# 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



| Vol. # | Tab # | Filing Requirement | Description | Sponsoring Witness |
|---|---|---|---|---|
| 1 | 1 | KRS 278.180 | 30 days' notice of rates to PSC. | Sandra P. Meyer |
| 1 | 2 | 807 KAR 5:001 Section 8 (1) | Full name and P.O. address of applicant and reference to the particular provision of law requiring PSC approval. | Sandra P. Meyer |
| 1 | 3 | 807 KAR 5:001 Section 8 (2) | The original and 10 copies of application plus copy for anyone named as interested party. | Sandra P. Meyer |
| 1 | 4 | 807 KAR 5:001 Section 10 (1)(b)(1) | Reason adjustment is required. | Paul G. Smith |
| 1 | 5 | 807 KAR 5:001 Section 10 (1)(b)(2) | Statement that utility's annual reports, including the most recent calendar year, are filed with PSC. 807 KAR 5:006, Section 3 (1). | Dwight L. Jacobs |
| 1 | 6 | 807 KAR 5:001 Section 10 (1)(b)(3) and (5) | If utility is incorporated, certified copy of articles of incorporation and amendments or out of state documents of similar import. If they have already been filed with PSC refer to the style and case number of the prior proceeding and file a certificate of good standing or authorization dated within 60 days of date application filed. | Sandra P. Meyer |
| 1 | 7 | 807 KAR 5:001 Section 10 (1)(b)(4) | If applicant is limited partnership, certified copy of limited partnership agreement. If agreement filed with PSC refer to style and case number of prior proceeding and file a certificate of good standing or authorization dated within 60 days of date application filed. | Sandra P. Meyer |
| 1 | 8 | 807 KAR 5:001 Section 10 (1)(b)(6) | Certified copy of certificate of assumed name required by KRS 365.015 or statement that certificate not necessary. | Sandra P. Meyer |
| 1 | 9 | 807 KAR 5:001 Section 10 (1)(b)(7) | Proposed tariff in form complying with 807 KAR 5:011 effective not less than 30 days from date application filed. | Jeffrey R. Bailey |
| 1 | 10 | 807 KAR 5:001 Section 10 (1)(b)(8) | Proposed tariff changes shown by present and proposed tariffs in comparative form or by indicating additions in italics or by underscoring and striking over deletions in current tariff. | Jeffrey R. Bailey |
| 1 | 11 | 807 KAR 5:001 Section 10 (1)(b)(9) | Statement that notice given, see subsections (3) and (4) of 807 KAR 5:001, Section 10 with copy. | Sandra P. Meyer |
| 1 | 12 | 807 KAR 5:001 Section 10 (2) | If gross annual revenues exceed $1,000,000, written notice of intent filed at least 4 weeks prior to application. Notice shall state whether application will be supported by historical or fully forecasted test period. | Sandra P. Meyer |
| 1 | 13 | 807 KAR 5:001 Section 10 (4) (a) | Sewer utilities shall give the required typewritten notice by mail to all of their customers pursuant to KRS 278.185. | Sandra P. Meyer |
| 1 | 14 | 807 KAR 5:001 Section 10 (4)(b) | Applicants with twenty (20) or fewer customers affected by the proposed general rate adjustment shall mail the required typewritten notice to each customer no later than the date the application is | Sandra P. Meyer |

# 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

| 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:<br>1. A typewritten notice mailed to all customers no later than the date the application is filed with the commission;<br>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<br>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. |

# 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

| Vol. # | Tab # | Filing Requirement | Description | Sponsoring Witness |
|---|---|---|---|---|
| 1 | 23 | 807 KAR 5:001 Section 10 (8)(d) | After an application based on a forecasted test period is filed, there shall be no revisions to the forecast, except for the correction of mathematical errors, unless such revisions reflect statutory or regulatory enactments that could not, with reasonable diligence, have been included in the forecast on the date it was filed. There shall be no revisions filed within thirty (30) days of a scheduled hearing on the rate application. | William Don Wathen, Jr. |
| 1 | 24 | 807 KAR 5:001 Section 10 (8)(e) | The commission may require the utility to prepare an alternative forecast based on a reasonable number of changes in the variables, assumptions, and other factors used as the basis for the utility's forecast. | William Don Wathen, Jr. |
| 1 | 25 | 807 KAR 5:001 Section 10 (8)(f) | Reconciliation of rate base and capital used to determine revenue requirements. | William Don Wathen, Jr. |
| 1 | 26 | 807 KAR 5:001 Section 10 (9)(a) | Prepared testimony of each witness supporting its application including testimony from chief officer in charge of Kentucky operations on the existing programs to achieve improvements in efficiency and productivity, including an explanation of the purpose of the program. | All witnesses |
| 1 | 27 | 807 KAR 5:001 Section 10 (9)(b) | Most recent capital construction budget containing at minimum 3 year forecast of construction expenditures. | Jim L. Stanley<br>John J. Roebel |
| 1 | 28 | 807 KAR 5:001 Section 10 (9)(c) | Complete description, which may be in prefiled testimony form, of all factors used to prepare forecast period. All econometric models, variables, assumptions, escalation factors, contingency provisions, and changes in activity levels shall be quantified, explained, and properly supported. | Brian P. Davey |
| 1 | 29 | 807 KAR 5:001 Section 10 (9)(d) | Annual and monthly budget for the 12 months preceding filing date, base period and forecasted period. | Brian P. Davey |
| 1 | 30 | 807 KAR 5:001 Section 10 (9)(e) | Attestation signed by utility's chief officer in charge of Kentucky operations providing:<br>1. That forecast is reasonable, reliable, made in good faith and that all basic assumptions used have been identified and justified; and<br>2. That forecast contains same assumptions and methodologies used in forecast prepared for use by management, or an identification and explanation for any differences; and<br>3. That productivity and efficiency gains are included in the forecast. | Sandra P. Meyer |
| 1 | 31 | 807 KAR 5:001 Section 10 (9)(f) | For each major construction project constituting 5% or more of annual construction budget within 3 year forecast, following information shall be filed:<br>1. Date project began or estimated starting date; | Jim L. Stanley<br>John J. Roebel |

# 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

| Vol. # | Tab # | Filing Requirement | Description | Sponsoring Witness |
|---|---|---|---|---|
| | | | 2. Estimated completion date;<br>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<br>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<br>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:<br>1. Operating income statement (exclusive of dividends per share or earnings per share);<br>2. Balance sheet;<br>3. Statement of cash flows;<br>4. Revenue requirements necessary to support the forecasted rate of return;<br>5. Load forecast including energy and demand (electric);<br>6. Access line forecast (telephone);<br>7. Mix of generation (electric);<br>8. Mix of gas supply (gas);<br>9. Employee level;<br>10.Labor cost changes;<br>11.Capital structure requirements;<br>12.Rate base;<br>13.Gallons of water projected to be sold (water);<br>14.Customer forecast (gas, water);<br>15.MCF sales forecasts (gas);<br>16.Toll and access forecast of number of calls and number of minutes (telephone); and<br>17.A detailed explanation of any other information provided. | Brian P. Davey<br>Lynn J. Good<br><br>#6, #13, #16 & #17<br>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
# 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

| Vol. # | Tab # | Filing Requirement | Description | Sponsoring Witness |
|---|---|---|---|---|
| 8 | 46 | 807 KAR 5:001 Section 10 (9)(u) | If utility had any amounts charged or allocated to it by affiliate or general or home office or paid any monies to affiliate or general or home office during the base period or during previous 3 calendar years, file:<br>1. Detailed description of method of calculation and amounts allocated or charged to utility by affiliate or general or home office for each allocation or payment;<br>2. method and amounts allocated during base period and method and estimated amounts to be allocated during forecasted test period;<br>3. Explain how allocator for both base and forecasted test period was determined; and<br>4. All facts relied upon, including other regulatory approval, to demonstrate that each amount charged, allocated or paid during base period is reasonable. | Carol E. Shrum |
| 9 | 47 | 807 KAR 5:001 Section 10 (9)(v) | If gas, electric or water utility with annual gross revenues greater than $5,000,000, cost of service study based on methodology generally accepted in industry and based on current and reliable data from single time period. | Paul F. Ochsner |
| 10 | 48 | 807 KAR 5:001 Section 10 (9)(w) | Local exchange carriers with fewer than 50,000 access lines need not file cost of service studies, except as specifically directed by PSC. Local exchange carriers with more than 50,000 access lines shall file:<br>1. Jurisdictional separations study consistent with Part 36 of the FCC's rules and regulations; and<br>2. Service specific cost studies supporting pricing of services generating annual revenue greater than $1,000,000 except local exchange access:<br>a. Based on current and reliable data from single time period; and<br>b. Using generally recognized fully allocated, embedded, or incremental cost principles. | Not applicable |
| 10 | 49 | 807 KAR 5:001 Section 10 (10)(a) | Jurisdictional financial summary for both base and forecasted periods detailing how utility derived amount of requested revenue increase. | William Don Wathen, Jr. |
| 10 | 50 | 807 KAR 5:001 Section 10 (10)(b) | Jurisdictional rate base summary for both base and forecasted periods with supporting schedules which include detailed analyses of each component of the rate base. | William Don Wathen, Jr. |
| 10 | 51 | 807 KAR 5:001 Section 10 (10)(c) | Jurisdictional operating income summary for both base and forecasted periods with supporting schedules which provide breakdowns by major account group and by individual account. | William Don Wathen, Jr. |

