26	26
Unrealized gain on investment trusts					32	32
Cash flow hedges					3,050	3,050
Total comprehensive income						106,724
Issuance of common stock – net (952,704 shares)	10	31,824				31,834
Dividends on common stock ($0.46 per share)			(81,725)			(81,725)
Other		2,600	(31)			2,569
Ending balance at September 30, 2003 (177,899,822 shares)	$ 1,779	$ 2,170,392	$ 1,525,727	$ —	$ (29,680)	$ 3,668,218

The accompanying notes as they relate to Cinergy Corp. are an integral part of these condensed consolidated financial statements.

CINERGY CORP.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN COMMON STOCK EQUITY

(Continued)

	Common Stock	Paid–in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Common Stock Equity
			(dollars in thousands, except per share amounts) *(unaudited)*			
Year to Date September 30, 2004						
Balance at January 1, 2004 (178,336,854 shares)	**$ 1,784**	**$ 2,195,985**	**$ 1,551,003**	**$ (3,255)**	**$ (44,835)**	**$ 3,700,682**
Comprehensive income:						
Net income			**254,442**			**254,442**
Other comprehensive income (loss), net of tax effect of $(1,928)						
Foreign currency translation adjustment					**691**	**691**
Unrealized loss on investment trusts					**(166)**	**(166)**
Cash flow hedges					**2,965**	**2,965**
Total comprehensive income						**257,932**
Issuance of common stock – net (2,683,696 shares)	**27**	**67,200**				**67,22[illegible]**
Treasury shares purchased (24,994 shares)				**(771)**		**(771)**
Dividends on common stock ($1.41 per share)			**(253,418)**			**(253,418)**
Other		**9,466**	**(179)**			**9,287**
Ending balance at September 30, 2004 (180,995,556 shares)	**$ 1,811**	**$ 2,272,651**	**$ 1,551,848**	**$ (4,026)**	**$ (41,345)**	**$ 3,780,939**
Year to Date September 30, 2003						
	$ 1,687	$ 1,918,136	$ 1,403,453	$ —	$ (29,800)	$ 3,293,476
Balance at January 1, 2003 (168,663,115 shares)						
Comprehensive income:						
Net income			362,719			362,719
Other comprehensive income (loss), net of tax effect of $(26)						
Foreign currency translation adjustment, net of reclassification adjustments of $6,134 (net of tax)					(2,312)	(2,312)
Minimum pension liability adjustment					26	26
Unrealized gain on investment trusts					2,551	2,55[illegible]
Cash flow hedges					(145)	(14[illegible]
Total comprehensive income						362,839
Issuance of common stock – net (9,236,707 shares)	92	251,179				251,271
Dividends on common stock ($1.38 per share)			(240,402)			(240,402)

Other		1,077	(43)			1,034
Ending balance at September 30, 2003 (177,899,822 shares)	$ 1,779	$ 2,170,392	$ 1,525,727	$ —	$ (29,680)	$ 3,668,218

The accompanying notes as they relate to Cinergy Corp. are an integral part of these condensed consolidated financial statements.

CINERGY CORP.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year to Date September 30 2004		2003
		(dollars in thousands) *(unaudited)*		
Cash Flows from Continuing Operations				
Operating Activities				
Net income	$	**254,442**	$	362,719
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation		**341,287**		300,145
Income of discontinued operations, net of tax		**—**		(8,875)
Loss on impairment or disposal of subsidiaries and investments, net		**38,268**		—
Cumulative effect of changes in accounting principles, net of tax		**—**		(26,462)
Change in net position of energy risk management activities		**(35,463)**		(18,097)
Deferred income taxes and investment tax credits – net		**81,649**		35,828
Equity in earnings of unconsolidated subsidiaries		**(18,095)**		(11,652)
Allowance for equity funds used during construction		**(1,122)**		(7,111)
Regulatory assets deferrals		**(55,877)**		(47,863)
Regulatory assets amortization		**74,176**		74,277
Accrued pension and other postretirement benefit costs		**(60,136)**		(19,792)
Deferred costs under gas cost recovery mechanism		**16,762**		(31,803)
Cost of removal		**(13,037)**		(10,658)
Changes in current assets and current liabilities:				
Accounts and notes receivable		**358,465**		338,099
Fuel, emission allowances, and supplies		**(78,502)**		(3,288
Prepayments		**(70,124)**		(29,923)
Accounts payable		**(161,574)**		(364,181)
Accrued taxes and interest		**(88,347)**		(15,069)
Other assets		**(14,726)**		11,265
Other liabilities		**68,087**		58,130
Net cash provided by operating activities		**636,133**		585,689
Financing Activities				
Change in short–term debt		**783,258**		(332,414)
Issuance of long–term debt		**—**		688,166
Redemption of long–term debt		**(824,411)**		(187,873)
Issuance of common stock		**67,227**		251,271
Dividends on common stock		**(253,418)**		(240,402)
Net cash provided by (used in) financing activities		**(227,344)**		178,748
Investing Activities				
Construction expenditures (less allowance for equity funds used during construction)		**(473,354)**		(498,013)
Proceeds from notes receivable		**12,966**		5,076
Withdrawal of restricted cash held on deposit		**14,861**		—
Acquisitions and other investments		**(9,734)**		(36,464)
Proceeds from disposition of subsidiaries and investments		**29,726**		51,252
Net cash used in investing activities		**(425,535)**		(478,149)
Net increase (decrease) in cash and cash equivalents from continuing operations		**(16,746)**		286,288
Cash and cash equivalents from continuing operations at beginning of period		**169,120**		200,112
Cash and cash equivalents from continuing operations at end of period	$	**152,374**	$	486,400
Cash Flows from Discontinued Operations				
Operating activities	$	**(7,093)**	$	(7,285)
Financing activities		**7,093**		(13,484)
Investing activities		**—**		(202)
Net decrease in cash and cash equivalents from discontinued operations		**—**		(20,971)
Cash and cash equivalents from discontinued operations at beginning of period		**—**		20,971

Cash and cash equivalents from discontinued operations at end of period	**$**	**—**	$	—
Supplemental Disclosure of Cash Flow Information				
Cash paid during the period for:				
Interest (net of amount capitalized)	**$**	**219,100**	$	182,108
Income taxes	**$**	**46,272**	$	90,281
Non–cash financing activities:				
Issuance of debt securities held as restricted cash	**$**	**54,890**	$	—

The accompanying notes as they relate to Cinergy Corp. are an integral part of these condensed consolidated financial statements.

THE CINCINNATI GAS & ELECTRIC COMPANY

AND SUBSIDIARY COMPANIES

10

THE CINCINNATI GAS & ELECTRIC COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Quarter Ended September 30		Year to Date September 30	
	2004	2003	**2004**	2003
	(dollars in thousands) *(unaudited)*			
Operating Revenues				
Electric	**$ 493,742**	$ 474,840	**$ 1,386,625**	$ 1,300,859
Gas	**60,055**	66,399	**478,358**	426,986
Total Operating Revenues	**553,797**	541,239	**1,864,983**	1,727,845
Operating Expenses				
Fuel and purchased power	**155,963**	144,794	**426,754**	381,615
Gas purchased	**19,721**	32,223	**290,656**	252,074
Operation and maintenance	**166,589**	133,466	**482,248**	394,156
Depreciation	**45,943**	42,542	**135,806**	142,119
Taxes other than income taxes	**45,316**	44,553	**158,816**	154,810
Total Operating Expenses	**433,532**	397,578	**1,494,280**	1,324,774
Operating Income	**120,265**	143,661	**370,703**	403,071
Miscellaneous Income – Net	**7,204**	9,654	**13,247**	23,137
Interest Expense	**24,083**	29,514	**68,934**	84,781
Income Before Taxes	**103,386**	123,801	**315,016**	341,427
Income Taxes	**39,313**	44,938	**118,179**	125,347
Income Before Cumulative Effect of Changes in Accounting Principles	**64,073**	78,863	**196,837**	216,080
Cumulative effect of changes in accounting principles, net of tax (Note 1(d)(*ii*))	**—**	—	**—**	30,938
Net Income	**$ 64,073**	$ 78,863	**$ 196,837**	$ 247,018
Preferred Dividend Requirement	**211**	211	**634**	634
Net Income Applicable to Common Stock	**$ 63,862**	$ 78,652	**$ 196,203**	$ 246,384
Net Income	**$ 64,073**	$ 78,863	**$ 196,837**	$ 247,018
Other Comprehensive Income (Loss), Net of Tax	**(2)**	2,720	**2,881**	(307)
Comprehensive Income	**$ 64,071**	$ 81,583	**$ 199,718**	$ 246,711

The accompanying notes as they relate to The Cincinnati Gas & Electric Company are an integral part of these condensed consolidated financial statements.

THE CINCINNATI GAS & ELECTRIC COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	September 30 2004	December 31 2003
	(dollars in thousands) *(unaudited)*	
Current Assets		
Cash and cash equivalents	$ **9,225**	$ 15,842
Restricted deposits	**120**	137
Notes receivable from affiliated companies	**33,534**	110,149
Accounts receivable less accumulated provision for doubtful accounts of $984 at September 30, 2004, and $1,602 at December 31, 2003	**210,693**	107,733
Accounts receivable from affiliated companies	**48,243**	58,406
Fuel, emission allowances, and supplies	**185,720**	135,948
Energy risk management current assets	**178,155**	72,830
Prepayments and other	**51,697**	15,049
Total Current Assets	**717,387**	516,094
Property, Plant, and Equipment – at Cost		
Utility plant in service		
Electric	**2,232,418**	2,155,457
Gas	**1,155,415**	1,104,797
Common	**291,302**	288,394
Total Utility Plant In Service	**3,679,135**	3,548,648
Construction work in progress	**65,285**	71,947
Total Utility Plant	**3,744,420**	3,620,595
Non–regulated property, plant, and equipment	**3,627,899**	3,576,187
Accumulated depreciation	**2,719,785**	2,625,568
Net Property, Plant, and Equipment	**4,652,534**	4,571,214
Other Assets		
Regulatory assets	**578,522**	594,764
Energy risk management non–current assets	**48,205**	36,583
Other	**89,320**	90,824
Total Other Assets	**716,047**	722,171
Total Assets	$ **6,085,968**	$ 5,809,479

The accompanying notes as they relate to The Cincinnati Gas & Electric Company are an integral part of these condensed consolidated financial statements.

THE CINCINNATI GAS & ELECTRIC COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS' EQUITY

		September 30 2004		December 31 2003
		(dollars in thousands) *(unaudited)*		
Current Liabilities				
Accounts payable	$	**330,002**	$	217,652
Accounts payable to affiliated companies		**34,714**		136,470
Accrued taxes		**177,519**		146,216
Accrued interest		**21,800**		21,572
Notes payable and other short–term obligations (Note 4)		**112,100**		112,100
Notes payable to affiliated companies (Note 4)		**242,039**		49,126
Long–term debt due within one year		**150,000**		110,000
Energy risk management current liabilities		**126,171**		77,791
Other		**36,304**		32,319
Total Current Liabilities		**1,230,649**		903,246
Non–Current Liabilities				
Long–term debt (Note 3)		**1,309,738**		1,458,807
Deferred income taxes		**1,037,868**		985,481
Unamortized investment tax credits		**74,600**		79,186
Accrued pension and other postretirement benefit costs		**199,106**		219,393
Accrued cost of removal		**161,865**		155,336
Energy risk management non–current liabilities		**48,200**		11,665
Other		**66,689**		69,687
Total Non–Current Liabilities		**2,898,066**		2,979,555
Commitments and Contingencies (Note 6)				
Total Liabilities		**4,128,715**		3,882,801
Cumulative Preferred Stock				
Not subject to mandatory redemption		**20,485**		20,485
Common Stock Equity				
Common stock – $8.50 par value; authorized shares – 120,000,000; outstanding shares – 89,663,086 at September 30, 2004, and December 31, 2003		**762,136**		762,136
Paid–in capital		**586,528**		586,528
Retained earnings		**617,687**		589,993
Accumulated other comprehensive loss		**(29,583)**		(32,464)
Total Common Stock Equity		**1,936,768**		1,906,193
Total Liabilities and Shareholders' Equity	$	**6,085,968**	$	5,809,479

The accompanying notes as they relate to The Cincinnati Gas & Electric Company are an integral part of these condensed consolidated financial statements.

THE CINCINNATI GAS & ELECTRIC COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year to Date September 30 2004	2003
	(dollars in thousands) (unaudited)	
Operating Activities		
Net income	$ **196,837**	$ 247,018
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**135,806**	142,119
Deferred income taxes and investment tax credits – net	**47,546**	35,406
Cumulative effect of changes in accounting principles, net of tax	**—**	(30,938)
Change in net position of energy risk management activities	**(32,032)**	(24,465)
Allowance for equity funds used during construction	**(699)**	(2,566)
Regulatory assets deferrals	**(28,231)**	(17,984)
Regulatory assets amortization	**41,688**	31,411
Accrued pension and other postretirement benefit costs	**(20,287)**	4,719
Deferred costs under gas cost recovery mechanism	**16,762**	(31,803)
Cost of removal	**(5,490)**	—
Changes in current assets and current liabilities:		
Accounts and notes receivable	**(20,238)**	157,926
Fuel, emission allowances, and supplies	**(49,786)**	(29,517)
Prepayments	**(36,751)**	(8,040)
Accounts payable	**11,201**	(163,059)
Accrued taxes and interest	**31,839**	44,048
Other assets	**(14,009)**	6,99(
Other liabilities	**5,973**	(15,350)
Net cash provided by operating activities	**280,129**	345,915
Financing Activities		
Change in short–term debt, including net affiliate notes	**196,383**	(44,374)
Issuance of long–term debt	**—**	256,198
Redemption of long–term debt	**(110,000)**	(100,000)
Dividends on preferred stock	**(634)**	(634)
Dividends on common stock	**(168,509)**	(166,655)
Net cash used in financing activities	**(82,760)**	(55,465)
Investing Activities		
Construction expenditures (less allowance for equity funds used during construction)	**(219,307)**	(236,235)
Proceeds from disposition of subsidiaries and investments	**15,321**	—
Net cash used in investing activities	**(203,986)**	(236,235)
Net increase (decrease) in cash and cash equivalents	**(6,617)**	54,215
Cash and cash equivalents at beginning of period	**15,842**	45,336
Cash and cash equivalents at end of period	$ **9,225**	$ 99,551
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for:		
Interest (net of amount capitalized)	$ **65,629**	$ 69,321
Income taxes	$ **16,646**	$ 38,146

The accompanying notes as they relate to The Cincinnati Gas & Electric Company are an integral part of these condensed consolidated financial statements.

PSI ENERGY, INC.

AND SUBSIDIARY COMPANY

15

PSI ENERGY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Quarter Ended September 30 2004	2003	Year to Date September 30 2004	2003
	(dollars in thousands) (unaudited)			
Operating Revenues				
Electric	$ **480,089**	$ 437,084	$ **1,310,812**	$ 1,210,157
Operating Expenses				
Fuel and purchased power	**160,541**	177,786	**436,937**	466,656
Operation and maintenance	**134,586**	118,848	**399,788**	361,146
Depreciation	**62,106**	41,360	**165,996**	121,776
Taxes other than income taxes	**10,481**	10,322	**41,014**	42,354
Total Operating Expenses	**367,714**	348,316	**1,043,735**	991,932
Operating Income	**112,375**	88,768	**267,077**	218,225
Miscellaneous Income (Expense) – Net	**2,213**	(2,221)	**5,777**	5,348
Interest Expense	**24,864**	22,147	**66,489**	64,574
Income Before Taxes	**89,724**	64,400	**206,365**	158,999
Income Taxes	**41,237**	26,808	**91,626**	64,107
Income Before Cumulative Effect of a Change in Accounting Principle	**48,487**	37,592	**114,739**	94,892
Cumulative effect of a change in accounting principle, net of tax (Note 1(d)(*ii*))	—	—	—	(494)
Net Income	$ **48,487**	$ 37,592	$ **114,739**	$ 94,398
Preferred Dividend Requirement	**647**	647	**1,940**	1,940
Net Income Applicable to Common Stock	$ **47,840**	$ 36,945	$ **112,799**	$ 92,458
Net Income	$ **48,487**	$ 37,592	$ **114,739**	$ 94,398
Other Comprehensive Income (Loss), Net of Tax	**(614)**	(77)	**(248)**	2,247
Comprehensive Income	$ **47,873**	$ 37,515	$ **114,491**	$ 96,645

The accompanying notes as they relate to PSI Energy, Inc. are an integral part of these condensed consolidated financial statements.