# 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

| Vol. # | Tab # | Filing Requirement | Description | Sponsoring Witness |
|---|---|---|---|---|
| 10 | 52 | 807 KAR 5:001 Section 10 (10)(d) | Summary of jurisdictional adjustments to operating income by major account with supporting schedules for individual adjustments and jurisdictional factors. | William Don Wathen, Jr. |
| 10 | 53 | 807 KAR 5:001 Section 10 (10)(e) | Jurisdictional federal and state income tax summary for both base and forecasted periods with all supporting schedules of the various components of jurisdictional income taxes. | Keith G. Butler |
| 10 | 54 | 807 KAR 5:001 Section 10 (10)(f) | Summary schedules for both base and forecasted periods (utility may also provide summary segregating items it proposes to recover in rates) of organization membership dues; initiation fees; expenditures for country club; charitable contributions; marketing, sales, and advertising; professional services; civic and political activities; employee parties and outings; employee gifts; and rate cases. | William Don Wathen, Jr. |
| 10 | 55 | 807 KAR 5:001 Section 10 (10)(g) | Analyses of payroll costs including schedules for wages and salaries, employee benefits, payroll taxes, straight time and overtime hours, and executive compensation by title. | William Don Wathen, Jr. |
| 10 | 56 | 807 KAR 5:001 Section 10 (10)(h) | Computation of gross revenue conversion factor for forecasted period. | William Don Wathen, Jr. |
| 10 | 57 | 807 KAR 5:001 Section 10 (10)(i) | Comparative income statements (exclusive of dividends per share or earnings per share), revenue statistics and sales statistics for 5 calendar years prior to application filing date, base period, forecasted period, and 2 calendar years beyond forecast period. | Brian P. Davey |
| 10 | 58 | 807 KAR 5:001 Section 10 (10)(j) | Cost of capital summary for both base and forecasted periods with supporting schedules providing details on each component of the capital structure. | Lynn J. Good |
| 10 | 59 | 807 KAR 5:001 Section 10 (10)(k) | Comparative financial data and earnings measures for the 10 most recent calendar years, base period, and forecast period. | Brian P. Davey |
| 10 | 60 | 807 KAR 5:001 Section 10 (10)(l) | Narrative description and explanation of all proposed tariff changes. | Jeffrey R. Bailey |
| 10 | 61 | 807 KAR 5:001 Section 10 (10)(m) | Revenue summary for both base and forecasted periods with supporting schedules which provide detailed billing analyses for all customer classes. | Jeffrey R. Bailey |
| 10 | 62 | 807 KAR 5:001 Section 10 (10)(n) | Typical bill comparison under present and proposed rates for all customer classes. | Jeffrey R. Bailey |

# 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

| Vol. # | Tab # | Filing Requirement | Description | Sponsoring Witness |
|---|---|---|---|---|
| 10 | 63 | 807 KAR 5:001 Section (10)(3) | Amount of change requested in dollar amounts and percentage for each customer classification to which change will apply.<br>a. Present and proposed rates for each customer class to which change would apply.<br>b. Electric, gas, water and sewer utilities-the effect upon average bill for each customer class to which change would apply.<br>c. Local exchange companies-include effect upon average bill for each customer class for change in basic local service. | Jeffrey R. Bailey |
| 10 | 64 | 807 KAR 5:001 Section 10 (4)(c)(d)(e)(f) | If copy of public notice included, did it meet requirements? | Sandra P. Meyer |
| 10 | 65 | 807 KAR 5:001 Section 6(1) | Amount and kinds of stock authorized. | Lynn J. Good |
| 10 | 66 | 807 KAR 5:001 Section 6(2) | Amount and kinds of stock issued and outstanding. | Lynn J. Good |
| 10 | 67 | 807 KAR 5:001 Section 6(3) | Terms of preference of preferred stock whether cumulative or participating, or on dividends or assets or otherwise. | Lynn J. Good |
| 10 | 68 | 807 KAR 5:001 Section 6(4) | Brief description of each mortgage on property of applicant, giving date of execution, name of mortgagor, name of mortgagee, or trustee, amount of indebtedness authorized to be secured thereby, and the amount of indebtedness actually secured, together with any sinking fund provisions. | Lynn J. Good |
| 10 | 69 | 807 KAR 5:001 Section 6(5) | Amount of bonds authorized, and amount issued, giving the name of the public utility which issued the same, describing each class separately, and giving date of issue, face value, rate of interest, date of maturity and how secured, together with amount of interest paid thereon during the last fiscal year. | Lynn J. Good |
| 10 | 70 | 807 KAR 5:001 Section 6(6) | Each note outstanding, giving date of issue, amount, date of maturity, rate of interest, in whose favor, together with amount of interest paid thereon during the last fiscal year. | Lynn J. Good |
| 10 | 71 | 807 KAR 5:001 Section 6(7) | Other indebtedness, giving same by classes and describing security, if any, with a brief statement of the devolution or assumption of any portion of such indebtedness upon or by person or corporation if the original liability has been transferred, together with amount of interest paid thereon during the last fiscal year. | Lynn J. Good |
| 10 | 72 | 807 KAR 5:001 Section 6(8) | Rate and amount of dividends paid during the five (5) previous fiscal years, and the amount of capital stock on which dividends were paid each year. | Lynn J. Good |
| 10 | 73 | 807 KAR 5:001 Section 6(9) | Detailed income statement and balance sheet. | William Don Wathen, Jr. |

# 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

**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 6**

# SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

# FORM 8-K

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

Date of report (Date of earliest event reported): **March 7, 2006**

# THE UNION LIGHT, HEAT AND POWER COMPANY
(Exact Name of Registrant as Specified in Its Charter)

| Commission File Number | Registrant, State of Incorporation, Address and Telephone Number | I.R.S. Employer Identification No. |
|---|---|---|
| 2-7793 | **THE UNION LIGHT, HEAT AND POWER COMPANY**<br>**(a Kentucky corporation)**<br>**139 East Fourth Street**<br>**Cincinnati, Ohio 45052**<br>**(513) 421-9500** | 31-0473080 |

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

**Item 1.01. Entry into a Material Definitive Agreement**

On March 7, 2006, The Union Light, Heat and Power Company entered into a Purchase Agreement (the "Purchase Agreement") pursuant to which the registrant agreed to issue and sell $50,000,000 aggregate principal amount of its 5.75% Debentures due 2016 (Series A), together with $65,000,000 aggregate principal amount of its 6.2% Debentures due 2036 (Series B), with each series to be issued pursuant to the provisions of the Indenture, dated as of December 1, 2004, between the registrant and Deutsche Bank Trust Company Americas, as Trustee (the "Trustee"), as supplemented by the First Supplemental Indenture dated as of March 7, 2006, between the registrant and the Trustee. The registrant agreed to sell the principal amount of the Debentures to the Initial Purchasers (as such term is defined in the Purchase Agreement) at a price of 99.290% of their principal amount for Series A and a price of 98.559% of their principal amount for Series B. The Purchase Agreement contains customary representations and warranties, indemnification provisions and closing conditions.

The disclosure in this Item 1.01 is qualified in its entirety by the provisions of the Purchase Agreement, which is attached hereto as Exhibit 10.1 and incorporated herein by reference. The closing of the issuance of the Debentures occurred on March 10, 2006.

**Item 2.03. Creation of a Direct Financial Obligation**

See Item 1.01 above.

**Item 9.01. Financial Statements and Exhibits**

(d) Exhibits

10.1 Purchase Agreement in connection with The Union Light, Heat and Power Company's issuance and sale of $50,000,000 aggregate principal amount of its 5.75% Debentures due 2016 and $65,000,000 aggregate principal amount of its 6.2% Debentures due 2036.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

THE UNION LIGHT, HEAT AND POWER COMPANY

Dated: March 16, 2006

By /s/ MARC E. MANLY
Name: Marc E. Manly
Title: Executive Vice President and Chief Legal Officer

**Exhibit 10.1**

**THE UNION LIGHT, HEAT AND POWER COMPANY**

**PURCHASE AGREEMENT**

DATED: March 7, 2006

---

KeyBanc Capital Markets, a Division

of McDonald Investments Inc.

127 Public Square

Cleveland, OH 44114

LaSalle Financial Services, Inc.

540 West Madison Street

28th Floor

Chicago, IL 60661

Ladies and Gentlemen:

The Union Light, Heat and Power Company, a Kentucky corporation (hereinafter called the "**Company**"), proposes to issue and sell to KeyBanc Capital Markets, a division of McDonald Investments Inc., and LaSalle Financial Services, Inc. (the "**Initial Purchasers**") $50,000,000 principal amount of 5.750% Debentures due 2016 (the "**Series A Debentures**") and $65,000,000 principal amount of 6.200% Debentures due 2036 (the "**Series B Debentures**", and together with the Series A Debentures, the "**Securities**"), to be issued pursuant to the provisions of the First Supplemental Indenture dated as of March 7, 2006 to the Indenture dated as of December 1, 2004 (hereinafter called the "**Indenture**"), between the Company and Deutsche Bank Trust Company Americas, as Trustee (hereinafter called the "**Trustee**").

The Securities will be offered without being registered under the Securities Act of 1933, as amended (together with the rules and regulations promulgated thereunder, the "**Securities Act**"), only to persons in the United States whom the Initial Purchasers reasonably believe to be "qualified institutional buyers" ("**QIBs**") as defined in Rule 144A under the Securities Act, as such rule may be amended from time to time ("**Rule 144A**"), in transactions under Rule 144A.

In connection with the sale of the Securities, the Company has prepared a preliminary offering memorandum, dated March 7, 2006 (the "**Preliminary Memorandum**") and a final offering memorandum, to be dated March 7, 2006 (the "**Offering Memorandum**"), for the information of the Initial Purchasers and for delivery to prospective purchasers of the Securities. The terms "supplement," "amendment" and "amend" as used herein with respect to either the Preliminary or Final Memorandum shall include all documents deemed to be incorporated by reference into the Preliminary Memorandum or Final Memorandum that are filed subsequent to the date thereof with the Securities and Exchange Commission (the "**Commission**") pursuant to the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"). The time when sales of Securities are first made or confirmed by the several Initial Purchasers to QIBs is referred to as the "**Time of**

Sale," and the Preliminary Memorandum, as such may be amended or supplemented prior to the Time of Sale, together with the other information set forth on Schedule I hereto, is referred to as the "**Time of Sale Information**."

I.

The Company hereby agrees to sell to each of the Initial Purchasers, and the Initial Purchasers each, severally and not jointly, agree, upon the basis of the representations and warranties herein contained, but subject to the conditions hereinafter stated, to purchase from the Company the principal amount of Securities set forth opposite their names below, at a price of 99.290% of the principal amount of the Series A Debentures and 98.559% of the principal amount of the Series B Debentures (the "**Purchase Price**") and accrued interest from March 10, 2006, to the date of payment and delivery:

| Name | Principal Amount of 10-Year Debentures | Principal Amount of 30-Year Debentures |
|---|---|---|
| KeyBanc Capital Markets, a Division of McDonald Investments Inc. | $ 40,000,000 | $ 52,000,000 |
| LaSalle Financial Services, Inc. | $ 10,000,000 | $ 13,000,000 |
| Total | $ 50,000,000 | $ 65,000,000 |

The Company acknowledges and agrees that the Initial Purchasers are acting solely in the capacity of an arm's length contractual counterparty to the Company with respect to the offering of Securities contemplated hereby (including in connection with determining the terms of the offering) and not as a financial advisor or a fiduciary to, or an agent of, the Company or any other person.

II.

The Company understands that the Initial Purchasers intend (i) to make private offerings pursuant to Rule 144A ("**Exempt Resales**") of their respective portions of the Securities as soon after this Agreement has become effective as in the judgment of the Initial Purchasers is advisable and (ii) initially to offer the Securities upon the terms set forth in the Time of Sale Information.

The Company confirms that it has authorized the Initial Purchasers, subject to the restrictions set forth below, to distribute copies of the Time of Sale Information in connection with the offering of the Securities. Each Initial Purchaser hereby severally makes to the Company the following representations and agreements:

(i) it is a QIB and an "accredited investor" within the meaning of Rule 501(a) under the Securities Act;

(ii) it has not solicited offers for, or offered or sold, and will not solicit offers for, or offer or sell, the Securities by means of any form of general solicitation or general advertising within the meaning of Rule 502(c) of Regulation D under the Securities Act ("**Regulation D**") or in any manner involving a public offering within the meaning of Section 4(2) of the Securities Act; and

(iii) it has not solicited offers for, or offered or sold, and will not solicit offers for, or offer or sell, the Securities as part of their initial offering except within the United States to persons whom it reasonably believes to be QIBs in transactions pursuant to Rule 144A and in connection with such sale, it has taken or will take reasonable steps to ensure that the purchaser of the Securities is aware that such sale is being made in reliance on Rule 144A.

**III.**

Payment for the Securities shall be made by transfer of immediately available funds to an account identified by us in writing not less than two full business days prior to the date of payment, against delivery to you for the respective accounts of the Initial Purchasers of the Securities through The Depositary Trust Company at 10:00 A.M., New York Time, on March 10, 2006 or at such other time on the same or such other date, not later than March 15, 2006, as may be designated by you. The time and date of such payment and delivery are herein referred to as the "**Closing Date**". All other documents referred to herein that are to be delivered at the Closing Date shall be delivered at that time at the office of Davis Polk & Wardwell, 450 Lexington Avenue, New York, NY 10017.

Certificates for the Securities shall be in global form and registered in such names and in such denominations as you shall request in writing not later than one full business day prior to the Closing Date. The certificates evidencing the Securities shall be delivered to you on the Closing Date for the account of the Initial Purchasers, with any transfer taxes payable in connection with the transfer of the Securities to the Initial Purchasers duly paid, against payment of the Purchase Price therefor plus accrued interest, if any, to the date of payment and delivery.

## IV.

The obligations of the Company and the several obligations of the Initial Purchasers hereunder are subject to the condition that:

(a) an appropriate order or orders of the Kentucky Public Service Commission necessary to permit the issue and sale of the Securities as contemplated hereby and containing no material provision or condition which is unacceptable to the Company or the Initial Purchasers shall be in effect and no proceedings to suspend the effectiveness of such order or orders shall be pending or threatened.

The several obligations of the Initial Purchasers hereunder are subject to the following further conditions:

(b) There shall have been no material adverse change (not in the ordinary course of business) in the condition of the Company from that set forth in or contemplated by the Offering Memorandum and the Time of Sale Information; and you shall have received on the Closing Date a certificate, dated the Closing Date and signed by an executive officer of the Company, to the foregoing effect.

(c) Subsequent to the execution and delivery of this Agreement and prior to the Closing Date, there shall not have occurred any downgrading of, nor shall any notice have been given of any review with a negative implication with respect to, the rating accorded any of the Company's securities by any of Standard & Poor's Ratings Services, Moody's Investors Service or Fitch Ratings (or any of their successors).

(d) You shall have received on the Closing Date a certificate, dated the Closing Date and signed by an executive officer of the Company, to the effect set forth in the first paragraph of this Article IV (provided that such certificate may omit any reference as to the extent to which provisions or conditions in the orders referred to in the first paragraph of this Article IV are acceptable to the Initial Purchasers). The officer making such certificate may rely upon the best of his knowledge as to proceedings pending or threatened.