PSI ENERGY, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	September 30 2004	December 31 2003
	(dollars in thousands) *(unaudited)*	
Current Assets		
Cash and cash equivalents	$ **32,108**	$ 6,565
Restricted deposits	**140,644**	92,675
Notes receivable from affiliated companies	**31,295**	65,715
Accounts receivable less accumulated provision for doubtful accounts of $209 at September 30, 2004, and $1,110 at December 31, 2003	**44,563**	37,194
Accounts receivable from affiliated companies	**2,390**	459
Fuel, emission allowances, and supplies	**128,092**	149,392
Energy risk management current assets	**4,544**	7,959
Prepayments and other	**5,424**	5,303
Total Current Assets	**389,060**	365,262
Property, Plant, and Equipment – at Cost		
Utility plant in service	**6,370,633**	6,183,475
Construction work in progress	**217,203**	203,512
Total Utility Plant	**6,587,836**	6,386,987
Accumulated depreciation	**2,256,363**	2,133,235
Net Property, Plant, and Equipment	**4,331,473**	4,253,752
Other Assets		
Regulatory assets	**414,395**	417,387
Energy risk management non–current assets	**2,396**	7,061
Other investments	**68,451**	66,803
Other	**38,938**	29,372
Total Other Assets	**524,180**	520,623
Total Assets	$ **5,244,713**	$ 5,139,637

The accompanying notes as they relate to PSI Energy, Inc. are an integral part of these condensed consolidated financial statements.

PSI ENERGY, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS' EQUITY

	September 30 2004	December 31 2003
	(dollars in thousands) *(unaudited)*	
Current Liabilities		
Accounts payable	**$ 80,001**	$ 58,286
Accounts payable to affiliated companies	**44,884**	69,746
Accrued taxes	**71,963**	69,419
Accrued interest	**26,926**	26,615
Notes payable and other short–term obligations (Note 4)	**135,500**	80,500
Notes payable to affiliated companies (Note 4)	**153,589**	188,446
Long–term debt due within one year	**51,100**	—
Energy risk management current liabilities	**4,328**	14,744
Other	**24,295**	25,636
Total Current Liabilities	**592,586**	533,392
Non–Current Liabilities		
Long–term debt	**1,669,821**	1,720,476
Deferred income taxes	**624,143**	573,946
Unamortized investment tax credits	**27,377**	29,698
Accrued pension and other postretirement benefit costs	**185,843**	193,336
Accrued cost of removal	**358,979**	335,520
Energy risk management non–current liabilities	**1,028**	2,796
Other	**81,580**	74,958
Total Non–Current Liabilities	**2,948,771**	2,930,730
Commitments and Contingencies (Note 6)		
Total Liabilities	**3,541,357**	3,464,122
Cumulative Preferred Stock		
Not subject to mandatory redemption	**42,333**	42,333
Common Stock Equity		
Common stock – without par value; $.01 stated value; authorized shares – 60,000,000; outstanding shares – 53,913,701 at September 30, 2004, and December 31, 2003	**539**	539
Paid–in capital	**627,274**	627,274
Retained earnings	**1,046,879**	1,018,790
Accumulated other comprehensive loss	**(13,669)**	(13,421)
Total Common Stock Equity	**1,661,023**	1,633,182
Total Liabilities and Shareholders' Equity	**$ 5,244,713**	$ 5,139,637

The accompanying notes as they relate to PSI Energy, Inc. are an integral part of these condensed consolidated financial statements.

PSI ENERGY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year to Date September 30 2004	2003
	(dollars in thousands) (unaudited)	
Operating Activities		
Net income	$ **114,739**	$ 94,398
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**165,996**	121,776
Cumulative effect of a change in accounting principle, net of tax	—	494
Deferred income taxes and investment tax credits – net	**48,045**	14,370
Change in net position of energy risk management activities	**(4,104)**	(1,731)
Allowance for equity funds used during construction	**(423)**	(4,545)
Regulatory assets deferrals	**(27,646)**	(29,879)
Regulatory assets amortization	**32,488**	42,867
Accrued pension and other postretirement benefit costs	**(7,493)**	(7,471)
Cost of removal	**(7,547)**	(10,658)
Changes in current assets and current liabilities:		
Accounts and notes receivable	**25,120**	65,280
Fuel, emission allowances, and supplies	**21,300**	27,971
Prepayments	**(820)**	(154)
Accounts payable	**(3,147)**	(164,989)
Accrued taxes and interest	**2,855**	14,388
Other assets	**(12,655)**	(6,824)
Other liabilities	**4,956**	(909
Net cash provided by operating activities	**351,664**	154,384
Financing Activities		
Change in short–term debt, including net affiliate notes	**(34,857)**	(8,091)
Issuance of long–term debt	—	431,968
Redemption of long–term debt	—	(459,865)
Contribution from parent	—	200,000
Dividends on preferred stock	**(1,940)**	(1,940)
Dividends on common stock	**(84,709)**	(73,324)
Net cash provided by (used in) financing activities	**(121,506)**	88,748
Investing Activities		
Construction expenditures (less allowance for equity funds used during construction)	**(217,413)**	(231,201)
Withdrawal of restricted cash held on deposit	**14,861**	—
Other investments	**(2,063)**	(2,486)
Net cash used in investing activities	**(204,615)**	(233,687)
Net increase in cash and cash equivalents	**25,543**	9,445
Cash and cash equivalents at beginning of period	**6,565**	2,007
Cash and cash equivalents at end of period	$ **32,108**	$ 11,452
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for:		
Interest (net of amount capitalized)	$ **74,245**	$ 72,455
Income taxes	$ **28,302**	$ 50,419
Non–cash financing activities:		

Issuance of promissory notes to affiliated company for acquisition of assets	$	—	$	375,969
Issuance of debt securities held as restricted cash	$	**54,890**	$	—

The accompanying notes as they relate to PSI Energy, Inc. are an integral part of these condensed consolidated financial statements.

THE UNION LIGHT, HEAT AND POWER COMPANY

20

THE UNION LIGHT, HEAT AND POWER COMPANY

CONDENSED STATEMENTS OF INCOME

	Quarter Ended September 30 2004	Quarter Ended September 30 2003	Year to Date September 30 2004	Year to Date September 30 2003
	(dollars in thousands) *(unaudited)*			
Operating Revenues				
Electric	**$ 63,751**	$ 64,199	**$ 176,698**	$ 170,224
Gas	**11,119**	11,240	**85,243**	75,007
Total Operating Revenues	**74,870**	75,439	**261,941**	245,231
Operating Expenses				
Electricity purchased from parent company for resale	**45,461**	44,546	**124,768**	120,805
Gas purchased	**5,214**	5,620	**53,528**	46,570
Operation and maintenance	**14,893**	14,689	**42,448**	41,068
Depreciation	**4,992**	4,554	**14,944**	13,582
Taxes other than income taxes	**(567)**	1,135	**2,110**	3,417
Total Operating Expenses	**69,993**	70,544	**237,798**	225,442
Operating Income	**4,877**	4,895	**24,143**	19,789
Miscellaneous Income – Net	**294**	886	**1,035**	3,266
Interest Expense	**1,263**	1,548	**3,760**	4,520
Income Before Taxes	**3,908**	4,233	**21,418**	18,535
Income Taxes	**1,608**	1,667	**8,139**	7,058
Net Income	**$ 2,300**	$ 2,566	**$ 13,279**	$ 11,477

The accompanying notes as they relate to The Union Light, Heat and Power Company are an integral part of these condensed financial statements.

THE UNION LIGHT, HEAT AND POWER COMPANY

CONDENSED BALANCE SHEETS

ASSETS

	September 30 2004	December 31 2003
	(dollars in thousands) *(unaudited)*	
Current Assets		
Cash and cash equivalents	**$ 7,699**	$ 1,899
Notes receivable from affiliated companies	**5,301**	17,906
Accounts receivable less accumulated provision for doubtful accounts of $17 at September 30, 2004, and $192 at December 31, 2003	**1,937**	2,458
Accounts receivable from affiliated companies	**169**	4,407
Fuel and supplies	**10,789**	7,936
Prepayments and other	**427**	279
Total Current Assets	**26,322**	34,885
Property, Plant, and Equipment – at Cost		
Utility plant in service		
Electric	**283,525**	273,895
Gas	**251,354**	239,670
Common	**53,551**	53,297
Total Utility Plant In Service	**588,430**	566,862
Construction work in progress	**6,887**	6,165
Total Utility Plant	**595,317**	573,027
Accumulated depreciation	**186,142**	176,368
Net Property, Plant, and Equipment	**409,175**	396,659
Other Assets		
Regulatory assets	**13,182**	13,224
Other	**716**	3,903
Total Other Assets	**13,898**	17,127
Total Assets	**$ 449,395**	$ 448,671

The accompanying notes as they relate to The Union Light, Heat and Power Company are an integral part of these condensed financial statements.

THE UNION LIGHT, HEAT AND POWER COMPANY

CONDENSED BALANCE SHEETS

LIABILITIES AND SHAREHOLDER'S EQUITY

	September 30 2004	December 31 2003
	(dollars in thousands) *(unaudited)*	
Current Liabilities		
Accounts payable	$ **3,145**	$ 13,431
Accounts payable to affiliated companies	**18,701**	21,131
Accrued taxes	**5,804**	298
Accrued interest	**997**	1,230
Notes payable to affiliated companies (Note 4)	**36,895**	45,233
Other	**6,738**	6,815
Total Current Liabilities	**72,280**	88,138
Non–Current Liabilities		
Long–term debt	**54,708**	54,685
Deferred income taxes	**59,546**	55,488
Unamortized investment tax credits	**2,687**	2,879
Accrued pension and other postretirement benefit costs	**14,829**	16,953
Accrued cost of removal	**29,029**	27,443
Other	**13,681**	13,729
Total Non–Current Liabilities	**174,480**	171,177
Commitments and Contingencies (Note 6)		
Total Liabilities	**246,760**	259,315
Common Stock Equity		
Common stock – $15.00 par value; authorized shares – 1,000,000; outstanding shares – 585,333 at September 30, 2004, and December 31, 2003	**8,780**	8,780
Paid–in capital	**23,541**	23,541
Retained earnings	**170,803**	157,524
Accumulated other comprehensive loss	**(489)**	(489)
Total Common Stock Equity	**202,635**	189,356
Total Liabilities and Shareholder's Equity	$ **449,395**	$ 448,671

The accompanying notes as they relate to The Union Light, Heat and Power Company are an integral part of these condensed financial statements.

THE UNION LIGHT, HEAT AND POWER COMPANY

CONDENSED STATEMENTS OF CASH FLOWS

	Year to Date September 30 2004	2003
	(dollars in thousands) (unaudited)	
Operating Activities		
Net income	$ **13,279**	$ 11,477
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**14,944**	13,582
Deferred income taxes and investment tax credits – net	**3,865**	4,157
Allowance for equity funds used during construction	**12**	(224)
Regulatory assets deferrals	**(1,139)**	(424)
Regulatory assets amortization	**1,046**	505
Accrued pension and other postretirement benefit costs	**(2,124)**	338
Deferred costs under gas cost recovery mechanism	**3,990**	(7,279)
Cost of removal	**(1,267)**	—
Changes in current assets and current liabilities:		
Accounts and notes receivable	**17,364**	10,776
Fuel and supplies	**(2,853)**	(1,592)
Prepayments	**(148)**	(102)
Accounts payable	**(12,716)**	(10,047)
Accrued taxes and interest	**5,273**	2,453
Other assets	**409**	1,071
Other liabilities	**(1,178)**	375
Net cash provided by operating activities	**38,757**	25,066
Financing Activities		
Change in short–term debt, including net affiliate notes	**(8,338)**	9,650
Dividends on common stock	**—**	(6,305)
Net cash provided by (used in) financing activities	**(8,338)**	3,345
Investing Activities		
Construction expenditures (less allowance for equity funds used during construction)	**(24,619)**	(27,229)
Net cash used in investing activities	**(24,619)**	(27,229)
Net increase in cash and cash equivalents	**5,800**	1,182
Cash and cash equivalents at beginning of period	**1,899**	3,926
Cash and cash equivalents at end of period	$ **7,699**	$ 5,108
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for:		
Interest (net of amount capitalized)	$ **3,814**	$ 4,240
Income taxes	$ **4**	$ 3,001

The accompanying notes as they relate to The Union Light, Heat and Power Company are an integral part of these condensed financial statements.

NOTES TO CONDENSED FINANCIAL STATEMENTS

In this report **Cinergy** (which includes **Cinergy Corp.** and all of our regulated and non–regulated subsidiaries) is, at times, referred to in the first person as "we", "our", or "us". In addition, when discussing **Cinergy's** financial information, it necessarily includes the results of The Cincinnati Gas & Electric Company (**CG&E**), PSI Energy, Inc. (**PSI**), The Union Light, Heat and Power Company (**ULH&P**) and all of **Cinergy's** other consolidated subsidiaries. When discussing **CG&E's** financial information, it necessarily includes the results of **ULH&P** and all of **CG&E's** other consolidated subsidiaries.

1. Summary of Significant Accounting Policies

(a) *Presentation*

Our Condensed Financial Statements reflect all adjustments (which include normal, recurring adjustments) necessary in the opinion of the registrants 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 registrants' combined Form 10–K for the year ended December 31, 2003 (2003 10–K). Certain amounts in the 2003 Condensed Financial Statements have been reclassified to conform to the 2004 presentation.

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

- Valuing derivative contracts used in our energy marketing and trading activities;
- Evaluating the regulatory recoverability of various costs;
- Providing reserves for contingencies, including legal, environmental, and income taxes;
- Calculations of unbilled revenues; and
- Evaluating various non–regulated fixed assets and investments for impairment.

These estimates and judgments are discussed more fully in Critical Accounting Policies in our 2003 10–K. Actual results could differ, as these estimates and assumptions involve judgment about future events or performance.

(b) *Revenue Recognition*

(i) Utility Revenues

CG&E, **PSI**, and **ULH&P** (collectively, our utility operating companies) record *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 complex 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.

The amount of unbilled revenues for **Cinergy**, **CG&E**, **PSI**, and **ULH&P** as of September 30, 2004 and 2003, were as follows:

	2004	2003
	(in millions)	
Cinergy	$ **137**	$ 117
CG&E and subsidiaries	**68**	60
PSI	**69**	57
ULH&P	**12**	11

(ii) Energy Marketing and Trading Revenues

We market and trade electricity, natural gas, and other energy–related products. Many of the contracts associated with these products qualify as derivatives in accordance with Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*. We designate derivative transactions as either trading or non–trading at the time they are originated in accordance with Emerging Issues Task Force (EITF) Issue 02–3, *Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities*. Generally, trading contracts are reported on a net basis and non–trading contracts are reported on a gross basis. Net reporting requires presentation of realized and unrealized gains and losses on trading derivatives on a net basis in *Operating Revenues*. Gross reporting requires presentation of sales contracts in *Operating Revenues* and purchase contracts in *Fuel and purchased power* expense or *Gas purchased* expense.