(e) You shall have received on the Closing Date the favorable opinion of Thompson Hine LLP, counsel for the Company, dated the Closing Date, to the effect that:

(i) the Company is a corporation duly incorporated and existing in good standing under the laws of the Commonwealth of Kentucky, the Company has due

corporate and governmental authority to carry on the public utility businesses in which it is engaged and to own and operate the properties in use in such businesses;

(ii) the Company is duly qualified to transact business and is in good standing in the jurisdictions in which the conduct of its businesses or the ownership or leasing of its properties requires such qualification;

(iii) the Indenture has been duly authorized, executed and delivered by the Company and is a valid and binding instrument enforceable in accordance with its terms, except as (A) the enforceability thereof may be limited by bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally and (B) rights of acceleration and the availability of equitable remedies may be limited by equitable principles of general applicability;

(iv) the Securities, when duly executed by the Company, authenticated by the Trustee and delivered to and paid for by the Initial Purchasers pursuant to this Agreement, will be valid and binding obligations of the Company in accordance with their terms, except as (A) the enforceability thereof may be limited by bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally and (B) rights of acceleration and the availability of equitable remedies may be limited by equitable principles of general applicability;

(v) the order of the Kentucky Public Service Commission authorizing the issuance and sale of the Securities is in effect on the Closing Date and no further approval, authorization, consent or order of any other commission or other governmental authority (other than under state securities or Blue Sky laws, as to which such counsel are not called upon to express an opinion) is required for the issuance and sale of the Securities;

(vi) no registration under the Securities Act of the Securities or qualification of the Indenture under the Trust Indenture Act, is required for the sale of the Securities to the Initial Purchasers as contemplated by this Agreement or for the Exempt Resales, assuming in each case (A) that the purchasers in each case who buy the Securities in Exempt Resales are QIBs and (B) the accuracy of and compliance with each of the Company's and the Initial Purchasers'

representations, warranties and covenants contained in this Agreement.

(vii) the statements made in the Time of Sale Information and the Offering Memorandum under the captions "Description of the Debentures" and "Transfer Restrictions," in each case insofar as such statements constitute summaries of the legal matters referred to therein, fairly summarize the matters referred to therein; and the provisions of the Indenture and the Securities conform as to legal matters to the description thereof and to the statements in regard thereto contained in the Time of Sale Information and the Offering Memorandum;

(viii) this Agreement has been duly authorized, executed and delivered by the Company;

(ix) such counsel is (A) of the opinion that each document incorporated by reference in the Time of Sale Information and the Offering Memorandum (except for the financial statements and schedules and other financial and statistical data therein as to which such counsel need not express an opinion) complied when filed with the Commission as to form in all material respects with the requirements of the Securities Exchange Act of 1934, together with the applicable rules and regulations of the Commission thereunder and (B) except for the financial statements and schedules and other financial and statistical data therein as to which such counsel need not express a belief, has no reason to believe that the Preliminary Memorandum, as amended and supplemented, the Time of Sale Information and the Offering Memorandum at the date of this Agreement contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading or that the Time of Sale Information and the Offering Memorandum (as amended or supplemented, if applicable) on the Closing Date contained an untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

In regard to clauses (iii), (iv) and (viii) above, such counsel may state that no opinion is expressed with respect to the effect of New York law. In regard to clause (ix) above, such counsel may state that their opinion and belief is based upon their participation in the preparation of the Time of Sale Information and the

Offering Memorandum and any supplements and amendments thereto and upon their review and discussion of the contents thereof (including documents incorporated by reference), but is without independent check or verification except as specified.

(f) You shall have received on the Closing Date an opinion of Davis Polk & Wardwell, counsel for the Initial Purchasers, dated the Closing Date, covering the matters in (iii), (iv), and clause (B) of (ix) of (e) above, provided that with respect to clause (B) of (ix) of (e) above, such counsel may state that their opinion and belief is based upon their participation in the preparation of the Time of Sale Information and the Offering Memorandum and any amendments and supplements thereto (other than documents incorporated by reference), and upon their review and discussion of the contents thereof (including documents incorporated by reference), but is without independent check or verification except as specified.

(g) You shall have received on the date of this Agreement and Closing Date letters, dated the date of this Agreement and Closing Date, as the case may be, in form and substance satisfactory to you, from Deloitte & Touche LLP, independent accountants, containing statements and information of the type ordinarily included in accountants' "comfort letters" to underwriters with respect to the financial statements and certain financial information contained in or incorporated by reference into the Time of Sale Information and the Offering Memorandum.

**V.**

In further consideration of the agreements of the Initial Purchasers herein contained the Company covenants as follows:

(a) To furnish without charge to you as many copies of the Time of Sale Information and the Offering Memorandum and any amendments and supplements thereto as you may reasonably request.

(b) Before amending or supplementing the Time of Sale Information or the Offering Memorandum, to furnish to each of you a copy of each such proposed amendment or supplement.

(c) Except as permitted by law, during the period of two years after the Closing Date or, if earlier, until such time as the Securities are no longer restricted securities (as defined in Rule 144 under the Securities Act) the Company will not, and will not permit any of its "affiliates" (as defined in Rule 144 under the Securities Act)

to, resell any of the Securities which constitute "restricted securities" under Rule 144 that have been reacquired by any of them.

(d) The Company will take reasonable precautions designed to insure that any offer or sale, direct or indirect, in the United States or to any U.S. person (as defined in Rule 902 under the Securities Act) of any security issued by the Company substantially similar to the Securities, within six months subsequent to the date on which the distribution of the Securities has been completed (as notified to the Company by the Initial Purchasers), is made under restrictions and other circumstances reasonably designed not to affect the status of the offer and sale of the Securities in the United States contemplated by this Agreement as transactions exempt from the registration provisions of the Securities Act.

(e) So long as any of the Securities remain outstanding and during any period in which the Company is not subject to Section 13 or 15(d) of the Exchange Act, upon the request of any holder of Securities (each, a "**Securities Holder**"), the Company shall promptly furnish to such Securities Holder or to a prospective purchaser of Securities designated by such Securities Holder, as the case may be, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act ("**Additional Company Information**") in order to permit compliance by such Securities Holder with Rule 144A in connection with the resale of such Securities by such Securities Holder.

(f) If the Time of Sale Information is being used to solicit offers to buy the Securities at a time when the Offering Memorandum is not yet available to prospective purchasers and any event shall occur or condition exist as a result of which it is necessary to amend or supplement the Time of Sale Information in order to make the statements therein, in the light of the circumstances, not misleading, or if any event shall occur or condition exist as a result of which the Time of Sale Information conflicts with the information contained in the Offering Memorandum, or if it is necessary to amend or supplement the Time of Sale Information to comply with applicable law, forthwith to prepare and furnish, at its own expense, to the Initial Purchasers and to any dealer upon request, either amendments or supplements to the Time of Sale Information so that the statements in the Time of Sale Information as so amended or supplemented will not, in the light of the circumstances when delivered to a prospective purchaser, be misleading or so that the Time of Sale Information, as amended or supplemented, will no longer conflict with the Offering Memorandum.

(g) To endeavor to qualify the Securities for offer and sale under the securities or Blue Sky laws of such jurisdictions as you shall reasonably request and to pay all expenses (including fees and disbursements of counsel) in connection with such qualification and in connection with the determination of the eligibility of the Securities for investment under the laws of such jurisdictions as you may designate.

(h) The Company will pay all out–of–pocket expenses incidental to the performance of its obligations under this Agreement and the Indenture, including (i) the reasonable fees and expenses of the Trustee and its professional advisors, (ii) all expenses in connection with the execution, issue, authentication, packaging and initial delivery of the Securities, the preparation and distribution of this Agreement, the Time of Sale Information, the Offering Memorandum and amendments and supplements thereto, and any other document relating to the issuance, offer, sale and delivery of the Securities, (iii) any reasonable expenses (including reasonable fees and disbursements of counsel) incurred in connection with qualification of the Securities for sale under the laws of such jurisdictions as the Initial Purchasers designate and the printing of memoranda relating thereto and (iv) for any fees charged by investment rating agencies for the rating of the Securities.

(i) During the period beginning on the date of this Agreement and terminating on the Closing Date not to offer, sell, contract to sell or otherwise dispose of any debt securities of the Company substantially similar to the Securities, without your prior written consent.

(j) To cause each of the Securities to bear the legend set forth in the form of Debenture set forth in the Indenture until such legend shall no longer be necessary or advisable because the Securities are no longer subject to the restrictions on transfer described therein.

**VI.**

The Company represents and warrants to each Initial Purchaser that:

(a) The Time of Sale Information and the Offering Memorandum do not, and any supplement or amendment to them will not, contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that the representations and warranties contained in this Section 6(a)

shall not apply to statements in or omissions from the Time of Sale Information or the Offering Memorandum (or any supplement or amendment thereto) based upon information relating to the Initial Purchasers furnished to the Company in writing by the Initial Purchasers expressly for use therein. No order asserting that any of the transactions contemplated by this Agreement are subject to the registration requirements of the Securities Act, has been issued.