(c) *Derivatives*

Cinergy designates derivatives as fair value hedges for certain volumes of our natural gas held in storage. Under this accounting election, changes in the fair value of both the derivative as well as the hedged item (the specified gas held in storage) are included in *Gas Operating Revenues* in **Cinergy's** Condensed Consolidated Statements of Income. We assess the effectiveness of the derivatives in offsetting the change in fair value of the gas held in storage on a quarterly basis. Selected information on **Cinergy's** hedge accounting activities were as follows:

	Quarter Ended September 30, 2004	**Year to Date September 30, 2004**
	(in millions)	
Portion of gain (loss) on hedging instruments determined to be ineffective and included in net income	**$ (3)**	**$ —**
Portion of gain (loss) on hedging instruments excluded from assessment of effectiveness and included in net income	**(6)**	**(8)**
Total	**$ (9)**	**$ (8)**

(d) *Accounting Changes*

(i) Consolidation of Variable Interest Entities (VIE)

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46, *Consolidation of Variable Interest Entities* (Interpretation 46), which significantly changes the consolidation requirements for traditional special purpose entities (SPE) and certain other entities subject to its scope. This interpretation defines a VIE as (a) an entity that does not have sufficient equity to support its activities without additional financial support or (b) any entity that has equity investors that do not have voting rights, do not absorb first dollar losses, or receive returns. These entities must be consolidated whenever **Cinergy** would be anticipated to absorb greater than 50 percent of the losses or receive greater than 50 percent of the returns.

In accordance with its two stage adoption guidance, we implemented Interpretation 46 for traditional SPEs on July 1, 2003, and for all other entities, including certain operating joint ventures, as of March 31, 2004. The consolidation of certain operating joint ventures as of March 31, 2004, did not have a material impact on our financial position or results of operations.

Cinergy also holds interests in several joint ventures, primarily engaged in cogeneration and energy efficiency operations, that are considered VIEs which do not require consolidation. Our exposure to loss from our involvement with these entities is not material.

(ii) Cumulative Effect of Changes in Accounting Principles

In 2003, **Cinergy**, **CG&E**, and **PSI** recognized *Cumulative effect of changes in accounting principles, net of tax* gain/(loss) of approximately $26 million, $31 million, and $(0.5) million, respectively. The cumulative effect of changes in accounting principles was a result of the adoption of Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* and the rescission of EITF Issue 98–10, *Accounting for Contracts Involved in Energy Trading and Risk Management Activities* as discussed in the 2003 10–K.

2. Common Stock

As discussed in the 2003 10–K, **Cinergy** issues new **Cinergy Corp.** common stock shares to satisfy obligations under certain of its employee stock plans and the Cinergy Corp. Direct Stock Purchase and Dividend Reinvestment Plan. During the nine months ended September 30, 2004, **Cinergy** issued approximately 2.7 million shares under these plans.

3. Long–term Debt

In February 2004, **CG&E** repaid at maturity $110 million of its 6.45% First Mortgage Bonds.

In April 2004, **Cinergy Corp.** repaid at maturity $200 million of its 6.125% Debentures.

In September 2004, **Cinergy Corp.** repaid at maturity $500 million of its 6.25% Debentures.

4. Notes Payable and Other Short–term Obligations

(a) *Short–term Notes*

In April 2004, **Cinergy Corp.** successfully placed two senior unsecured revolving credit facilities with an aggregate borrowing capacity of $1.5 billion, comprised of a $500 million 364–day facility and a $1 billion three–year facility. These facilities replaced two facilities that were scheduled to expire in April and May of 2004, respectively.

At September 30, 2004, **Cinergy Corp.** had approximately $582 million remaining unused and available capacity relating to its $1.5 billion revolving credit facilities. These revolving credit facilities include the following:

Credit Facility	Expiration	Established Lines	Outstanding and Committed	Unused and Available
			(in millions)	
364–day senior revolving	April 2005			
Direct borrowing		$	$ —	$
Commercial paper support			—	
Total 364–day facility		500	—	500
Three–year senior revolving	April 2007			
Direct borrowing			—	
Commercial paper support			912	
Letter of credit support			6	
Total three–year facility		1,000	918	82
Total Credit Facilities		$ 1,500	$ 918	$ 582

(b) *Commercial Paper*

Cinergy Corp.'s commercial paper program is supported by **Cinergy Corp.'s** $1.5 billion revolving credit facilities. The commercial paper program supports, in part, the short–term borrowing needs of **CG&E** and **PSI** and eliminates their need for separate commercial paper programs. In September 2004, **Cinergy Corp.** expanded its commercial paper program from $800 million to a maximum outstanding principal amount of $1.5 billion. As of September 30, 2004, **Cinergy Corp.** had $912 million in commercial paper outstanding.

(c) *Variable Rate Pollution Control Notes*

In August 2004, **PSI** borrowed the proceeds from the issuance by the Indiana Development Finance Authority of $55 million principal amount of its Environmental Revenue Bonds, Series 2004A, due August 2039. The initial interest rate for the bonds was 1.13 percent and is reset weekly. Proceeds from the borrowing will be used for the acquisition and construction of various solid waste disposal facilities located at various generating stations in Indiana. The $55 million is being held in escrow by an independent trustee and will be drawn upon as facilities are built. Holders of these notes are entitled to credit enhancement in the form of a standby letter of credit which, if drawn upon, provides for the payment of both interest and principal on the notes. Because the holders of these notes have the right to have their notes redeemed on a weekly basis, they are reflected in *Notes payable and other short–term obligations* on **Cinergy's** and **PSI's** balance sheets.

The following table summarizes our *Notes payable and other short–term obligations* and *Notes payable to affiliated companies*.

	September 30, 2004		December 31, 2003	
	Established Lines	Outstanding	Established Lines	Outstanding
		(in millions)		
Cinergy				
Cinergy Corp.				
Revolving lines	**$ 1,500**	**$ —**	$ 1,000	$ —
Uncommitted lines(1)	**40**	**—**	40	—
Commercial paper(2)		**912**		146
Utility operating companies				
Uncommitted lines(1)	**75**	**—**	75	—
Pollution control notes		**248**		193
Non–regulated subsidiaries				
Revolving lines	**14**	**10**	19	10
Short–term debt		**2**		2
Pollution control notes		**25**		—
Cinergy Total		**$ 1,197**		$ 351
CG&E and subsidiaries				
Uncommitted lines(1)	**$ 15**	**$ —**	$ 15	$ —
Pollution control notes		**112**		112
Money pool		**242**		49
CG&E Total		**$ 354**		$ 161
PSI				
Uncommitted lines(1)	**$ 60**	**$ —**	$ 60	$ —
Pollution control notes		**136**		81
Money pool		**154**		188
PSI Total		**$ 290**		$ 269
ULH&P				
Money pool		**$ 37**		$ 45
ULH&P Total		**$ 37**		$ 45

(1) These facilities are not guaranteed sources of capital and represent an informal agreement to lend money, subject to availability, with pricing to be determined at the time of advance.

(2) In September 2004, **Cinergy Corp.** increased its commercial paper program limit from \$800 million to \$1.5 billion. The commercial paper program is supported by **Cinergy Corp.'s** revolving lines of credit.

In our credit facilities, **Cinergy Corp.** has covenanted to maintain:

- a consolidated net worth of $2 billion; and
- 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 facilities 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.

The latter two events, however, are subject to dollar–based materiality thresholds.

5. Energy Trading Credit Risk

Cinergy's extension of credit for energy marketing and trading is governed by a Corporate Credit Policy. Written guidelines approved by **Cinergy's** Risk Policy Committee document the management approval levels for credit limits, evaluation of creditworthiness, and credit risk mitigation procedures. Exposures to credit risks are monitored daily by the Corporate Credit Risk function, which is independent of all trading operations. As of September 30, 2004, approximately 90 percent of the credit exposure, net of credit collateral, related to energy trading and marketing activity was with counterparties rated investment grade or the counterparties' obligations were guaranteed or secured by an investment grade entity. The majority of these investment grade counterparties are externally rated. If a counterparty has an external rating, the lower of Standard & Poor's or Moody's Investors Service is used; otherwise, **Cinergy's** internal rating of the counterparty is used. The remaining 10 percent represents $65 million with counterparties rated non–investment grade.

As of September 30, 2004, **CG&E** had a concentration of trading credit exposure of approximately $39 million with two counterparties accounting for greater than 10 percent of **CG&E's** total trading credit exposure. These counterparties are rated investment grade.

Energy commodity prices can be extremely volatile and the market can, at times, lack liquidity. Because of these issues, credit risk for energy commodities is generally greater than with other commodity trading.

We continually review and monitor our credit exposure to all counterparties and secondary counterparties. If appropriate, we may adjust our credit reserves to attempt to compensate for increased credit risk within the industry. Counterparty credit limits may be adjusted on a daily basis in response to changes in a counterparty's creditworthiness, financial status, or public debt ratings.

6. Commitments and Contingencies

(a) *Environmental*

(i) Ozone Transport Rulemakings

In October 1998, the United States Environmental Protection Agency (EPA) finalized its ozone transport rule, also known as the Nitrogen Oxide (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. In September 2000, **Cinergy** announced a plan for its subsidiaries, **CG&E** and **PSI**, to invest in pollution control and other equipment to reduce NO_X emissions. We have installed selective catalytic reduction units (SCR) and other pollution controls and implemented certain combustion improvements at various generating stations to meet the May 2004 compliance deadline under the NO_X SIP Call. **Cinergy** also utilizes the NO_X emission allowance market to buy or sell NO_X emission allowances as appropriate. We currently estimate that we will incur capital costs of approximately $44 million in addition to $757 million already incurred to comply with this program.

(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. Depending on the EPA's final disposition of the pending petition and its proposal discussed above, **Cinergy's** generating stations could become subject to requirements for additional sulfur dioxide and NO_X emissions reductions. It is unclear at this time whether any additional reductions would be necessary beyond those required under the CAA.

(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 (District Court) 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 Generating Station (Beckjord Station). The suit seeks (1) injunctive relief to require installation of pollution control technology on various generating units at **CG&E's** Beckjord Station and Miami Fort Generating Station (Miami Fort Station), and **PSI's** Cayuga Generating Station, Gallagher Generating Station, Wabash River Generating Station, and Gibson Generating Station (Gibson Station), and (2) civil penalties in amounts of up to $27,500 per day for each violation. In addition, three northeast states and two environmental groups have intervened in the case. The case is currently in discovery, and the District Court has set the case for trial by jury commencing in February 2006.

In March 2000, the United States also filed in the District Court an amended complaint in a separate lawsuit alleging violations of the CAA relating to PSD, NSR, and Ohio SIP requirements regarding various generating stations, including a generating station operated by Columbus Southern Power Company (CSP) and jointly–owned by CSP, The Dayton Power and Light Company (DP&L), and **CG&E**. The EPA is seeking injunctive relief and civil penalties of up to $27,500 per day for each violation. This suit is being defended by CSP. In April 2001, the District Court in that case ruled that the Government and the intervening plaintiff environmental groups cannot seek monetary damages for alleged violations that occurred prior to November 3, 1994; however, they are entitled to seek injunctive relief for such alleged violations. Neither party appealed that decision.

In addition, **Cinergy** and **CG&E** have been informed by DP&L that in June 2000, the EPA issued a Notice of Violation (NOV) to DP&L for alleged violations of PSD, NSR, and Ohio SIP requirements at a generating station operated by DP&L and jointly–owned by **CG&E**. The NOV indicated the EPA may (1) issue an order requiring compliance with the requirements of the Ohio SIP, or (2) bring a civil action seeking injunctive relief and civil penalties of up to $27,500 per day for each violation. In September 2004, Marilyn Wall and the Sierra Club brought a lawsuit against **Cinergy**, DP&L and CSP for alleged violations of the CAA at this same generating station.

It is not possible to predict whether resolution of these matters would have a material effect on our financial position or results of operations. We intend to defend against the allegations, discussed above, vigorously in court.

(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** and 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 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. 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. **Cinergy** intends to defend this lawsuit vigorously in court and filed a motion to dismiss with the other defendants in September 2004; however, we are not able to predict whether resolution of these matters would have a material effect on our financial position or results of operations.

(v) Selective Catalytic Reduction Units at Gibson Generating Station

In May 2004, SCRs and other pollution control equipment became operational at Units 4 and 5 of **PSI's** Gibson Station in accordance with compliance deadlines under the NO_X SIP Call. In June and July 2004, Gibson Station temporarily shut down the equipment on these units due to a concern over an acid aerosol mist haze (plume) sometimes occurring in areas near the plant. Portions of the plume from those units' stacks appeared to break apart and descend to ground level at certain times under certain weather conditions. As a result, and, working with the City of Mt. Carmel, Illinois, Illinois EPA, Indiana Department of Environmental Management (IDEM), United States EPA, and the State of Illinois, we developed a protocol regarding the use of the SCRs while we explore alternatives to address this issue. After the protocol was finalized, the Illinois Attorney General brought an action in Wabash County Circuit Court against **PSI** seeking a preliminary injunction to enforce the protocol. In August 2004, the court granted that preliminary injunction. **PSI** is appealing that decision to the Fifth District Appellate Court, but we cannot predict the ultimate outcome of that appeal or of the underlying action by the Illinois Attorney General.

We will seek recovery of any related capital as well as increased emission allowance expenditures through the regulatory process. We do not believe costs related to resolving this matter will have a material impact on our financial position or results of operations.

(vi) Manufactured Gas Plant (MGP) Sites

Prior to the 1950s, gas was produced at MGP sites through a process that involved the heating of coal and/or oil. The gas produced from this process was sold for residential, commercial, and industrial uses.

Coal tar residues, related hydrocarbons, and various metals have been found at former MGP sites in Indiana, including at least 22 sites that **PSI** or its predecessors previously owned and sold in a series of transactions with Northern Indiana Public Service Company (NIPSCO) and Indiana Gas Company, Inc. (IGC).

The 22 sites are in the process of being studied and will be remediated, if necessary. In 1998 NIPSCO, IGC, and **PSI** entered into Site Participation and Cost Sharing Agreements to allocate liability and responsibilities between them. The IDEM oversees investigation and cleanup of all of these sites. Thus far, **PSI** has primary responsibility for investigating, monitoring and, if necessary, remediating nine of these sites. In December 2003, **PSI** entered into a voluntary remediation plan with the state of Indiana, providing a formal framework for the investigation and cleanup of the sites for which **PSI** has primary responsibility.

In April 1998, **PSI** filed suit in Hendricks County in the state of Indiana against its general liability insurance carriers. **PSI** sought a declaratory judgment to obligate its insurance carriers to (1) defend MGP claims against **PSI** and compensate **PSI** for its costs of investigating, preventing, mitigating, and remediating damage to property and paying claims related to MGP sites; or (2) pay **PSI's** cost of defense. The trial court issued a variety of rulings with respect to the claims and defenses in the litigation. **PSI** appealed certain adverse rulings to the Indiana Court of Appeals and the appellate court has remanded the case to the trial court. The court has set the case for trial commencing in January 2005. At the present time, **PSI** cannot predict the outcome of this litigation, including the outcome of the appeals.

PSI has accrued costs related to investigation, remediation, and groundwater monitoring for those sites where such costs are probable and can be reasonably estimated. We will continue to investigate and remediate the sites as outlined in the voluntary remediation plan. As additional facts become known and investigation is completed, we will assess whether the likelihood of incurring additional costs becomes probable. Until all investigation and remediation is complete, we are unable to determine the overall impact on our financial position or results of operations.

CG&E and **ULH&P** have performed site assessments on certain of their sites where we believe MGP activities have occurred at some point in the past and have found no imminent risk to the environment. At the present time, **CG&E** and **ULH&P** cannot predict whether investigation and/or remediation will be required in the future at any of these sites.

(vii) Asbestos Claims Litigation

CG&E and **PSI** have been named as defendants or co–defendants in lawsuits related to asbestos at their electric generating stations. Currently, there are approximately 100 pending lawsuits. In these lawsuits, plaintiffs claim to have been exposed to asbestos–containing products in the course of their work at the **CG&E** and **PSI** generating stations. The plaintiffs further claim that as the property owner of the generating stations, **CG&E** and **PSI** should be held liable for their injuries and illnesses based on an alleged duty to warn and protect them from any asbestos exposure. A majority of the lawsuits to date have been brought against **PSI**. The impact on **CG&E's** and **PSI's** financial position or results of operations of these cases to date has not been material.

Of these lawsuits, one case filed against **PSI** has been tried to verdict. The jury returned a verdict against **PSI** in the amount of approximately $500,000 on a negligence claim and a verdict for **PSI** on punitive damages. **PSI** received an adverse ruling in its initial appeal of the negligence claim verdict, but the Indiana Supreme Court accepted the transfer of the case, and heard oral argument in June 2004. In addition, **PSI** has settled a number of other lawsuits for amounts, which neither individually nor in the aggregate, are material to **PSI's** financial position or results of operations.

At this time, **CG&E** and **PSI** are not able to predict the ultimate outcome of these lawsuits or the impact on **CG&E's** and **PSI's** financial position or results of operations.

(b) *Regulatory*

(i) PSI Retail Electric Rate Case

In December 2002, **PSI** filed a petition with the Indiana Utility Regulatory Commission (IURC) seeking approval of an increase in base retail electric rates and approval of certain rate recovery mechanisms. In May 2004, the IURC issued an order in this case and, consequently, **PSI** implemented base retail electric rate changes to its tariffs. When combined with revenue increases attributable to **PSI's** environmental construction–work–in–progress tracking mechanism, the order results in an approximate $140 million increase in annual revenues. **PSI's** original request for an approximate $180 million annual revenue increase was reduced by approximately $20 million for a lower return on equity, approximately $15 million related to profits from off–system sales (subject to future adjustment through a tracking mechanism and a 50/50 sharing agreement), and approximately $5 million of additional items. The order authorizes full recovery of all requested regulatory assets and an overall 7.3 percent return, including a 10.5 percent return on equity. In addition, the IURC's order provides **PSI** the continuation of a purchased power tracker and the establishment of new trackers for future NOX emission allowance costs and certain costs related to the Midwest Independent System Operator, Inc.

(ii) CG&E Rate Filings

As discussed in more detail in the 2003 10–K, **CG&E** made multiple rate filings in 2003 with the Public Utilities Commission of Ohio (PUCO) seeking approval of **CG&E's** methodology for establishing market–based rates for generation service at the end of the market development period and to recover investments made in the transmission and distribution system. In December 2003, these filings, and **CG&E's** proposal for establishing its post–market development period market pricing methodology, were consolidated for hearing before the PUCO. In addition, the PUCO requested in these proceedings that **CG&E** propose a rate stabilization plan as an alternative to market–based rates so as to mitigate the potential for significant rate increases when the market development (frozen rate) period comes to an end. There is no requirement in Ohio law that **CG&E** file such a plan. However, in January 2004, **CG&E** filed its proposed rate stabilization plan.

In May 2004, **CG&E** entered into a settlement agreement with many of the parties to these proceedings requesting that the PUCO approve a modified version of the rate stabilization plan. Under this plan, **CG&E** would begin to collect a non–bypassable provider of last resort (POLR) charge intended to provide recovery for increased capacity reserves, environmental compliance and emission allowance expenditures. The plan also established a bypassable generation charge, which included a fuel cost recovery mechanism. It allowed for a two–year extension of the residential regulatory transition charge (RTC) in 2009 and 2010 and a three–year extension of the five percent residential generation rate reduction in the years 2006--2008. Finally, it provided for deferral and recovery of certain transmission and distribution costs.

In September 2004, the PUCO issued an order seeking to modify several key provisions of this settlement. The PUCO order, among other things, would not allow extension of the RTC for residential customers or permit deferral and recovery of certain transmission and distribution costs from residential customers. The PUCO order would allow **CG&E** to end the five percent generation rate reduction for residential customers (i.e., increase the residential generation rate by five percent) beginning January 1, 2006, but would also allow certain customers who have switched to another generation supplier to entirely avoid the POLR charge. As a result of these modifications, **CG&E** filed a petition for rehearing in October 2004. The rehearing petition requests one of the following to be effective January 1, 2005 for non–residential customers and January 1, 2006 for residential customers:

- Approval of the modified rate stabilization plan reflected in the May 2004 settlement (as discussed above);
- Approval of a further modified rate stabilization plan, which includes some of the same provisions as the May 2004 plan. However, this plan (a) changes the POLR charge to provide recovery only for environmental compliance expenditures and allows customers that have switched to by–pass this charge, (b) adds an infrastructure maintenance fund charge, (c) adds a system reliability tracker that would provide recovery primarily for capacity and purchased power, (d) includes recovery of emission allowances costs as part of the fuel cost recovery mechanism, and (e) ends the five percent generation rate reduction for residential customers but does not include an extension of the residential RTC; or
- Approval to proceed with market–based rates, which is permitted under **CG&E's** existing transition plan.

A rehearing order is expected in the fourth quarter of 2004. We cannot predict the outcome of this proceeding. Because the rate stabilization plan is a voluntary filing on **CG&E's** part, **CG&E** may reject the PUCO's order if it provides for a rate stabilization plan that is unacceptable to **CG&E**.

In conjunction with the consolidated filings discussed above, **CG&E** has also filed an application for an annual increase of approximately $78 million in electric distribution base rates, to be effective in the first quarter of 2005 for non–residential customers and January 1, 2006 for residential customers. The proposed rate stabilization plans described above provide for **CG&E** to withdraw this base rate case upon approval of the rate stabilization plan. In such event, **CG&E** can then file a new distribution base rate case, with rates to become effective January 1, 2006. If the PUCO's order on rehearing provides for a rate stabilization plan that is unacceptable to **CG&E**, **CG&E** may seek to proceed immediately with market–based rates for its commercial, industrial and other public authority customer classes and also proceed immediately with this base rate case for such classes. Market based rates must be approved by the PUCO and would eliminate the various deferral and recovery mechanisms contemplated with the rate stabilization plan.

(iii) ULH&P Gas Rate Case

In the second quarter of 2001, **ULH&P** filed a retail gas rate case with the Kentucky Public Service Commission (KPSC) requesting, among other things, deferral of costs associated with an accelerated gas main replacement program of up to $112 million over ten years. The costs would be recovered through a tracking mechanism for an initial three year period, with the possibility of renewal up to ten years. The tracking mechanism allows **ULH&P** to recover depreciation costs and rate of return annually over the life of the deferred assets. Through September 30, 2004, **ULH&P** has recovered approximately $3.9 million under this tracking mechanism. The Kentucky Attorney General has appealed to the Franklin Circuit Court the KPSC's approval of the tracking mechanism and the new tracking mechanism rates. At the present time, **ULH&P** cannot predict the timing or outcome of this litigation.

(iv) Gas Distribution Plant

In June 2003, the PUCO approved an amended settlement agreement between **CG&E** and the PUCO Staff in a gas distribution safety case arising out of a gas leak at a service head–adapter (SHA) style riser on **CG&E's** distribution system. The amended settlement agreement required **CG&E** to expend a minimum of $700,000 to replace SHA risers by December 31, 2003, and to file a comprehensive plan addressing all SHA risers on its distribution system. **Cinergy** has approximately 180,000 SHA risers on its distribution system, of which approximately 150,000 are in **CG&E's** service area and approximately 30,000 are in **ULH&P's** service area. Further investigation to determine whether any additional SHA risers will need maintenance or replacement is estimated to be completed by the end of the third quarter of 2005. If **CG&E** and **ULH&P** determine that replacement of all SHA risers is appropriate, we currently estimate that the replacement cost could be approximately $70 million for **CG&E**, which includes approximately $10 million for **ULH&P**. **CG&E** and **ULH&P** would pursue recovery of this cost through rates. At this time, **Cinergy**, **CG&E**, and **ULH&P** cannot predict the outcome of this matter.

(c) *Other*

(i) Gas Customer Choice

In January 2000, Cinergy Investments, Inc. (Investments) sold Cinergy Resources, Inc. (Resources), a former subsidiary, to Licking Rural Electrification, Inc., doing business as The Energy Cooperative. In February 2001, **Cinergy, CG&E**, and Resources were named as defendants in three class action lawsuits brought by customers relating to The Energy Cooperative's removal from the Ohio Gas Customer Choice program and the failure to deliver gas to customers. Subsequently, these class action suits were amended and consolidated into one suit (Class–action). In October 2001, **Cinergy, CG&E,** and Investments initiated litigation against The Energy Cooperative requesting indemnification by The Energy Cooperative for the claims asserted by former customers in the Class–action litigation (Cinergy lawsuit).

In March 2001, **Cinergy**, **CG&E**, and Investments were named as defendants in a lawsuit filed by The Energy Cooperative and Resources (Energy Cooperative lawsuit). This lawsuit concerned any obligations or liabilities Investments may have had to The Energy Cooperative following its sale of Resources. All three matters were settled in the second quarter of 2004. In the Energy Cooperative lawsuit, The Energy Cooperative agreed to indemnify **Cinergy, CG&E** and Investments for the claims asserted by the former residential customers in the Class–action litigation. In exchange, **Cinergy** has agreed to settle claims that it brought in the **Cinergy** lawsuit. The settlement is pending final court approval. None of these settlements are material to **Cinergy's** financial position or results of operations.

(ii) Energy Market Investigations

In July 2003, **Cinergy** received a subpoena from the Commodity Futures Trading Commission (CFTC). As has been previously reported by the press, the CFTC has served subpoenas on numerous other energy companies. The CFTC request sought certain information regarding our trading activities, including price reporting to energy industry publications for the period May 2000 through January 2001. Based on our review of these matters, we terminated one employee and took disciplinary action on a second employee. We have been cooperating fully with the CFTC and are negotiating to resolve this investigation.

In August 2003, **Cinergy**, along with Cinergy Marketing & Trading (Marketing & Trading) and 37 other companies, was named as a defendant in civil litigation filed as a purported class action on behalf of all persons who purchased and/or sold New York Mercantile Exchange natural gas futures and options contracts between January 1, 2000, and December 31, 2002. The complaint alleges that improper price reporting caused damages to the class. Two similar lawsuits have subsequently been filed, and these three lawsuits have been consolidated for pretrial purposes. Plaintiffs filed a consolidated class action complaint in January 2004. **Cinergy's** motion to dismiss was granted in September 2004 and Marketing & Trading's motion to dismiss is currently before the court. We believe this action is without merit and intend to defend this lawsuit vigorously.

In the second quarter of 2003, **Cinergy** received initial and follow–up third–party subpoenas from the Securities and Exchange Commission (SEC) requesting information related to particular trading activity with one of its counterparties who was the target of an investigation by the SEC. **Cinergy** has fully cooperated with the SEC in connection with this matter.

Cinergy has also been cooperating with the Assistant United States Attorney in the Southern District of Texas regarding various investigations the Assistant United States Attorney has into energy market practices. We understand that we are neither a target nor are we under investigation by the Department of Justice in relation to these communications.

At this time, we do not believe the outcome of these investigations and litigation will have a material impact on **Cinergy's** financial position or results of operations.

(iii) Patents

Ronald A. Katz Technology Licensing, L.P. (RAKTL) has offered us a license to a portfolio of patents claiming that the patents may be infringed by certain products and services utilized by us. The patents purportedly relate to various aspects of telephone call processing in **Cinergy** call centers. As of this date, no legal proceedings have been instituted against us, but if the RAKTL patents are valid, enforceable, and apply to our business, we could be required to seek a license from RAKTL or to discontinue certain activities. Based on the information we have at this time, we do not believe resolution of this matter will have a material impact on our financial position or results of operations.

(iv) Synthetic Fuel

In July 2002, Cinergy Capital & Trading acquired a coal–based synthetic fuel production facility. The synthetic fuel produced at this facility qualifies for tax credits (through 2007) in accordance with Internal Revenue Code (IRC) Section 29 if certain requirements are satisfied. The three key requirements are that (a) the synthetic fuel differs significantly in chemical composition from the coal used to produce such synthetic fuel, (b) the fuel produced is sold to an unrelated entity and (c) the fuel was produced from a facility that was placed in service before July 1, 1998.

During the third quarter of 2004, several unrelated entities announced the Internal Revenue Service's (IRS) intent to challenge the placed in service dates of some of the entities' synthetic fuel plants. A successful IRS challenge could result in disallowance of all credits previously claimed for fuel produced by the subject plants. **Cinergy's** sale of synthetic fuel has generated approximately $189 million in tax credits through September 2004.

The IRS has not yet audited **Cinergy** for any tax year in which **Cinergy** has claimed Section 29 credits related to synthetic fuel. However, it is reasonable to anticipate that the IRS will evaluate the placed in service date and other key requirements for claiming the credit.

Cinergy received a private letter ruling from the IRS in connection with the acquisition of the facility that specifically addressed the significant chemical change requirement. Additionally, although not addressed in the letter ruling, we believe that our facility's in service date meets the Section 29 requirements.

IRC Section 29 also provides for a phase out of the credit based on the price of crude oil. The phase–out is based on a prescribed calculation and definition of crude oil prices within the IRC. Although the price of crude oil has increased significantly in 2004, we presently do not expect any impact on our ability to utilize Section 29 credits in 2004. Our results for the nine months ended September 30, 2004 include $69 million of tax credits. If crude oil prices continue to increase, our ability to utilize credits beyond 2004 could be impacted.

(v) Guarantees

In the ordinary course of business, **Cinergy** enters into various agreements providing financial or performance assurances to third parties on behalf of certain unconsolidated subsidiaries and joint ventures. These agreements are entered into primarily to support or enhance the creditworthiness otherwise attributed to these entities on a stand–alone basis, thereby facilitating the extension of sufficient credit to accomplish their intended commercial purposes. The guarantees have various termination dates, from short–term (less than one year) to open–ended.

In many cases, the maximum potential amount of an outstanding guarantee is an express term, set forth in the guarantee agreement, representing the maximum potential obligation of **Cinergy** under that guarantee (excluding, at times, certain legal fees to which a guaranty beneficiary may be entitled). In those cases where there is no maximum potential amount expressly set forth in the guarantee agreement, we calculate the maximum potential amount by considering the terms of the guaranteed transactions, to the extent such amount is estimable.

Cinergy has guaranteed the payment of $11 million as of September 30, 2004, for borrowings by individuals under the Director, Officer, and Key Employee Stock Purchase Program. **Cinergy** may be obligated to pay the debt's principal and any related interest in the event of an unexcused breach of a guaranteed payment obligation by certain directors, officers, and key employees. The guarantees do not have a set termination date; however, the borrowings associated with these guarantees are due in the first quarter of 2005.

Cinergy Corp. has also provided performance guarantees on behalf of certain unconsolidated subsidiaries and joint ventures. These guarantees support performance under various agreements and instruments (such as construction contracts, operations and maintenance agreements, and energy service agreements). **Cinergy Corp.** may be liable in the event of an unexcused breach of a guaranteed performance obligation by an unconsolidated subsidiary. **Cinergy Corp.** has estimated its maximum potential liability to be $72 million under these guarantees as of September 30, 2004. **Cinergy Corp.** may also have recourse to third parties for claims required to be paid under certain of these guarantees. The majority of these guarantees expire at the completion of the underlying performance agreement, the majority of which expire from 2016 to 2019.

Cinergy has entered into contracts that include indemnification provisions as a routine part of its business activities. Examples of these contracts include purchase and sale agreements and operating agreements. In general, these provisions indemnify the counterparty for matters such as breaches of representations and warranties and covenants contained in the contract. In some cases, particularly with respect to purchase and sale agreements, the potential liability for certain indemnification obligations is capped, in whole or in part (generally at an aggregate amount not exceeding the sale price), and subject to a deductible amount before any payments would become due. In other cases (such as indemnifications for willful misconduct of employees in a joint venture), the maximum potential liability is not estimable given that the magnitude of any claims under those indemnifications would be a function of the extent of damages actually incurred. **Cinergy** has estimated the maximum potential liability, where estimable, to be $127 million under these indemnification provisions. The termination period for the majority of matters provided by indemnification provisions in these types of agreements generally ranges from 2004 to 2009.