(b) When the Securities are issued and delivered pursuant to this Agreement, the Securities will not be of the same class (within the meaning of Rule 144A) as securities which are listed on a national securities exchange registered under Section 6 of the Exchange Act, or quoted in a U.S. automated inter-dealer quotation system.

(c) None of the Company or any its affiliates or any person acting on its or their behalf (other than the Initial Purchasers, as to which the Company makes no representation) has offered or sold, or will offer or sell, the Securities by means of any general solicitation or general advertising within the meaning of Rule 502(c) under the Securities Act.

(d) The Securities satisfy the eligibility requirements of Rule 144(d)(3) under the Securities Act.

(e) Each of the Time of Sale Information and the Offering Memorandum, as of its date, contains all the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the Securities Act.

(f) None of the Company or any of its affiliates (as defined in Rule 501(b) of Regulation D), or, to the best the Company's knowledge, any person acting on its or their behalf, directly or indirectly (other than the Initial Purchasers, as to which the Company makes no representation), has made or will make offers or sales of any security, or has solicited or will solicit offers to buy any security, under circumstances that would require the registration of the Securities under the Securities Act.

(g) No registration under the Securities Act of the Securities or qualification of the Indenture under the Trust Indenture Act, is required for the sale of the Securities to the Initial Purchasers as contemplated by this Agreement or for the Exempt Resales, assuming in each case that (A) the purchasers who buy the Securities in the Exempt Resales are Eligible Purchasers and (B) the accuracy of and compliance with the Initial Purchasers'

representations, warranties and covenants contained in this Agreement.

## VII.

The Company agrees to indemnify and hold harmless each Initial Purchaser and each person, if any, who controls any Initial Purchaser within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act, from and against any and all losses, claims, damages and liabilities (including the fees and expenses of counsel in connection with any governmental or regulatory investigation or proceeding) caused by any untrue statement or alleged untrue statement of a material fact contained in the Preliminary Memorandum, as amended or supplemented, the Time of Sale Information or the Offering Memorandum (as amended or supplemented if the Company shall have furnished any amendments or supplements thereto) or caused by any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as such losses, claims, damages or liabilities are caused by any such untrue statement or omission or alleged untrue statement or omission based upon information furnished in writing to the Company by any Initial Purchaser through you expressly for use therein.

In case any action shall be brought against any Initial Purchaser or any person controlling such Initial Purchaser, based upon the Preliminary Memorandum, as amended or supplemented, the Time of Sale Information or the Offering Memorandum or any amendment or supplement thereto or any preliminary memorandum and in respect of which indemnity may be sought against the Company, such Initial Purchaser shall promptly notify the Company in writing, and the Company, upon the request of such Initial Purchaser, shall assume the defense thereof on behalf of the Initial Purchaser or controlling person, including the employment of counsel and payment of all expenses. In any such action, such Initial Purchaser or any such controlling person shall have the right to employ its own counsel but the fees and expenses of such counsel shall be at the expense of the Initial Purchaser or such controlling person unless (i) the employment of such counsel has been specifically authorized in writing by the Company or (ii) the named parties to any such action (including any impleaded parties) include both such Initial Purchaser or such controlling person and the Company and the Initial Purchaser or controlling person shall have been advised by such counsel that there maybe one or more legal defenses available to it which are different from or additional to those available to the Company (it being understood, however, that the Company shall not, in connection with any one such action or separate but substantially similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances, be liable for the reasonable fees and expenses of more than one separate firm of attorneys (in addition to one firm of local counsel) for all such Initial Purchaser and controlling persons, which firm shall be designated in writing by you, and that such fees and expenses shall be reimbursed as they are incurred). The Company

shall not be liable for indemnification (or contribution as provided below) with respect to the settlement of any such action effected without its written consent, but if settled with the written consent of the Company or if there be a final judgment for the plaintiff in any such action, the Company agrees to indemnify and hold harmless any Initial Purchaser and any such controlling person from and against any loss or liability by reason of such settlement or judgment (or to make contribution as provided below).

Each Initial Purchaser agrees, severally and not jointly, to indemnify and hold harmless the Company, its directors, its officers and any person controlling the Company to the same extent as the foregoing indemnity from the Company to the Initial Purchaser, but only with reference to information relating to such Initial Purchaser furnished in writing by such Initial Purchaser expressly for use in the Time of Sale Information or the Offering Memorandum. In case any action shall be brought against the Company, any of its directors or any such officer or controlling person based on the Time of Sale Information or the Offering Memorandum and in respect of which indemnity may be sought against any Initial Purchaser, such Initial Purchaser shall have the rights and duties given to the Company, and the Company, its directors or any such officer or controlling person shall have the rights and duties given to the Initial Purchaser, by the preceding paragraph of this Article VII.

If the indemnification provided for in the second paragraph of this Article VII is unavailable to any Initial Purchaser or other indemnified party in respect of any losses, claims, damages or liabilities referred to therein, then the Company, in lieu of indemnifying such indemnified party thereunder, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (i) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and the Initial Purchasers on the other from the offering of the Securities or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company on the one hand and of the Initial Purchasers on the other in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the Initial Purchasers on the other shall be deemed to be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Company bear to the total discounts and commissions received by the Initial Purchasers, in each case as set forth in the table on the cover page of the Offering Memorandum. The relative fault of the Company and of the Initial Purchasers shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by the Company or by the Initial Purchasers and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

If the indemnification provided for in this Article VII is sought solely by the Company under the fourth paragraph hereof and there is no claim for indemnification by any Initial Purchaser or any person controlling such Initial Purchaser arising out of the same misstatement or omission and if such indemnification is unavailable to the Company in respect of any losses, claims, damages or liabilities referred to in such fourth paragraph, then each Initial Purchaser, in lieu of indemnifying the Company, shall contribute to the amount paid or payable by the Company as a result of such losses, claims, damages or liabilities in such proportion as is appropriate to reflect the relative fault of the Company on the one hand and of the Initial Purchasers on the other in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The relative fault of the Company on the one hand and of the Initial Purchasers on the other shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company or by the Initial Purchaser and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The Company and the Initial Purchasers agree that it would not be just and equitable if contribution pursuant to this Article VII were determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to in the two immediately preceding paragraphs. The amount paid or payable by an indemnified party as a result of the losses, claims, damages and liabilities referred to in such paragraphs shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Article VII, no Initial Purchaser shall be required to contribute any amount in excess of the amount by which the total Purchase Price of the Securities purchased by it exceeds the amount of any damages which such Initial Purchaser has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities) shall be entitled to contribution from any person who is not guilty of such fraudulent misrepresentation. The Initial Purchasers' obligations to contribute pursuant to this Article VII are several in proportion to their respective underwriting percentages (as defined in the Agreement Among Initial Purchasers relating to the Securities) and not joint.

The indemnity and contribution agreements contained in this Article VII and the representations and warranties of the Company set forth in this Agreement shall remain operative and in full force and effect regardless of (i) any termination of this Agreement, (ii) any investigation made by or on behalf of any Initial Purchaser or any person controlling any Initial Purchaser or by or on behalf of the

Company, its directors or officers or any person controlling the Company and (iii) acceptance of and payment for any of the Securities.

## VIII.

This Agreement shall be subject to termination in your absolute discretion, by notice given to the Company, if (a) prior to the Closing Date (i) trading in securities on the New York Stock Exchange or the American Stock Exchange shall have been suspended or materially limited, (ii) trading in any securities of the Company shall have been suspended on any national securities exchange in the United States or in any over-the-counter market in the United States, (iii) a general moratorium on banking activities in New York shall have been declared by Federal or New York State authorities or (iv) there shall have occurred any outbreak or escalation of hostilities or any change in the financial markets or other calamity or crisis, any of which is material and adverse and (b) in the case of any of the events specified in clauses (a)(i) through (iv), such event either singly or together makes it, in your reasonable judgment, impracticable to market the Securities. Any termination of this Agreement pursuant to this Article VIII shall be without liability on the part of the Company to the Initial Purchasers, or the Initial Purchasers to the Company.

## IX.

This Agreement shall become effective upon signature.