We believe the likelihood that **Cinergy** would be required to perform or otherwise incur any significant losses associated with any or all of the guarantees described in the preceding paragraphs is remote.

7. Pension and Other Postretirement Benefits

As discussed in the 2003 10–K, **Cinergy Corp.** sponsors both pension and other postretirement benefits plans. Our 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 income 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. In addition, we sponsor non–qualified pension plans that cover officers, certain other key employees, and non–employee directors. We 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 drugs and are subject to certain limitations, such as deductibles and co–payments.

Our benefit plans' costs for the quarter and year to date ended September 30, 2004 and 2003, included the following components:

	Qualified Pension Benefits		Non–Qualified Pension Benefits		Other Postretirement Benefits	
Quarter Ended September 30	**2004**	2003	**2004**	2003	**2004**	2003
			(in millions)			
Service cost	**$ 8.8**	$ 7.8	**$ 1.2**	$ 0.8	**$ 1.2**	$ 1.0
Interest cost	**22.1**	21.5	**1.7**	1.6	**5.4**	5.6
Expected return on plans' assets	**(20.1)**	(20.2)	**—**	—	**—**	—
Amortization of transition (asset) obligation	**(0.1)**	(0.2)	**—**	—	**0.1**	0.9
Amortization of prior service cost	**1.1**	1.2	**0.5**	0.3	**—**	—
Recognized actuarial (gain) loss	**0.5**	—	**0.7**	0.5	**1.9**	1.3
Voluntary early retirement costs (Statement 88)(1)	**—**	2.1	**—**	—	**—**	—
Net periodic benefit cost	**$ 12.3**	$ 12.2	**$ 4.1**	$ 3.2	**$ 8.6**	$ 8.8
Year to Date September 30						
Service cost	**$ 26.4**	$ 23.4	**$ 3.6**	$ 2.4	**$ 3.8**	$ 3.0
Interest cost	**66.3**	64.5	**5.1**	4.8	**16.8**	16.8
Expected return on plans' assets	**(60.3)**	(60.6)	**—**	—	**—**	—
Amortization of transition (asset) obligation	**(0.3)**	(0.6)	**—**	—	**1.0**	2.6
Amortization of prior service cost	**3.3**	3.6	**1.5**	0.9	**—**	—
Recognized actuarial (gain) loss	**1.5**	—	**2.1**	1.5	**5.9**	3.9
Voluntary early retirement costs (Statement 88)(1)	**—**	6.3	**—**	—	**—**	—
Net periodic benefit cost	**$ 36.9**	$ 36.6	**$ 12.3**	$ 9.6	**$ 27.5**	$ 26.3

(1) Statement of Financial Accounting Standards No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits* (Statement 88).

The net periodic benefit costs by registrant for the quarter and year to date ended September 30, 2004 and 2003, were as follows:

	Qualified Pension Benefits		Non–Qualified Pension Benefits		Other Postretirement Benefits	
Quarter Ended September 30	**2004**	2003	**2004**	2003	**2004**	2003
			(in millions)			
Cinergy(1)	**$ 12.3**	$ 12.2	**$ 4.1**	$ 3.2	**$ 8.6**	$ 8.8
CG&E and subsidiaries	**3.7**	2.4	**0.2**	0.2	**2.0**	2.3
PSI	**3.2**	2.9	**0.2**	0.2	**4.7**	4.4
ULH&P	**0.4**	0.3	**—**	—	**0.2**	0.2
Year to Date September 30						

Cinergy[(1)]	**$**	**36.9**	$	36.6	**$**	**12.3**	$	9.6	**$**	**27.5**	$	26.3
CG&E and subsidiaries		**11.1**		7.2		**0.6**		0.6		**6.6**		6.9
PSI		**9.6**		8.7		**0.6**		0.6		**14.7**		13.2
ULH&P		**1.2**		0.9		**—**		—		**0.6**		0.6

(1) The results of **Cinergy** also include amounts related to non–registrants.

On December 8, 2003, President Bush signed into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act). The Act introduced a prescription drug benefit to retirees as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a prescription drug benefit that is actuarially equivalent to the benefit provided by Medicare. We believe that our coverage for prescription drugs is at least actuarially equivalent to the benefits provided by Medicare for most current retirees because our benefits for that group substantially exceed the benefits provided by Medicare, thereby allowing us to qualify for the subsidy. We have accounted for the subsidy as a reduction of our accumulated postretirement benefit obligation (APBO). The APBO was reduced by approximately $17 million and will be amortized as an actuarial gain over future periods, thus reducing future benefit costs. The impact on our 2004 net periodic benefit cost is not material. Our accounting treatment for the subsidy is consistent with FASB Staff Position No. 106–2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*.

8. Investment Activity

(a) *Investment Impairment*

Cinergy holds a portfolio of direct and indirect investments in the Power Technology and Infrastructure Services Business Unit (Power Technology and Infrastructure) (discussed further in Note 9). During 2004, **Cinergy** recognized approximately $49 million in impairment charges associated with this portfolio. The majority of these charges relate to a company in which **Cinergy** holds a non–controlling interest, that agreed to sell its major assets. This company is involved in the development and sale of outage management software. Based on the terms of the transaction, **Cinergy** concluded that this cost method investment was other–than–temporarily impaired. These impairment charges are included in *Miscellaneous Income (Expense) – Net* in **Cinergy's** Condensed Consolidated Statements of Income.

(b) *Sale of Investment*

Power Technology and Infrastructure holds an investment in a company that develops, owns and operates wireless communication towers. In July 2004, this company agreed to sell the majority of its assets. The transaction is expected to close in the fourth quarter of 2004 and we would anticipate recording a gain of approximately $20 million relating to this sale at that time. These earnings will be reflected in *Equity in Earnings of Unconsolidated Subsidiaries* in **Cinergy's** Condensed Consolidated Statements of Income.

9. Financial Information by Business Segment

As discussed in the 2003 10–K, we conduct operations through our subsidiaries, and manage through the following three reportable segments:

- Commercial Business Unit (Commercial);
- Regulated Businesses Business Unit (Regulated Businesses); and
- Power Technology and Infrastructure Services Business Unit (Power Technology and Infrastructure).

Commercial manages wholesale generation and energy marketing and trading of energy commodities. Additionally, Commercial operates and maintains our electric generating plants including some of our jointly–owned plants. Commercial is also responsible for all of our international operations, performs energy risk management activities, and provides customized energy solutions.

Regulated Businesses consists of **PSI's** regulated, integrated utility operations, and **Cinergy's** other regulated electric and gas transmission and distribution systems. Regulated Businesses plans, constructs, operates, and maintains **Cinergy's** transmission and distribution systems and delivers gas and electric energy to consumers. Regulated Businesses also earns revenues from wholesale customers primarily by transmitting electric power through **Cinergy's** transmission system.

Power Technology and Infrastructure primarily manages Cinergy Ventures, LLC (Ventures). Ventures identifies, invests in, and integrates new energy technologies into **Cinergy's** existing businesses, focused primarily on operational efficiencies and clean energy technologies. In addition, Power Technology and Infrastructure manages our investments in other energy infrastructure and telecommunication service providers.

Following are the financial results by business unit. Certain prior year amounts have been reclassified to conform to the current presentation.

Financial results by business unit for the quarters ended September 30, 2004, and September 30, 2003, are as indicated below.

	Cinergy Business Units					
	Commercial	Regulated Businesses	Power Technology and Infrastructure	Total	Reconciling Eliminations (1)	Consolidated
			(in thousands)			
Quarter ended September 30, 2004						
Operating revenues						
External customers	$ 432,284	$ 696,298	$ 1	$ 1,128,583	$ —	$ 1,128,583
Intersegment revenues	45,701	59	—	45,760	(45,760)	—
Gross margins						
Electric	201,373	458,930	—	660,303	—	660,303(3)
Gas	5,622	39,884	—	45,506	—	45,506(4)
Segment profit (loss)(2)	42,165	61,493	(10,735)	92,923	—	92,923
Quarter ended September 30, 2003						
Operating revenues						
External customers	$ 439,040	$ 652,965	$ (28)	$ 1,091,977	$ —	$ 1,091,977
Intersegment revenues	43,056	126	—	43,182	(43,182)	—
Gross margins						
Electric	190,569	400,072	—	590,641	—	590,641(3)
Gas	11,415	33,536	—	44,951	—	44,951(4)
Segment profit (loss)(2)	52,204	62,814	(3,037)	111,981	—	111,981

(1) The Reconciling Eliminations category eliminates the intersegment revenues of Commercial.
(2) Management utilizes segment profit (loss), after taxes, to evaluate segment performance.
(3) Electric gross margin is calculated as *Electric operating revenues* less *Fuel and purchased power* expense from the Condensed Consolidated Statements of Income.
(4) Gas gross margin is calculated as *Gas operating revenues* less *Gas purchased* expense from the Condensed Consolidated Statements of Income.

Financial results by business unit for year to date September 30, 2004 and September 30, 2003, are as indicated below.

	Cinergy Business Units					
	Commercial	Regulated Businesses	Power Technology and Infrastructure	Total	Reconciling Eliminations(1)	Consolidated
			(in thousands)			
Year to Date September 30, 2004						
Operating revenues						
External customers	**$ 1,228,388**	**$ 2,242,585**	**$ 5**	**$ 3,470,978**	**$ —**	**$ 3,470,978**
Intersegment revenues	**124,945**	**83**	**—**	**125,028**	**(125,028)**	**—**
Gross margins						
Electric	**570,119**	**1,279,945**	**—**	**1,850,064**	**—**	**1,850,064(3)**
Gas	**45,314**	**188,184**	**—**	**233,498**	**—**	**233,498(4)**
Segment profit (loss)(2)	**117,637**	**176,786**	**(39,981)**	**254,442**	**—**	**254,442**
Year to Date September 30, 2003						
Operating revenues						
External customers	$ 1,222,898	$ 2,070,984	$ (25)	$ 3,293,857	$ —	$ 3,293,857
Intersegment revenues	143,995	132	—	144,127	(144,127)	—
Gross margins						
Electric	540,250	1,132,372	—	1,672,622	—	1,672,622(3)
Gas	96,331	173,151	—	269,482	—	269,482(4)
Discontinued operations, net of tax	8,875	—	—	8,875	—	8,875
Cumulative effect of changes in accounting principle, net of tax	26,462	—	—	26,462	—	26,462
Segment profit (loss)(2)	213,641	162,988	(13,910)	362,719	—	362,719

(1)The Reconciling Eliminations category eliminates the intersegment revenues of Commercial.
(2)Management utilizes segment profit (loss), after taxes, to evaluate segment performance.
(3)Electric gross margin is calculated as *Electric operating revenues* less *Fuel and purchased power* expense from the Condensed Consolidated Statements of Income.
(4)Gas gross margin is calculated as *Gas operating revenues* less *Gas purchased* expense from the Condensed Consolidated Statements of Income.

Total segment assets at September 30, 2004, and December 31, 2003, are as indicated below:

	Cinergy Business Units					
	Commercial	Regulated Businesses	Power Technology and Infrastructure	Total	All Other (1)	Consolidated
			(in thousands)			
Segment assets from continuing operations	**$ 5,362,090**	**$ 8,689,306**	**$ 132,793**	**$ 14,184,189**	**$ 59,141**	**$ 14,243,330**
Segment assets from discontinued operations	**—**	**—**	**—**	**—**	**—**	**—**
Total segment assets at September 30, 2004	**$ 5,362,090**	**$ 8,689,306**	**$ 132,793**	**$ 14,184,189**	**$ 59,141**	**$ 14,243,330**
Segment assets from continuing operations	$ 5,360,886	$ 8,515,478	$ 175,619	$ 14,051,983	$ 62,722	$ 14,114,705
Segment assets from discontinued operations	4,501	—	—	4,501	—	4,501
Total segment assets at December 31, 2003	$ 5,365,387	$ 8,515,478	$ 175,619	$ 14,056,484	$ 62,722	$ 14,119,206

(1)The All Other category represents miscellaneous corporate items which are not allocated to business units for purposes of segment performance measurement.

10. Earnings Per Common Share (EPS)

A reconciliation of EPS – basic to EPS –diluted is presented below for the quarters ended September 30, 2004 and 2003:

	Income	Shares	EPS
	(in thousands, except per share amounts)		
Quarter Ended September 30, 2004			
EPS – basic:			
Net Income	**$ 92,923**	**180,881**	**$ 0.51**
Effect of dilutive securities:			
Common stock options		**616**	
Directors' compensation plans		**148**	
Contingently issuable common stock		**710**	
Stock purchase contracts		**1,123**	
EPS – diluted:			
Net income plus assumed conversions	**$ 92,923**	**183,478**	**$ 0.50**
Quarter Ended September 30, 2003			
EPS – basic:			
Net Income	$ 111,981	177,751	$ 0.63
Effect of dilutive securities:			
Common stock options		629	
Directors' compensation plans		148	
Contingently issuable common stock		891	
Stock purchase contracts		118	
EPS – diluted:			
Net income plus assumed conversions	$ 111,981	179,537	$ 0.62

Options to purchase shares of common stock are excluded from the calculation of EPS – diluted, if they are considered to be anti–dilutive. Approximately 0.9 million and 2.1 million shares were excluded from the EPS – diluted calculation for the quarters ended September 30, 2004 and 2003, respectively.

Also excluded from the EPS – diluted calculation for the quarters ended September 30, 2004 and 2003, are up to 9.7 million and 10.7 million shares, respectively, issuable pursuant to the stock purchase contracts issued by **Cinergy Corp.** in December 2001 associated with the preferred trust securities transaction. The number of shares issuable pursuant to the stock purchase contracts is contingent upon the market price of **Cinergy Corp.** stock in February 2005 and could range between 9.2 and 10.8 million shares.

A reconciliation of EPS – basic to EPS –diluted is presented below for the year to date September 30, 2004 and 2003:

	Income	Shares	EPS
	(in thousands, except per share amounts)		
Year to Date September 30, 2004			
EPS – basic:			
Net Income	**$ 254,442**	**180,129**	**$ 1.41**
Effect of dilutive securities:			
Common stock options		**675**	
Directors' compensation plans		**148**	
Contingently issuable common stock		**585**	
Stock purchase contracts		**1,027**	
EPS – diluted:			
Net income plus assumed conversions	**$ 254,442**	**182,564**	**$ 1.39**
Year to Date September 30, 2003			
EPS – basic:			
Income before discontinued operations and cumulative effect of changes in accounting principles	$ 327,382		$ 1.86
Discontinued operations, net of tax	8,875		0.05
Cumulative effect of changes in accounting principles, net of tax	26,462		0.15
Net Income	$ 362,719	175,944	$ 2.06
Effect of dilutive securities:			
Common stock options		738	
Directors' compensation plans		147	
Contingently issuable common stock		811	
Stock purchase contracts		39	
EPS – diluted:			
Net income plus assumed conversions	$ 362,719	177,679	$ 2.04

Options to purchase shares of common stock are excluded from the calculation of EPS – diluted, if they are considered to be anti–dilutive. Approximately 0.9 million and 2.1 million shares were excluded from the EPS – diluted calculation for the year to date September 30, 2004 and 2003, respectively.

Also excluded from the EPS – diluted calculation for the year to date September 30, 2004 and 2003, are up to 9.8 million and 10.8 million shares, respectively, issuable pursuant to the stock purchase contracts issued by **Cinergy Corp.** in December 2001 associated with the preferred trust securities transaction. The number of shares issuable pursuant to the stock purchase contracts is contingent upon the market price of **Cinergy Corp.** stock in February 2005 and could range between 9.2 and 10.8 million shares.

11. Transfer of Generating Assets

In December 2002, the IURC approved a settlement agreement among **PSI**, the Indiana Office of the Utility Consumer Counselor, and the IURC Staff authorizing **PSI's** purchases of the Henry County, Indiana and Butler County, Ohio, gas–fired peaking plants from two non–regulated affiliates. In February 2003, the Federal Energy Regulatory Commission (FERC) issued an order under Section

203 of the Federal Power Act authorizing **PSI's** acquisitions of the plants, which occurred on

February 5, 2003. Subsequently, in April 2003, the FERC issued a tolling order allowing additional time to consider a request for rehearing filed in response to the February 2003 FERC order. In September 2004, FERC issued an order denying the request for rehearing and affirming the acquisition of the plants.

In July 2003, **ULH&P** filed an application with the KPSC requesting a certificate of public convenience and necessity to acquire **CG&E's** 68.9 percent ownership interest in the East Bend Generating Station, located in Boone County, Kentucky, the Woodsdale Generating Station, located in Butler County, Ohio, and one generating unit at the four–unit Miami Fort Station located in Hamilton County, Ohio. In December 2003, the KPSC conditionally approved this application. The transfer, which will be made at net book value, will not affect current electric rates for **ULH&P's** customers, as power will be provided under the same terms as under the current wholesale power contract with **CG&E** through at least December 31, 2006. In September 2004, **ULH&P** filed applications with the FERC and the SEC seeking regulatory approvals for aspects of this transaction. At this time, **ULH&P** is unable to predict the outcome of this matter.

CAUTIONARY STATEMENTS REGARDING FORWARD–LOOKING INFORMATION

This document includes forward–looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward–looking statements are based on management's beliefs and assumptions. These forward–looking statements are identified by terms and phrases such as "anticipate", "believe", "intend", "estimate", "expect", "continue", "should", "could", "may", "plan", "project", "predict", "will", and similar expressions.

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 materially from those indicated in any forward–looking statement include, but are not limited to:

- Factors affecting operations, such as:

  (1) unanticipated weather conditions;

  (2) unscheduled generation outages;

  (3) unusual maintenance or repairs;

  (4) unanticipated changes in costs;

  (5) environmental incidents; and

  (6) electric transmission or gas pipeline system constraints.

- Legislative and regulatory initiatives.

- Additional competition in electric or gas markets and continued industry consolidation.

- Financial or regulatory accounting principles including costs of compliance with existing and future environmental requirements.

- Political, legal, and economic conditions and developments in the countries in which we have a presence.

- Changing market conditions and other factors related to physical energy and financial trading activities.

- The performance of projects undertaken by our non–regulated businesses 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. Examples can be found in Note 6 of the "Notes to Condensed Financial Statements" in "Item 1. Financial Statements".

We undertake no obligation to update the information contained herein.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In this report **Cinergy** (which includes **Cinergy Corp.** and all of our regulated and non–regulated subsidiaries) is, at times, referred to in the first person as "we", "our", or "us". In addition, when discussing **Cinergy's** financial information, it necessarily includes the results of The Cincinnati Gas & Electric Company (**CG&E**), PSI Energy, Inc. (**PSI**), The Union Light, Heat and Power Company (**ULH&P**), and all of **Cinergy's** other consolidated subsidiaries. When discussing **CG&E's** financial information, it necessarily includes the results of **ULH&P** and all of **CG&E's** other consolidated subsidiaries.

The following discussion should be read in conjunction with the accompanying financial statements and related notes included elsewhere in this report and the combined Form 10–K for the year ended December 31, 2003 (2003 10–K). The results discussed below are not necessarily indicative of the results to be expected in any future periods.

INTRODUCTION

In Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A), we explain our general operating environment, as well as our liquidity, capital resources, and results of operations. Specifically, we discuss the following:

- factors affecting current and future operations;
- potential sources of cash for future capital expenditures;
- why revenues and expenses changed from period to period; and
- how the above items affect our overall financial condition.

ORGANIZATION

Cinergy Corp., a Delaware corporation organized in 1993, owns all outstanding common stock of **CG&E** and **PSI**, both of which are public utilities. As a result of this ownership, we are considered a utility holding company. Because we are a holding company with material utility subsidiaries operating in multiple states, we are registered with and are subject to regulation by the Securities and Exchange Commission (SEC) under the Public Utility Holding Company Act of 1935, as amended (PUHCA). Our other principal subsidiaries are Cinergy Services, Inc. (Services) and Cinergy Investments, Inc. (Investments).

CG&E, an Ohio corporation organized in 1837, is a combination electric and gas public utility company that provides service primarily in the southwestern portion of Ohio and, through **ULH&P**, in nearby areas of Kentucky. **CG&E** is responsible for the majority of our power marketing and trading activity. **CG&E's** principal subsidiary, **ULH&P**, is a Kentucky corporation organized in 1901, that provides electric and gas service in northern Kentucky. **CG&E's** other subsidiaries are insignificant to its results of operations.

PSI, an Indiana corporation organized in 1942, is a vertically integrated and regulated electric utility that provides service in north central, central, and southern Indiana.

Services is a service company that provides our subsidiaries with a variety of centralized administrative, management, and support services. Investments holds most of our domestic non–regulated, energy–related businesses and investments, including gas marketing and trading operations.

The majority of our operating revenues are derived from the sale of electricity and the sale and/or transportation of natural gas.

LIQUIDITY AND CAPITAL RESOURCES

Environmental Issues

In December 2003, the United States Environmental Protection Agency (EPA) proposed the Clean Air Interstate Rule (CAIR), formerly the Interstate Air Quality Rule, that would require states to revise their State Implementation Plans (SIP) to address alleged contributions to downwind non–attainment with the revised National Ambient Air Quality Standards for ozone and fine particulate matter. The proposed rule would establish a two–phase, regional cap and trade program for sulfur dioxide (SO_2) and nitrogen oxide (NO_X), affecting approximately 30 states, including Ohio, Indiana, and Kentucky, and would require SO_2 and NO_X emissions to be cut approximately 70 percent and 65 percent, respectively, by 2015. The EPA is expected to issue final rules by December 2004.

In December 2003, the EPA also issued draft regulations regarding required reductions in mercury emissions from coal–fired power plants. The draft regulations include two possible alternatives to address emissions reductions. One alternative would include a cap and trade approach to mercury. The other would be a source specific reduction in emissions, without a cap and trade approach. The cap and trade approach would provide a longer compliance horizon and provide more flexible compliance options for coal–fired generators. The cap and trade approach would require a reduction of approximately 30 percent by 2010 and 70 percent by 2018. The source specific reduction approach would require a reduction of approximately 30 percent by 2008. The EPA must issue final rules by March 2005.

Over the 2004–2008 time period, estimated capital costs associated with reducing mercury, SO_2, and NO_X in compliance with the currently proposed CAIR and mercury rule are not expected to exceed approximately $1.65 billion if the EPA approves the mercury cap and trade approach and approximately $2.15 billion if the EPA approves the source specific reduction approach without a cap and trade. 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** has proposed three alternatives to the Public Utilities Commission of Ohio (PUCO) for determining rates after the market development period ends. Two of these alternatives include partial recovery of depreciation and financing costs for 2005–2008. See Note 6(b)(*ii*) of the "Notes to Condensed Financial Statements" in "Item 1. Financial Statements" for more details.

The mercury cap and trade approach would provide **Cinergy** with more flexible compliance options, including the purchase of allowances in lieu of further capital expenditures with respect to these investments. The above estimates include estimated costs to comply at plants that we own but do not operate (which includes 14 percent and 34 percent of **Cinergy's** and **CG&E's** megawatt hour (MWh) capacity, respectively). These costs may 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. Costs associated with mercury reduction may be different than those predicted, depending on the type of program the EPA finalizes and the stringency and timing of the ultimate requirements.

In May 2004, the EPA issued proposed revisions to its 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 is currently considering whether SO_2 and NO_X reductions under the CAIR regulation will also satisfy the reduction requirements under the regional haze rule. However, the regional haze rule, when finalized, could potentially require significant additional SO_2 and NO_X reductions necessitating the installation of pollution controls for certain generating units at **Cinergy's** power plants. In light of the EPA's ongoing rulemaking efforts and the fact that the states have yet to announce how they will implement the final rule, at this time, it is not possible to predict whether the regional haze rule will have a material effect on our financial position or results of operations.

In April 2004, the EPA made final state non–attainment area designations to implement the revised ozone standard. Several counties in which we operate have been designated as being in non–attainment with the new ozone standard. The EPA is also under a court ordered deadline to make final non–attainment area designations for the new fine particulate standard by December 15, 2004. Several counties in which we operate are likely to be designated as non–attainment for the fine particulate standard. Those 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. Although the EPA has attempted to structure the 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.

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** and 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 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. 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. **Cinergy** intends to defend this lawsuit vigorously in court and filed a motion to dismiss with the other defendants in September 2004; however, we are not able to predict whether resolution of these matters would have a material effect on our financial position or results of operations.

Notice of Intent to Sue at Zimmer Generating Station (Zimmer Station)

In July 2004, **Cinergy** received a notice of intent to sue under the Clean Air Act (CAA) from attorneys representing citizens of the Village of Moscow, Ohio, the town adjacent to **CG&E's** Zimmer Station, which notice is required as a predicate to a citizen's enforcement suit under the CAA. The letter alleges that emissions from Zimmer Station violate the CAA and the Ohio SIP and are causing a public nuisance. At this time, we cannot predict whether the outcome of this matter will have a material impact on our financial position or results of operations.

Selective Catalytic Reduction Units (SCR) at Gibson Generating Station (Gibson Station)

In May 2004, SCRs and other pollution control equipment became operational at Units 4 and 5 of **PSI's** Gibson Station in accordance with compliance deadlines under the NO_X SIP Call. In June and July 2004, Gibson Station temporarily shut down the equipment on these units due to a concern over an acid aerosol mist haze (plume) sometimes occurring in areas near the plant. Portions of the plume from those units' stacks appeared to break apart and descend to ground level at certain times under certain weather conditions. As a result, and, working with the City of Mt. Carmel, Illinois, Illinois EPA, Indiana Department of Environmental Management, United States EPA, and the State of Illinois, we developed a protocol regarding the use of the SCRs while we explore alternatives to address this issue. After the protocol was finalized, the Illinois Attorney General brought an action in Wabash County Circuit Court against **PSI** seeking a preliminary injunction to enforce the protocol. In August 2004, the court granted that preliminary injunction. **PSI** is appealing that decision to the Fifth District Appellate Court, but we cannot predict the ultimate outcome of that appeal or of the underlying action by the Illinois Attorney General.

We will seek recovery of any related capital as well as increased emission allowance expenditures through the regulatory process. We do not believe costs related to resolving this matter will have a material impact on our financial position or results of operations.

Other Investing Activities

Our ability to invest in growth initiatives is limited by certain legal and regulatory requirements, including PUHCA. The PUHCA limits the types of non–utility businesses in which **Cinergy** and other registered holding companies under PUHCA can invest as well as the amount of capital that can be invested in permissible non–utility businesses. Also, the timing and amount of investments in the non–utility businesses is dependent on the development and favorable evaluations of opportunities. Under the PUHCA restrictions, we are allowed to invest or commit to invest in certain non–utility businesses, including:

- Exempt Wholesale Generators (EWG) and Foreign Utility Companies (FUCO)

  An EWG is an entity, certified by the Federal Energy Regulatory Commission (FERC), devoted exclusively to owning and/or operating, and selling power from one or more electric generating facilities. An EWG whose generating facilities are located in the United States is limited to making only wholesale sales of electricity. An entity claiming status as an EWG must provide notification thereof to the SEC under PUHCA.

  A FUCO is a company all of whose utility assets and operations are located outside the United States and which are used for the generation, transmission, or distribution of

electric energy for sale at retail or wholesale, or the distribution of gas at retail. A FUCO may not derive any income, directly or indirectly, from the generation, transmission, or distribution of electric energy for sale or the distribution of gas at retail within the United States. An entity claiming status as a FUCO must provide notification thereof to the SEC under PUHCA.

Cinergy has been granted SEC authority under PUHCA to invest (including by way of guarantees) an aggregate amount in EWGs and FUCOs equal to the sum of (1) our average consolidated retained earnings from time to time plus (2) $2 billion. As of September 30, 2004, we had invested or committed to invest approximately $0.9 billion in EWGs and FUCOs, leaving available investment capacity under the order of approximately $2.7 billion.

- Qualifying Facilities and Energy–Related Non–utility Entities

SEC regulations under the PUHCA permit **Cinergy** and other registered holding companies to invest and/or guarantee an amount equal to 15 percent of consolidated capitalization (consolidated capitalization is the sum of *Notes payable and other short–term obligations*, *Long–term debt* (including amounts due within one year), *Cumulative Preferred Stock of Subsidiaries*, and total *Common Stock Equity*) in domestic qualifying cogeneration and small power production plants (qualifying facilities) and certain other domestic energy–related non–utility entities. At September 30, 2004, we had invested and/or guaranteed approximately $0.9 billion of the $1.4 billion available.

In August 2004, **Cinergy** filed an application with the SEC requesting authority under PUHCA to increase its investment and/or guarantee amount by $2 billion above the current authorized amount. **Cinergy** has requested the SEC to issue an order authorizing the increase in the fourth quarter of 2004.

- Energy–Related Assets

Cinergy has been granted SEC authority under PUHCA to invest up to $1 billion in non–utility Energy–Related Assets within the United States, Canada, and Mexico. Energy–Related Assets include natural gas exploration, development, production, gathering, processing, storage and transportation facilities and equipment, liquid oil reserves and storage facilities, and associated assets, facilities and equipment, but would exclude any assets, facilities, or equipment that would cause the owner or operator thereof to be deemed a public utility company. As of September 30, 2004, we did not have any investments in these Energy–Related Assets.

- Infrastructure Services Companies

Cinergy has been granted SEC authority under PUHCA to invest up to $500 million in companies that derive or will derive substantially all of their operating revenues from the sale of Infrastructure Services including:

- Design, construction, retrofit, and maintenance of utility transmission and distribution systems;
- Installation and maintenance of natural gas pipelines, water and sewer pipelines, and underground and overhead telecommunications networks; and
- Installation and servicing of meter reading devices and related communications networks, including fiber optic cable.

At September 30, 2004, we had invested approximately $29 million in Infrastructure Services companies.

Guarantees

We are subject to an SEC order under the PUHCA, which limits the amounts **Cinergy Corp.** can have outstanding under guarantees at any one time to $2 billion. As of September 30, 2004, we had $705 million outstanding under the guarantees issued, of which approximately 93 percent represents guarantees of obligations for entities consolidated in **Cinergy's** financial statements. The amount outstanding represents **Cinergy Corp.'s** guarantees of liabilities and commitments of its consolidated subsidiaries, unconsolidated subsidiaries, and joint ventures. See Note 6(c)(*v*) of the "Notes to Condensed Financial Statements" in "Item 1. Financial Statements" for a discussion of guarantees in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (Interpretation 45). Interpretation 45 requires disclosure of maximum potential liabilities for guarantees issued on behalf of unconsolidated subsidiaries and joint ventures and under indemnification clauses in various contracts. The Interpretation 45 disclosure differs from the PUHCA restrictions in that it requires a calculation of maximum potential liability, rather than actual amounts outstanding; it excludes guarantees issued on behalf of consolidated subsidiaries; and it includes potential liabilities under indemnification clauses.

Marketing & Trading Liquidity Risks

Cinergy has certain contracts in place, primarily with trading counterparties, that may require the settlement of open positions or the issuance of collateral in the event our debt ratings are downgraded below investment grade. Based upon our September 30, 2004 trading portfolio, if such an event were to occur, **Cinergy** would be required to issue up to approximately $140 million related to its gas and power trading operations, of which $78 million is related to **CG&E**.

Capital Resources

Cinergy, **CG&E**, **PSI**, and **ULH&P** meet current and future capital requirement needs through a combination of internally and externally generated funds, including the issuance of debt and/or equity securities. **Cinergy**, **CG&E**, **PSI**, and **ULH&P** believe that they have adequate financial resources to meet their future needs.