If any one or more of the Initial Purchasers shall fail or refuse to purchase Securities which it or they have agreed to purchase hereunder, and the aggregate principal amount of Securities which such defaulting Initial Purchaser or Initial Purchasers agreed but failed or refused to purchase is not more than one-tenth of the aggregate principal amount of Securities, the other Initial Purchasers shall be obligated severally in the proportions which the principal amount of Securities set forth opposite their names in Article I bears to the aggregate principal amount of Securities so set forth opposite the names of all such non-defaulting Initial Purchasers, or in such other proportions as you may specify, to purchase the Securities which such defaulting Initial Purchaser or Initial Purchasers agreed but failed or refused to purchase; provided that in no event shall the principal amount of Securities which any Initial Purchaser has agreed to purchase pursuant to Article I hereof be increased pursuant to this Article IX by an amount in excess of one-ninth of such principal amount of Securities without the written consent of such Initial Purchaser. If any Initial Purchaser or Initial Purchaser shall fail or refuse to purchase Securities and the aggregate principal amount of Securities with respect to which such default occurs is more than one-tenth of the aggregate principal amount of Securities and arrangements satisfactory to you and the Company for the purchase of such Securities are not made within 36 hours after such default, this Agreement will terminate without liability on the part of any non-defaulting Initial Purchaser or of the Company. In any such case which does not result in such a termination, either you or the Company shall have the right to

postpone the Closing Date, but in no event for longer than seven days, in order that the required changes, if any, in the Offering Memorandum or in any other documents or arrangements may be effected. Any action taken under this paragraph shall not relieve any defaulting Initial Purchaser from liability in respect of any default of such Initial Purchaser under this Agreement.

If this Agreement shall be terminated by the Initial Purchasers, or any of them, because of any failure or refusal on the part of the Company to comply with the terms or to fulfill any of the conditions of this Agreement or if for any reason the Company shall be unable to perform its obligations under this Agreement, the Company will reimburse the Initial Purchasers or such Initial Purchasers as have so terminated this Agreement with respect to themselves, severally, for all out-of-pocket expenses (including the reasonable fees and disbursements of their counsel), reasonably incurred by the Initial Purchasers in connection with this Agreement or the offering contemplated hereunder.

This Agreement shall be governed by and construed in accordance with the laws of the State of New York.

This Agreement may be signed in various counterparts which together shall constitute one and the same instrument.

Very truly yours,

THE UNION LIGHT, HEAT AND
POWER COMPANY

By: /s/ Wendy L. Aumiller
Name: Wendy L. Aumiller
Title: Vice President & Treasurer

Accepted: March 7, 2006

KEYBANC CAPITAL MARKETS,

a Division of McDonald Investments
Inc.

By: /s/ Nida Raza
Name: Nida Raza
Title: Director

LASALLE FINANCIAL
SERVICES, INC.

By: /s/ Jim Stewart
Name: Jim Stewart
Title: Managing Director, Head of US Fixed Income Capital Markets

Schedule 1

Time of Sale Information

***$115 million Union Light Heat & Power Senior Notes 5.75% due 2016 and 6.20% due 2036***

***Proposed Terms and Conditions***

| | | |
|---|---|---|
| **Issuer:** | Union Light Heat & Power | |
| **Market Type:** | Senior Unsecured Notes | |
| **Ratings:** | Baa1/BBB (stable/negative) | |
| **Trade Date:** | March 7, 2006 | |
| **Settlement Date:** | March 10, 2006 (T+3) | |
| **Coupon Payment Dates:** | March 10 and September 10 | |
| **First Payment Date:** | September 10, 2006 | |
| **Final Maturity:** | March 10, 2016 | March 10, 2036 |
| **Principal Amount:** | US$50,000,000 | US$65,000,000 |
| **Treasury Benchmark:** | UST4.500% Feb-16 | UST5.375% Feb-31 |
| **Treasury Price:** | 98-6+ | 108-4 |
| **Treasury Yield:** | 4.728% | 4.812% |
| **Spread:** | + 103 basis points | + 143 basis points |
| **Yield:** | 5.758% | 6.242% |
| **Coupon:** | 5.750% | 6.200% |
| **Issue Price:** | 99.940% | 99.434% |
| **Underwriting Fee:** | 0.65% | 0.875% |
| **Price to Issuer:** | 99.290% | 98.559% |
| **Proceeds to Issuer:** | US$49,645,000 | US$64,063,350 |
| **CUSIP:** | 906888 AR 3 | 906888 AS 1 |
| **Day Count:** | 30/360 | |
| **Payment Frequency:** | Semi-Annual | |
| **Denominations:** | $1,000 x 1,000 | |
| **Sole Book-Running Manager:** | KeyBanc Capital Markets, a Division of McDonald Investments Inc. (80%) | |
| **Co-Managers:** | LaSalle Financial Services, Inc. (20%) | |

# FORM 8-K

## UNION LIGHT HEAT &POWER CO - N/A

**Filed: January 31, 2006 (period: January 25, 2006)**

Report of unscheduled material events or corporate changes.

# Table of Contents

# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

---

# FORM 8–K

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

---

Date of report (Date of earliest event reported): **January 25, 2006**

# THE UNION LIGHT, HEAT AND POWER COMPANY

(Exact Name of Registrant as Specified in Its Charter)

| Commission File Number | Registrant, State of Incorporation, Address and Telephone Number | I.R.S. Employer Identification No. |
|---|---|---|
| **2–7793** | **THE UNION LIGHT, HEAT AND POWER COMPANY**<br>(A Kentucky Corporation)<br>**139 East Fourth Street**<br>**Cincinnati, Ohio 45202**<br>**(513) 421–9500** | **31–0473080** |

Check the appropriate box below if the Form 8–K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a–12 under the Exchange Act (17 CFR 240.14a–12)

☐ Pre–commencement communications pursuant to Rule 14d–2(b) under the Exchange Act (17 CFR 240.14d–2(b))

☐ Pre–commencement communications pursuant to Rule 13e–4(c) under the Exchange Act (17 CFR 240.13e–4(c))

**Item 2.01. Completion of Acquisition or Disposition of Assets.**

On January 25, 2006, The Union Light, Heat and Power Company ("ULH&P") completed the acquisition from The Cincinnati Gas & Electric Company ("CG&E"), ULH&P's parent company, of CG&E's ownership interest in the East Bend Generating Station, the Woodsdale Generating Station, and one generating unit at the four–unit Miami Fort Generating Station. The transfer was effective as of January 1, 2006 at a net book value of approximately $375 million for the generating assets, and approximately $24 million in inventory and other assets. The transfer will result in a capital contribution by CG&E to ULH&P of approximately $145 million. In addition, ULH&P has assumed certain tax–exempt debt obligations of CG&E totaling approximately $77 million, certain accounts payable of CG&E totaling approximately $90 million and certain asset retirement obligations of CG&E totaling approximately $2 million. Furthermore, approximately $85 million in deferred tax liabilities resulted from the transaction.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

THE UNION LIGHT, HEAT AND POWER COMPANY

Dated: January 31, 2006

By /s/ MARC E. MANLY
Name: Marc E. Manly
Title: Executive Vice President and Chief Legal Officer

# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

---

# FORM 8–K

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

---

Date of report (Date of earliest event reported): **September 9, 2005**

# CINERGY CORP.

(Exact Name of Registrant as Specified in Its Charter)

| Commission File Number | Registrant, State of Incorporation, Address and Telephone Number | I.R.S. Employer Identification No. |
|---|---|---|
| 1–11377 | **CINERGY CORP.**<br>(A Delaware Corporation)<br>**139 East Fourth Street**<br>**Cincinnati, Ohio 45202**<br>**(513) 421–9500** | 31–1385023 |
| 1–1232 | **THE CINCINNATI GAS & ELECTRIC COMPANY**<br>(An Ohio Corporation)<br>**139 East Fourth Street**<br>**Cincinnati, Ohio 45202**<br>**(513) 421–9500** | 31–0240030 |
| 1–3543 | **PSI ENERGY, INC.**<br>(An Indiana Corporation)<br>**1000 East Main Street**<br>**Plainfield, Indiana 46168**<br>**(513) 421–9500** | 35–0594457 |
| 2–7793 | **THE UNION LIGHT, HEAT AND POWER COMPANY**<br>(A Kentucky Corporation)<br>**139 East Fourth Street**<br>**Cincinnati, Ohio 45202**<br>**(513) 421–9500** | 31–0473080 |

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

**Item 1.01. Entry into Material Definitive Agreement**

On September 9, 2005, the Registrants entered into a Five-Year Senior Revolving Credit Agreement with Barclays Bank PLC as Administrative Agent, JPMorgan Chase Bank, N.A. as Syndication Agent and a syndicate of lenders. The total commitment under this new credit facility is $2 billion for Cinergy Corp. and $500 million of the total commitment is available for letters of credit. The total commitment to Cinergy Corp. can be increased up to an amount not to exceed $2.5 billion either by adding a new lender or by means of an increase in the commitment of an existing lender. The termination date of the Credit Agreement is September 9, 2010 and, with respect to the commitments of the lenders consenting, can be extended twice, each extension for an additional one-year period. The new Credit Agreement replaces two existing credit agreements, one dated April 26, 2004, to which Cinergy Corp. and various lenders were parties, and one dated December 9, 2004, to which Cinergy Corp., The Cincinnati Gas & Electric Company (CG&E), PSI Energy, Inc. (PSI) and various lenders were parties.