Sales of Accounts Receivable

CG&E, **PSI**, and **ULH&P** have an agreement with Cinergy Receivables Company, LLC (Cinergy Receivables), an affiliate, to sell, on a revolving basis, nearly all of the retail accounts receivable and

related collections of **CG&E, PSI**, and **ULH&P**. Cinergy Receivables funds its purchase with borrowings from commercial paper conduits that obtain a security interest in the receivables. This program accelerates the collection of cash for **CG&E, PSI**, and **ULH&P** related to these retail receivables. **Cinergy Corp.** does not consolidate Cinergy Receivables since it meets the requirements to be accounted for as a qualifying special purpose entity (SPE). A decline in the long–term senior unsecured credit ratings of **CG&E, PSI**, and **ULH&P** below investment grade would result in the termination of the sale program and discontinuance of future sales of receivables.

Notes Payable and Other Short–term Obligations

We are required to secure authority to issue short–term debt from the SEC under the PUHCA and from the PUCO. The SEC under the PUHCA regulates the issuance of short–term debt by **Cinergy Corp., PSI**, and **ULH&P**. The PUCO has regulatory jurisdiction over the issuance of short–term debt by **CG&E**.

	Short–term Regulatory Authority September 30, 2004 (in millions)	
	Authority	Outstanding
Cinergy Corp.	$ 5,000 (1)	$ 912
CG&E and subsidiaries	665	242
PSI	600	154
ULH&P	65	37

(1) **Cinergy Corp.**, under the PUHCA, has approval to increase total capitalization (excluding retained earnings and accumulated other comprehensive income (loss)), which may be any combination of short–term debt, long–term debt, and equity securities, to $5 billion. Outside this requirement, **Cinergy Corp.** is not subject to specific regulatory debt authorizations.

For the purposes of quantifying regulatory authority, short–term debt includes revolving credit and uncommitted credit line borrowings, intercompany money pool obligations, and commercial paper. **Cinergy Corp.'s** short–term borrowings consist primarily of unsecured revolving lines of credit and the sale of commercial paper. **Cinergy Corp.'s** $1.5 billion revolving credit facilities and commercial paper program also support the short–term borrowing needs of **CG&E, PSI**, and **ULH&P**. In addition, **Cinergy Corp., CG&E**, and **PSI** maintain uncommitted lines of credit. These facilities are not firm sources of capital but rather informal agreements to lend money, subject to availability, with pricing determined at the time of advance.

Variable Rate Pollution Control Notes

In August 2004, **PSI** borrowed the proceeds from the issuance by the Indiana Development Finance Authority of $55 million principa amount of its Environmental Revenue Bonds, Series 2004A, due August 2039. The initial interest rate for the bonds was 1.13 percent and is reset weekly. Proceeds from the borrowing will be used for the acquisition and construction of various solid waste disposal facilities located at various generating stations in Indiana. The $55 million is being held in escrow by an independent trustee and will be drawn upon as facilities are built. Holders of these notes are entitled to credit enhancement in the form of a standby letter of credit, which if drawn upon, provides for the payment of both interest and principal on the notes. Because the holders of these notes have

the right to have their notes redeemed on a weekly basis, they are reflected in *Notes payable and other short–term obligations* on the balance sheets of **Cinergy** and **PSI**.

The following is a summary of outstanding short–term borrowings for **Cinergy**, **CG&E**, **PSI**, and **ULH&P**, including variable rate pollution control notes:

	Short–term Borrowings September 30, 2004				
	Established Lines	Outstanding	Unused	Standby Liquidity(3)	Available Revolving Lines of Credit
			(in millions)		
Cinergy					
Cinergy Corp.					
Revolving lines	$ 1,500	$ —	$ 1,500	$ 918	$ 582
Uncommitted lines(1)	40	—	40		
Commercial paper(2)		912	588		
Utility operating companies					
Uncommitted lines(1)	75	—	75		
Pollution control notes		248			
Non–regulated subsidiaries					
Revolving lines	14	10	4		4
Short–term debt		2			
Pollution control notes		25			
Cinergy Total		$ 1,197			$ 586
CG&E and subsidiaries					
Uncommitted lines(1)	$ 15	$ —	$ 15		
Pollution control notes		112			
Money pool		242			
CG&E Total		$ 354			
PSI					
Uncommitted lines(1)	$ 60	$ —	$ 60		
Pollution control notes		136			
Money pool		154			
PSI Total		$ 290			
ULH&P					
Money pool		$ 37			
ULH&P Total		$ 37			

(1) These facilities are not guaranteed sources of capital and represent an informal agreement to lend money, subject to availability, with pricing to be determined at the time of advance.

(2)

In September 2004, **Cinergy Corp.** increased its commercial paper program limit from $800 million to $1.5 billion. The commercial paper program is supported by **Cinergy Corp.'s** revolving lines of credit.

(3) Standby liquidity is reserved against the revolving lines to support the commercial paper program and outstanding letters of credit (currently $912 million and $6 million, respectively).

In April 2004, **Cinergy Corp.** successfully placed two senior unsecured revolving credit facilities with an aggregate borrowing capacity of $1.5 billion, comprised of a $500 million 364–day facility and a $1 billion three–year facility. These facilities replaced two facilities that expired in April and May 2004.

At September 30, 2004, **Cinergy Corp.** had approximately $582 million remaining unused and available capacity relating to its $1.5 billion revolving credit facilities. These revolving credit facilities include the following:

Credit Facility	Expiration	Established Lines	Outstanding and Committed	Unused and Available
			(in millions)	
364–day senior revolving	April 2005			
Direct borrowing		$	$ —	$
Commercial paper support			—	
Total 364–day facility		500	—	500
Three–year senior revolving	April 2007			
Direct borrowing			—	
Commercial paper support			912	
Letter of credit support			6	
Total three–year facility		1,000	918	82
Total Credit Facilities		$ 1,500	$ 918	$ 582

In our credit facilities, **Cinergy Corp.** has covenanted to maintain:

- a consolidated net worth of $2 billion; 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 facilities 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.

The latter two events, however, are subject to dollar–based materiality thresholds.

Long–term Debt

We are required to secure authority to issue long–term debt from the SEC under the PUHCA and the state utility commissions of Ohio, Kentucky, and Indiana. The SEC under the PUHCA regulates the issuance of long–term debt by **Cinergy Corp.** The respective state utility commissions regulate the issuance of long–term debt by our utility operating companies.

A current summary of our long–term debt authorizations at September 30, 2004, was as follows:

	Authorized	Used	Available
		(in millions)	
Cinergy Corp.			
PUHCA total capitalization(1)	$ 5,000	$ 1,705	$ 3,295
CG&E and subsidiaries(2)			
State Public Utility Commissions	$ 575	$ —	$ 575
State Public Utility Commission – Tax–Exempt	250	—	250
PSI			
State Public Utility Commission	$ 500	$ —	$ 500
State Public Utility Commission – Tax–Exempt	250	55	195
ULH&P			
State Public Utility Commission	$ 75	$ —	$ 75

(1) **Cinergy Corp.**, under PUHCA, has approval to increase total capitalization (excluding retained earnings and accumulated other comprehensive income (loss)), which may be any combination of short–term debt, long–term debt, and equity securities, by $5 billion. Outside this requirement, **Cinergy Corp.** is not subject to specific regulatory debt authorizations.
(2) Includes amounts for **ULH&P**.

Cinergy Corp. has an effective shelf registration statement with the SEC relating to the issuance of up to $750 million in any combination of common stock, preferred stock, stock purchase contracts or unsecured debt securities, of which approximately $574 million remains available for issuance. **CG&E** has an effective shelf registration statement with the SEC relating to the issuance of up to $800 million in any combination of unsecured debt securities, first mortgage bonds, or preferred stock, all of which remains available for issuance. **PSI** has an effective shelf registration statement with the SEC relating to the issuance of up to $800 million in any combination of unsecured debt securities, first mortgage bonds, or preferred stock, all of which remains available for issuance. **ULH&P** has an effective shelf registration statement with the SEC for the issuance of up to $75 million in unsecured debt securities, all of which remains available for issuance. **ULH&P** also has effective shelf registration statements with the SEC relating to the issuance of up to $40 million in first mortgage bonds, of which $20 million remains available for issuance.

Off–Balance Sheet Arrangements

As discussed in the 2003 10–K, **Cinergy** uses off–balance sheet arrangements from time to time to facilitate financing of various projects. **Cinergy's** primary off–balance sheet arrangements involve (a) the sale of accounts receivable to a qualifying SPE, and (b) a forward stock contract that will result in the issuances of between 9.2 and 10.8 million **Cinergy Corp.** common shares in February 2005.

Securities Ratings

As of September 30, 2004, the major credit rating agencies rated our securities as follows:

	Fitch(1)	Moody's(2)	S&P(3)
Cinergy Corp.			
Corporate Credit	BBB+	Baa2	BBB+
Senior Unsecured Debt	BBB+	Baa2	BBB
Commercial Paper	F–2	P–2	A–2
Preferred Trust Securities	BBB+	Baa2	BBB
CG&E			
Senior Secured Debt	A–	A3	A–
Senior Unsecured Debt	BBB+	Baa1	BBB
Junior Unsecured Debt	BBB	Baa2	BBB–
Preferred Stock	BBB	Baa3	BBB–
Commercial Paper	F–2	P–2	Not Rated
PSI			
Senior Secured Debt	A–	A3	A–
Senior Unsecured Debt	BBB+	Baa1	BBB
Junior Unsecured Debt	BBB	Baa2	BBB–
Preferred Stock	BBB	Baa3	BBB–
Commercial Paper	F–2	P–2	Not Rated
ULH&P			
Senior Unsecured Debt	Not Rated	Baa1	BBB

(1) Fitch Ratings (Fitch)
(2) Moody's Investors Service (Moody's)
(3) Standard & Poor's (S&P)

The highest investment grade credit rating for Fitch is AAA, Moody's is Aaa1, and S&P is AAA.
The lowest investment grade credit rating for Fitch is BBB–, Moody's is Baa3, and S&P is BBB–.

A security rating is not a recommendation to buy, sell, or hold securities. These securities ratings may be revised or withdrawn at any time, and each rating should be evaluated independently of any other rating.

Equity

As discussed in the 2003 10–K, **Cinergy** issues new **Cinergy Corp.** common stock shares to satisfy obligations under certain of its employee stock plans and the Cinergy Corp. Direct Stock Purchase and Dividend Reinvestment Plan. During the nine months ended September 30, 2004, **Cinergy** issued approximately 2.7 million shares under these plans.

The Results of Operations discussions for **Cinergy**, **CG&E**, and **PSI** are combined within this section.

2004 QUARTERLY RESULTS OF OPERATIONS – HISTORICAL

Summary of Results

Electric and gas gross margins and net income for **Cinergy**, **CG&E**, and **PSI** for the quarters ended September 30, 2004 and 2003 were as follows:

	Cinergy[1]				CG&E and subsidiaries				PSI			
	2004	2003	Change	% Change	**2004**	2003	Change	% Change	**2004**	2003	Change	% Change
						(in thousands)						
Net income	**$ 92,923**	$ 111,981	(19,058)	(17)	**$ 64,073**	$ 78,863	$ (14,790)	(19)	**$ 48,487**	$ 37,592	$ 10,895	29
Electric gross margin[2]	**660,303**	590,641	69,662	12	**337,779**	330,046	7,733	2	**319,548**	259,298	60,250	23
Gas gross margin[3]	**45,506**	44,951	555	1	**40,334**	34,176	6,158	18	—	—	—	—

(1) The results of **Cinergy** also include amounts related to non–registrants.
(2) Electric gross margin is calculated as *Electric operating revenues* less *Fuel and purchased power* expense from the Condensed Consolidated Statements of Income.
(3) Gas gross margin is calculated as *Gas operating revenues* less *Gas purchased* expense from the Condensed Consolidated Statements of Income.

Cinergy's decrease in net income was primarily attributable to the following factors:

- Higher *Operation and maintenance* expense due, in part, to increased emission allowance expenses;
- Higher *Depreciation* expense; and
- Impairment and disposal charges on certain investments in the Power Technology and Infrastructure Services Business Unit (Power Technology and Infrastructure) (reflected in *Miscellaneous Income (Expense) — Net*).
- These expenses were offset by higher electric gross margins and an adjustment to decrease the estimated annual effective tax rate.

CG&E's decrease in net income was primarily attributable to the following factors:

- Higher *Operation and maintenance* expense due primarily to increased emission allowance expenses.
- These higher expenses were offset, in part, by higher electric and gas gross margins.

PSI's increase in net income was primarily attributable to the following factors:

- Higher electric gross margins.
- These higher margins were offset, in part, by higher *Operation and maintenance* expense, higher *Depreciation* expense and an adjustment to increase the estimated annual effective tax rate.

Electric Margins

Cinergy's, **CG&E's**, and **PSI's** electric gross margins increased for the quarter ended September 30, 2004, as compared to the same period last year. **Cinergy's** and **PSI's** variances include a higher price received per MWh primarily due to the Indiana Utility Regulatory Commission's (IURC) approval of **PSI's** average base retail electric rate increase of eight percent in May 2004. This is discussed further in Note 6(b)(*i*) of the "Notes to Condensed Financial Statements" in "Item 1. Financial Statements". For all three companies, growth in non–weather related demand was offset by a decline in MWh sales due to milder weather in the current period. **Cinergy's** and **CG&E's** variances reflect an increase in net revenues on power marketing, trading, and origination contracts.

Cinergy's and **CG&E's** variances also reflect a decline due to an increase in the average price of fuel for the period. Offsetting most of this decline was an increase in coal origination, which includes contract structuring and marketing of physical coal.

Electric Operating Revenues

	Cinergy(1)				CG&E and subsidiaries				PSI			
	2004	2003	Change	% Change	**2004**	2003 (in millions)	Change	% Change	**2004**	2003	Change	% Change
Retail	**$ 792**	$ 744	$ 48	6	**$ 383**	$ 377	$ 6	2	**$ 409**	$ 367	$ 42	11
Wholesale	**139**	141	(2)	(1)	**59**	65	(6)	(9)	**56**	61	(5)	(8)
Other	**63**	36	27	75	**52**	33	19	58	**15**	9	6	67
Total	**$ 994**	$ 921	$ 73	8	**$ 494**	$ 475	$ 19	4	**$ 480**	$ 437	$ 43	10

(1) The results of **Cinergy** also include amounts related to non–registrants.

Heating degree–days and cooling degree–days are metrics commonly used in the utility industry as a measure of the impact weather has on results of operations. Heating degree–days and cooling degree–days in **CG&E's** and **PSI's** service territories for the quarters ended September 30, 2004 and 2003, were as follows:

	CG&E and subsidiaries				PSI			
	2004	2003	Change	% Change	**2004**	2003	Change	% Change
Heating degree–days(1)	**36**	72	(36)	(50)	**42**	91	(49)	(54)
Cooling degree–days(2)	**540**	638	(98)	(15)	**535**	642	(107)	(17)

(1)

Heating degree–days are the differences between the average temperature for each day and 65 degrees, assuming the average temperature is less than 65 degrees.

(2) Cooling degree–days are the differences between the average temperature for each day and 65 degrees, assuming the average temperature is greater than 65 degrees.

Although cooling degree–days declined, retail electric operating revenues increased for **Cinergy** and **PSI** in the third quarter of 2004 as compared to 2003. This was mainly due to an increase in the average retail price per MWh, which resulted in approximately $49 million and $45 million higher retail revenues for **Cinergy** and **PSI**, respectively. The higher retail prices primarily reflect a higher price received per MWh due to **PSI's** base retail electric rate case. For all three companies, growth in non–weather related demand was offset by a decline in MWh sales due to milder weather in the current period.

Electric wholesale revenues remained relatively flat for **Cinergy** and decreased for **CG&E** and **PSI** for the quarter ended September 30, 2004, as compared to 2003. **Cinergy's** wholesale revenues increased approximately $14 million from non–regulated energy service subsidiaries that started operations, or became fully consolidated, after September 30, 2003. Additionally, net revenues on power marketing, trading, and origination contracts increased approximately $11 million. The increase in power trading results is attributable to higher margins on physical and financial trading primarily related to regional spreads between the mideast and midwest markets. These increases were offset by decreases in wholesale sales from generation available after serving regulated retail customers.