The new Credit Agreement provides for sub-limit credit facilities for CG&E, PSI and The Union Light, Heat and Power Company (ULH&P) (each of which is a direct or indirect subsidiary of Cinergy Corp.), in the amounts of $500 million, $500 million and $65 million, respectively. These sub-limits are subject to change in the event of specified circumstances. CG&E, PSI and ULH&P cannot be cross defaulted by a default on the part of any of the other companies. However, Cinergy Corp. can be cross defaulted by a default on the part of CG&E, PSI or ULH&P.

Pricing under the new credit facility depends on the credit ratings of the applicable borrower.

The new Credit Agreement contains certain affirmative and negative covenants, including two financial covenants for the borrowers: (1) a maximum consolidated indebtedness to consolidated total capitalization ratio of 0.65; and (2) a minimum consolidated net worth covenant of $2 billion, $1 billion, $900 million and $150 million for Cinergy Corp. CG&E, PSI an ULH&P, respectively. The net worth covenants for CG&E and ULH&P are subject to change related to certain permitted changes in the sub-limits for these companies.

The new Credit Agreement provides that the transaction described 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 will not be considered a fundamental change or a "Change of Control" for purposes of the Credit Agreement.

The new Credit Agreement provides for customary events of default with corresponding grace periods, including, among other matters, failure to pay any principal or interest when due, failure to comply with certain covenants, certain insolvency or receivership events affecting Cinergy Corp. or its material subsidiaries, and a change of control of Cinergy Corp. (as defined in the Credit Agreement). In the event of a default by a borrower, the administrative agent may, and at the request of the requisite number of lenders shall, declare all amounts owing by the applicable borrower under the Credit Agreement immediately due and payable, terminate the lenders' commitments to the applicable borrower to make loans under the Credit Agreement, and exercise any and all remedies and other rights under the Credit Agreement. For certain events of default related to insolvency and receivership, the commitments of lenders will be automatically terminated and all outstanding loans will become immediately due and payable.

The foregoing description of the new Credit Agreement is qualified in its entirety by reference to the Credit Agreement filed as Exhibit 10.1 hereto, which is hereby incorporated by reference herein.

**Item 9.01 Financial Statements and Exhibits**

(c) Exhibits

| Exhibit Number | Description |
|---|---|
| 10.1 | Five-Year Senior Revolving Credit Agreement dated September 9, 2005 by and among Cinergy Corp., CG&E, PSI, ULH&P, JPMorgan Chase Bank, N.A. as Syndication Agent, Barclays Bank PLC as Administrative Agent, and the lenders party thereto. |

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, each Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

CINERGY CORP.

THE CINCINNATI GAS & ELECTRIC COMPANY

PSI ENERGY, INC.

THE UNION LIGHT, HEAT AND POWER COMPANY

Dated: September 15, 2005

By /s/ Wendy L. Aumiller
Name: Wendy L. Aumiller
Title: Vice President and Treasurer for each Registrant

**Exhibit 10.1**

**$2,000,000,000**

# FIVE-YEAR SENIOR
# REVOLVING CREDIT AGREEMENT

**Dated as of September 9, 2005**

**by and among**

**CINERGY CORP.,**

**THE CINCINNATI GAS & ELECTRIC COMPANY,**

**PSI ENERGY, INC.**

**THE UNION LIGHT, HEAT AND POWER COMPANY**

**and**

**THE BANKS NAMED HEREIN,**

**as *Lenders,***

**JPMORGAN CHASE BANK, N.A.,**
**as *Syndication Agent***

**and**

**BARCLAYS BANK PLC,**

**as *Administrative Agent***

**and as *LC Bank***

**BARCLAYS CAPITAL,**
**the investment banking division of**
**Barclays Bank PLC,**

**and**

**J.P. MORGAN SECURITIES INC.,**
as *Joint Lead Arrangers and Bookrunners*

**TABLE OF CONTENTS**

# FIVE-YEAR SENIOR REVOLVING CREDIT AGREEMENT

**FIVE-YEAR SENIOR REVOLVING CREDIT AGREEMENT** dated as of September 9, 2005 (this "***Agreement***"), by and among:

a) CINERGY CORP., a Delaware corporation ("***Cinergy***");

b) THE CINCINNATI GAS & ELECTRIC COMPANY, an Ohio corporation ("***CG&E***");

c) PSI ENERGY, INC., an Indiana corporation ("***PSI ENERGY***")

d) THE UNION LIGHT, HEAT AND POWER COMPANY, a Kentucky corporation ("***ULH&P***").

e) the banks and other financial institutions or entities listed on the signature pages hereof (the "***Banks***") and other Lenders (as hereinafter defined) from time to time party hereto;

f) JPMORGAN CHASE BANK, N.A. ("***JPMCB***") as Syndication Agent (in such capacity, the "***Syndicatior Agent***"); and

g) BARCLAYS BANK PLC ("***Barclays***") as Administrative Agent (in such capacity, the "***Administrative Agent***") for the Lenders hereunder and as LC Bank (as hereinafter defined).

## W I T N E S S E T H

**WHEREAS**, the Borrowers (as defined herein) have requested the Banks to provide the credit facility hereinafter described in the amounts and on the terms and conditions set forth herein, the Banks have so agreed on the terms and conditions set forth herein, and the Administrative Agent has agreed to act as agent for the Lenders on such terms and conditions;

**NOW, THEREFORE**, the parties to this Agreement hereby agree as follows:

## ARTICLE I
## DEFINITIONS AND ACCOUNTING TERMS

### *SECTION 1.1.* Certain Defined Terms.

As used in this Agreement, the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"***Advance***" means an advance by a Lender to any Borrower as part of a Borrowing and refers to a Base Rate Advance or a Eurodollar Rate Advance, each of which shall be a "***Type***" of Advance.

"***Affected Lender***" has the meaning specified in Section 2.16.

"***Affiliate***" means, as to any Person, any trade or business (whether or not incorporated) which is a member of a group of which such Person is a member and which is under common control within the meaning of the regulations under Section 414 of the Code.

"***Applicable Lending Office***" means, with respect to each Lender, such Lender's Domestic Lending Office, in the case of a Base Rate Advance, and such Lender's Eurodollar Lending Office, in the case of a Eurodollar Rate Advance.

"***Applicable Margin***" means, for any Advance, the percentage rate *per annum* set forth in the appropriate column below, as determined by reference to the Applicable Rating Level, *plus* 0.10% *per annum* during any period in which the Outstanding Extensions of Credit exceed 50% of the Total Commitment:

| | Applicable Margin | |
|---|---|---|
| **Applicable Rating Level** | **Base Rate Advances** | **Eurodollar Advances** |
| Level I | 0.000% | 0.220% |
| Level II | 0.000% | 0.350% |
| Level III | 0.000% | 0.425% |
| Level IV | 0.000% | 0.500% |
| Level V | 0.000% | 0.800% |

Any change in the Applicable Margin caused by a change in the Applicable Rating Level shall take effect at the time such change in the Applicable Rating Level shall occur.

"***Applicable Rating Level***" shall be determined at any time and from time to time on the basis of the then applicable Reference Ratings of the relevant Borrower issued or maintained by the Rating Agencies (or Rating Agency, in the case of only one Reference Rating) in accordance with the following table:

| **Applicable Rating Level** | **S&P** | **Moody's** |
|---|---|---|
| Level I | A– or higher | A3 or higher |
| Level II | BBB+ | Baa1 |
| Level III | BBB | Baa2 |
| Level IV | BBB– | Baa3 |
| Level V | BB+ or lower (or unrated) | Ba1 or lower (or unrated) |

In the event of a "split" rating for a Borrower, the Applicable Rating Level shall be determined on the basis of the higher of the two ratings then applicable; *provided* that if the two ratings are two or more levels apart, the Applicable Rating Level shall be determined on the basis of the rating that is one level lower than the higher of the two ratings then applicable; *provided further*, that if both Moody's and S&P shall have ceased to issue or maintain Reference Ratings, then the Applicable Rating Level shall be Level V. The Applicable Rating Level shall be redetermined as and when any change in the ratings used in the determination thereof shall be announced by any Rating Agency. For the avoidance of doubt, the Applicable Rating Level as of the date of this Agreement (i) for Cinergy, is Level III and (ii) for CG&E, PSI Energy and ULH&P, is Level II.