CG&E's variance reflects decreases in wholesale sales from generation available after serving regulated retail customers. Partially offsetting this decrease was an approximate $15 million increase in net revenues on power marketing, trading, and origination contracts. The increase in power trading results is attributable to higher margins on physical and financial trading primarily related to regional spreads between the mideast and midwest markets. The majority of **PSI's** decrease was attributable to decreases in wholesale sales from generation available after serving regulated retail customers.

The decreases in wholesale sales from generation available after serving regulated retail customers were primarily caused by lower demand. In addition, lower market prices caused our generation to be less economic when it was available for wholesale transactions. As a result, there were fewer opportunities to sell into the wholesale market from generation in the third quarter of 2004, as compared to 2003.

Other electric operating revenues increased for **Cinergy**, **CG&E**, and **PSI** for the quarter ended September 30, 2004, as compared to 2003. **Cinergy's** and **CG&E's** higher other electric operating revenues reflect increases in coal origination of approximately $23 million. Coal origination includes contract structuring and marketing of physical coal. **Cinergy's**, **CG&E's**, and **PSI's** increases also reflect approximately $8 million, $2 million, and $6 million, respectively, of higher transmission revenues primarily resulting from Midwest Independent System Operator, Inc. (Midwest ISO) operations.

Fuel and Purchased Power

	Cinergy(1)				CG&E and subsidiaries				PSI			
	2004	2003	Change	% Change	**2004**	2003	Change	% Change	**2004**	2003	Change	% Change
						(in millions)						
Fuel used for generation	$ **259**	$ 270	$ (11)	(4)	$ **99**	$ 94	$ 5	5	$ **139**	$ 164	$ (25)	(15)
Coal origination costs	**29**	17	12	71	**29**	17	12	71	**—**	—	—	—
Total fuel	$ **288**	$ 287	$ 1	—	$ **128**	$ 111	$ 17	15	$ **139**	$ 164	$ (25)	(15)
Purchased power	**46**	43	3	7	**28**	34	(6)	(18)	**22**	14	8	57
Fuel and purchased power	$ **334**	$ 330	$ 4	1	$ **156**	$ 145	$ 11	8	$ **161**	$ 178	$ (17)	(10)

(1) The results of **Cinergy** also include amounts related to non–registrants.

Fuel

Fuel expense represents the cost of coal, natural gas, and oil that is used to generate electricity, and the cost of coal origination, which includes contract structuring and marketing of physical coal. The following table details the changes to expense for fuel used in generation from the quarter ended September 30, 2003, to the quarter ended September 30, 2004:

	Cinergy(1)	CG&E	PSI
		(in millions)	
Fuel Expense – September 30, 2003	$ 270	$ 94	$ 164
Increase (Decrease) due to changes in:			
Price of fuel	12	13	(1)
Deferred fuel cost	(14)	—	(14)
Fuel consumption	(18)	(8)	(10)
Non–regulated subsidiaries	9	—	—
Fuel Expense – September 30, 2004	**$ 259**	**$ 99**	**$ 139**

(1) The results of **Cinergy** also include amounts related to non–registrants.

Deferred fuel cost represents changes in fuel expense associated with **PSI's** fuel adjustment charge, which recovers retail fuel costs from customers on a dollar–for–dollar basis. The fuel adjustment charge is calculated based on the estimated cost of fuel in the next three–month period. **PSI** records any under–recovery or over–recovery resulting from these differences as a deferred asset or liability until it is billed or refunded to its customers, at which point it is adjusted through fuel expense.

Purchased Power

Purchased power expense increased for **Cinergy** and **PSI** and decreased for **CG&E** for the quarter ended September 30, 2004, as compared to 2003. **Cinergy's** and **PSI's** increases primarily reflect a greater volume of MWhs purchased to serve **PSI's** native load and wholesale full requirements customers. Partially offsetting **Cinergy's** increase and primarily causing **CG&E's** decrease was a reduction in the amount of MWhs purchased to serve **CG&E's** wholesale full requirements customers and a lower price paid per MWh for these purchases.

Gas Margins

CG&E's gas gross margins increased and **Cinergy's** remained relatively flat for the quarter ended September 30, 2004, as compared to the same period last year. **CG&E's** gas margins increased by approximately $6 million primarily due to rate tariff adjustments.

Cinergy's gas margins remained relatively flat as **CG&E's** increase was offset by lower margins from our gas marketing and trading business. Margins for our gas marketing and trading business decreased primarily due to timing differences in revenue recognition between physical storage activities and the associated derivative contracts that hedge the physical storage. Our gas marketing and trading business regularly hedges its price exposure of natural gas held in storage by selling derivative contracts for winter month delivery. The majority of the gas held in storage is designated as being hedged under Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities'* (Statement 133) fair value hedge accounting model, which allows the gas to be accounted for at its fair value (based on spot prices). Under generally accepted accounting principles (GAAP), the derivative contracts hedging the gas are accounted for at fair value (based on forward winter prices). Conversely, the agreements with pipelines to store this natural gas until the winter periods are not derivatives and are not adjusted for changes in fair value (see footnote 1 in the table below). Significant increases in natural gas prices during the third quarter of 2004, especially prices for winter months, resulted in an unrealized loss on the derivative contracts that is included in current earnings. However, the economic benefit of these increased prices for the gas held in storage will not be recognized in revenues until spot and winter prices of gas converge (which we expect will occur in the winter months when the natural gas is withdrawn from storage and sold).

For a more complete understanding of our gas marketing and trading results, we have prepared the following table which reconciles the gas margins under GAAP, the impact of adjusting these margins for the fair value of pipeline agreements and certain gas held in storage, and the resulting adjusted gas margins:

	2004	2003	Change
		(dollars in millions)	
Gas margins, as reported (GAAP)	**$ 5**	$ 11	$ (6)
Fair value adjustments not recognized under GAAP(1)	**21(2)**	1	20
Adjusted gas margins	**$ 26**	$ 12	$ 14

(1) Relates to fair value of storage agreements. The value of a storage agreement is the ability to store and optimize gas between periods of lower prices (typically summer) and periods of higher prices (typically winter). A large component of the fair value is therefore the differences between winter prices and spot prices. As this spread gets wider, the value of a storage agreement increases.
(2) The magnitude of the adjustment in 2004 is driven by forward price increases in the winter months that are significantly larger than spot price increases, which caused a recognized loss on the derivative sales in winter offset by an unrecognized gain on the related storage agreements. While such price changes from one quarter to the next are not unprecedented, they are the most significant they have been since we discontinued the application of fair value accounting to natural gas held in storage and pipeline agreements on January 1, 2003, with the rescission of Emerging Issues Task Force Issue 98–10, *Accounting for Contracts Involved in Energy Trading and Risk Management Activities* (EITF 98–10).

Adjusted gas margins represent a more economic view of the business with all elements of the business reflected at fair value. The resulting increase in adjusted gas margins from our gas marketing and trading business is primarily a result of an increase in physical and financial trading margins resulting from favorable price movements in the third quarter of 2004.

Other Revenues

Other revenues for **Cinergy** increased for the quarter ended September 30, 2004, as compared to 2003, primarily due to increased revenues of approximately $22 million from the sale of synthetic fuel as a result of an increase in demand for our synthetic fuel.

Operating Expenses

Operation and Maintenance

Operation and maintenance expense increased for **Cinergy**, **CG&E**, and **PSI** for the quarter ended September 30, 2004, as compared to 2003. Approximately $27 million of **Cinergy's** increase is due to an increase in the production of synthetic fuel as a result of an increase in demand for our synthetic fuel. **Cinergy's**, **CG&E's**, and **PSI's** increases include approximately $15 million, $7 million, and $8 million, respectively, of higher expenses related to emission allowances. These increases primarily reflect higher expenses due to an increase in the cost of SO_2 emission allowances as market prices have increased. **Cinergy's** and **PSI's** increases also resulted from timing differences in the recovery of SO_2 emission allowances costs under **PSI's** emission allowances tracking mechanism authorized by the IURC.

Maintenance expenses, primarily production and distribution related, were higher by approximately $7 million for both **Cinergy** and **CG&E**. The increases for **Cinergy**, **CG&E**, and **PSI** also reflect costs incurred in the third quarter of 2004 related to a continuous improvement initiative of approximately $6 million, $3 million, and $2 million, respectively. Approximately $5 million of **Cinergy's** increase relates to non–regulated energy service subsidiaries that started operations, or became fully consolidated, after the second quarter of 2003. Partially offsetting **Cinergy's** increases were approximately $12 million of costs incurred in 2003 associated with the bankruptcy of Enron Corp.

Depreciation

Depreciation expense increased for **Cinergy** and **PSI** for the quarter ended September 30, 2004, as compared to 2003. Approximately $12 million of **Cinergy's** and **PSI's** increase was due to the addition of depreciable plant primarily for pollution control equipment. Also contributing to **Cinergy's** and **PSI's** higher depreciation expense was an approximate $7.5 million increase due to higher depreciation rates effective June 2004 that were approved in **PSI's** latest retail rate case.

Miscellaneous Income (Expense) – Net

Miscellaneous Income (Expense) – Net decreased for **Cinergy** and **CG&E** and increased for **PSI** for the quarter ended September 30, 2004, as compared to 2003. **Cinergy's** decrease reflects approximately $15 million in impairment and disposal charges on certain investments in Power Technology and Infrastructure. The values of these investments reflect our estimates and judgments about the future performance of these investments, for which actual results may differ. **CG&E's** decrease and **PSI's** increase was primarily a result of a final reconciliation recorded in 2003 between the two entities of a previous demutualization of a medical insurance carrier used by both companies.

Income Taxes

The effective income tax rate decreased for **Cinergy** and increased for **CG&E** and **PSI** for the quarter ended September 30, 2004, as compared to 2003. **Cinergy's** 2004 effective tax rate is expected to be approximately 23 percent, a decrease of one percent from our prior estimate. The change results from a revision in estimated 2004 pre–tax income with no adjustment to the estimated annual tax credits associated with the production and sale of synthetic fuel for the year. **CG&E's** and **PSI's** increases reflect revisions to estimated 2004 pre–tax income and changes in permanent differences which have an incremental effect on tax expense.

In July 2002, Cinergy Capital & Trading, Inc. (Capital & Trading) acquired a coal–based synthetic fuel production facility. The synthetic fuel produced at this facility qualifies for tax credits in accordance with Section 29 of the Internal Revenue Code (IRC). Eligibility for these credits expires after 2007. **Cinergy** received a private letter ruling from the Internal Revenue Service (IRS) in connection with the acquisition of the facility. To date, **Cinergy** has recorded approximately $189 million in tax credits, including approximately $69 million in 2004. See Note 6(c)(*iv*) of the "Notes to Condensed Financial Statements" in "Item 1. Financial Statements" for more detail.

2004 YEAR TO DATE RESULTS OF OPERATIONS – HISTORICAL

Summary of Results

Electric and gas gross margins and net income for **Cinergy**, **CG&E**, and **PSI** for the nine months ended September 30, 2004 and 2003, were as follows:

	Cinergy(1)				CG&E and subsidiaries				PSI			
	2004	2003	Change	% Change	**2004**	2003	Change	% Change	**2004**	2003	Change	% Change
						(in thousands)						
Net income	$ **254,442**	$ 362,719	$ (108,277)	(30)	$ **196,837**	$ 247,018	$ (50,181)	(20)	$ **114,739**	$ 94,398	$ 20,341	22
Electric gross margin(2)	**1,850,064**	1,672,622	177,442	11	**959,871**	919,244	40,627	4	**873,875**	743,501	130,374	18
Gas gross margin(3)	**233,498**	269,482	(35,984)	(13)	**187,702**	174,912	12,790	7	—	—	—	—

(1) The results of **Cinergy** also include amounts related to non–registrants.
(2) Electric gross margin is calculated as *Electric operating revenues* less *Fuel and purchased power* expense from the Condensed Consolidated Statements of Income.
(3) Gas gross margin is calculated as *Gas operating revenues* less *Gas purchased* expense from the Condensed Consolidated Statements of Income.

Cinergy's decrease in net income was primarily attributable to the following factors:

- Higher *Operation and maintenance* expense due, in part, to greater emission allowance expenses;
- Higher *Depreciation* expense;
- Impairment and disposal charges on certain investments in Power Technology and Infrastructure (reflected in *Miscellaneous Income (Expense) — Net*);
- Lower gas margins in our gas marketing and trading business;
- Net gains recognized in the first quarter of 2003 resulting from the implementation of certain accounting changes that have been reflected as cumulative effects of changes in accounting principles; and
- Gains realized in the second quarter of 2003 from the disposal of discontinued operations.
- These variances were offset, in part, by an increase in electric gross margins.

CG&E's decrease in net income was primarily attributable to the following factors:

- Higher *Operation and maintenance* expense due primarily to greater emission allowance expenses, consulting fees for a continuous improvement initiative and higher employee benefit expenses; and

- Net gains recognized in the first quarter of 2003 resulting from the implementation of certain accounting changes that have been reflected as cumulative effects of changes in accounting principles.

- These variances were offset, in part, by increases in electric and gas gross margins.

PSI's increase in net income was primarily attributable to the following factors:

- Higher electric gross margins.
- These higher margins were offset, in part, by higher *Operation and maintenance* expense, higher *Depreciation* expense and an adjustment to increase the estimated annual effective tax rate.

Electric Margins

Cinergy's, **CG&E's**, and **PSI's** electric gross margins increased for the nine months ended September 30, 2004, as compared to the same period last year. **Cinergy's** and **PSI's** increases included a higher price received per MWh primarily due to the IURC's approval of **PSI's** average base retail electric rate increase of eight percent in May 2004 and certain rate tariff adjustments. Also contributing to the increase in electric gross margins for all three companies were additional MWhs delivered due to growth in non–weather related demand. **Cinergy's** and **CG&E's** variances reflect an increase in net revenues on power marketing, trading, and origination contracts.

Cinergy's and **CG&E's** variances also reflect a decline due to an increase in the average price of fuel for the period. This decline was partially offset by an increase in coal origination, which includes contract structuring and marketing of physical coal.

Electric Operating Revenues

	Cinergy(1)				CG&E and subsidiaries				PSI			
	2004	2003	Change	% Change	**2004**	2003	Change	% Change	**2004**	2003	Change	% Change
							(in millions)					
Retail	**$ 2,157**	$ 2,063	$ 94	5	**$ 1,057**	$ 1,030	$ 27	3	**$ 1,100**	$ 1,033	$ 67	6
Wholesale	**459**	364	95	26	**204**	194	10	5	**177**	156	21	13
Other	**148**	86	62	72	**126**	77	49	64	**34**	21	13	62
Total	**$ 2,764**	$ 2,513	$ 251	10	**$ 1,387**	$ 1,301	$ 86	7	**$ 1,311**	$ 1,210	$ 101	8

(1) The results of **Cinergy** also include amounts related to non–registrants.

Heating degree–days and cooling degree–days are metrics commonly used in the utility industry as a measure of the impact weather has on results of operations. Heating degree–days and cooling degree–days in **CG&E's** and **PSI's** service territories for the nine months ended September 30, 2004 and 2003, were as follows:

	CG&E and subsidiaries				PSI			
	2004	2003	Change	% Change	**2004**	2003	Change	% Change
Heating degree–days(1)	**3,121**	3,387	(266)	(8)	**3,256**	3,697	(441)	(12)
Cooling degree–days(2)	**867**	804	63	8	**879**	841	38	5

(1) Heating degree–days are the differences between the average temperature for each day and 65 degrees, assuming the average temperature is less than 65 degrees.
(2) Cooling degree–days are the differences between the average temperature for each day and 65 degrees, assuming the average temperature is greater than 65 degrees.