"***Approved Fund***" means any Person (other than a natural Person) that is (or will be) engaged in making, purchasing, holding or otherwise investing in commercial loans and similar extensions of credit in the ordinary course of its business and that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of an entity that administers or manages a Lender.

"***Assignment and Acceptance***" means an assignment and acceptance in substantially the form of Exhibit E hereto.

"***Assignment Effective Date***" means the effective date of any Assignment and Acceptance.

"***Barclays***" has the meaning specified in the caption to this Agreement.

"***Barclays Capital***" means Barclays Capital, the investment banking division of Barclays Bank PLC.

"***Base Rate***" means, for any day for which the same is to be calculated, the higher of (a) the rate designated by Barclays from time to time as its prime rate in the United States of America and (b) the Federal Funds Rate for such day plus 1/2 of 1%. Each change in the Base Rate shall take effect simultaneously with the corresponding change or changes in the rates described in clause (a) or clause (b), above, or in the Applicable Rating Level, as the case may be.

"***Base Rate Advance***" means an Advance which bears interest as provided in Section 2.8(a).

"***Borrower***" means each of Cinergy, CG&E, PSI Energy and ULH&P; collectively, the "Borrowers".

"***Borrowing***" means a borrowing consisting of simultaneous Advances of the same Type and having the same Interest Period made by each of the Lenders pursuant to Section 2.1.

"***Borrowing Date***" means any Business Day specified in a Notice of Borrowing as a date on which a Borrower requests the Lenders to make Advances hereunder, or such Business Day on which a Borrowing pursuant to Section 3.4 is made.

"***Business Day***" means a day of the year on which banks are not required or authorized to close in New York City and, if the applicable Business Day relates to any Eurodollar Rate Advances, on which dealings are carried on in Eurodollars in the London interbank market.

"***Capital Stock***" means any and all shares, interests, participations or other equivalents (however designated) of

capital stock of a corporation, any and all equivalent ownership interests in a Person (other than a corporation) and any and all warrants or options to purchase any of the foregoing.

"***Cash Account***" has the meaning specified in Section 7.1.

"***CG&E First Mortgage Trust Indenture***" shall mean the first mortgage trust indenture, dated as of August 1, 1936 between CG&E and The Bank of New York (successor to Irving Trust Company), as trustee, as amended, modified or supplemented from time to time, and any successor or replacement mortgage trust indenture.

"***CG&E Outstanding Extensions of Credit***" means, as of any day for the determination thereof, (a) the aggregate principal amount of all Advances made to CG&E outstanding on such day *plus* (b) the LC Outstandings of CG&E on such day *plus* (c) the aggregate amount of all Unreimbursed LC Disbursements of CG&E outstanding on such day.

"***CG&E Sublimit***" means $500,000,000.

"***Change of Control***" means (a) the acquisition of ownership, directly or indirectly, beneficially or of record, by any Person or group (within the meaning of the Securities Exchange Act of 1934 and the rules of the Securities and Exchange Commission thereunder as in effect on the date hereof), of Capital Stock representing more than 35% of the aggregate ordinary voting power represented by the issued and outstanding Capital Stock of Cinergy; (b) occupation of a majority of the seats (other than vacant seats) on the board of directors of such Borrower by Persons who were neither (i) nominated by the board of directors of Cinergy or the applicable Borrower nor (ii) appointed by directors so nominated; or (c) any of CG&E, PSI Energy or ULH&P shall cease to be wholly–owned direct Subsidiaries of Cinergy (or, in the case of ULH&P, so long as it is a wholly–owned direct Subsidiary of CG&E, a wholly–owned indirect Subsidiary of Cinergy); *provided*, that references to each Borrower in this definition of "Change of Control" shall also refer to any successor entity as may be permitted by Section 6.2; *provided further*, that the transaction described in the Agreement and Plan of Merger by and among Duke Energy Corporation, Cinergy, Deer Holding Corp., Deer Acquisition Corp., and Cougar Acquisition Corp., dated as of May 8, 2005, as disclosed in Form 8–K filed by Cinergy with the Securities and Exchange Commission on May 10, 2005, and other filings made by Cinergy at least five Business Days prior to the Effective Date with respect to such transaction, shall not be considered a Change of Control under subclause (a) or (b) above for purposes of this Agreement.

"***Code***" means the Internal Revenue Code of 1986, as amended from time to time.

"***Commitment***" has the meaning specified in Section 2.1(a).

"***Commitment Increase***" has the meaning specified in Section 2.17.

"***Commitment Increase Effective Date***" has the meaning specified in Section 2.17.

"***Commitment Percentage***" means, as to any Lender as of any date of determination, the percentage describing such Lender's *pro rata* share of the Commitments set forth in the Register from time to time.

"***Consolidated Indebtedness***" means, for any Borrower, as of the date of any determination thereof, the principal amount then outstanding of all Indebtedness of such Borrower and its Subsidiaries, determined on a consolidated basis after elimination of inter–company items, *less* deposits of cash or cash equivalents in restricted accounts relating to the proceeds of tax exempt bonds of such Borrower and its Subsidiaries as of such date; *provided* that Consolidated Indebtedness shall not include (i) Non–Recourse Debt or (ii) in the case of Cinergy only, Indebtedness in respect of Preferred Trust Securities.

"***Consolidated Net Worth***" means, as of the date of any determination thereof, all items that, in conformity with GAAP, would be included under shareholders' equity on a consolidated balance sheet of the applicable Person at such date.

"***Consolidated Total Capitalization***" means, as of the date of any determination thereof, the sum of Consolidated Net Worth of the applicable Person at such date, the Consolidated

Indebtedness of such Person at such date, and, to the extent not otherwise included, preferred stock and mandatorily redeemable preferred trust securities of such Person at such date.

"***Contractual Obligation***" means any provision of any security issued by the applicable Person or of any agreement, instrument or other undertaking to which such Person is a party or by which it or any of its property is bound.

"***Default***" means any event, which, but for the giving of notice or lapse of time or both, would constitute an Event of Default.

"***Disclosure Document***" means (i) the Borrowers' Annual Report on Form 10–K for the fiscal year ended December 31, 2004 and any report of any Borrower on Form 10–Q or Form 8–K filed since December 31, 2004 and five Business Days prior to the Effective Date or (ii) for the purposes of satisfying the requirements of Section 2.18(b)(ii) only, the Borrowers' Annual Report on Form 10–K for the most recently ended fiscal year and any report of any Borrower on Form 10–Q or Form 8–K filed since the filing of the Borrower's Annual Report for the most recently ended fiscal year and five Business Days prior to the effective date of the relevant Termination Date extension.

"***Domestic Lending Office***" means, with respect to any Lender, the office of such Lender specified as its "Domestic Lending Office" opposite its name on Schedule 1.1 hereto or in the Assignment and Acceptance pursuant to which it became a Lender, or such other office of such Lender as such Lender may from time to time specify to the Borrowers and the Administrative Agent.

"***Effective Date***" means the date on which all of the conditions specified in Section 4.1 hereof have been satisfied.

"***Environmental Law***" means any and all statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or other governmental restrictions relating to the environment or the release of any materials into the environment.

"***ERISA***" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

"***ERISA Affiliate***" means any trade or business (whether or not incorporated) that is under common control with any Borrower within the meaning of Section 4001 of ERISA or is part of a group which includes the Borrower and which is treated as a single employer under Section 414 of the Code.

"***ERISA Event***" means (a) the occurrence of any "reportable event", as defined in Section 4043 of ERISA or the regulations issued thereunder with respect to a Plan (other than an event for which the 30–day notice period is waived under PBGC Reg. §4043); (b) the occurrence of any "prohibited transaction" (as defined in Section 406 of ERISA or Section 4975 of the Code) with respect to a Plan; (c) the existence with respect to any Plan of an "accumulated funding deficiency" (as defined in Section 412 of the Code or Section 302 of ERISA), whether or not waived; (d) the filing pursuant to Section 412(d) of the Code or Section 303(d) of ERISA of an application for a waiver of the minimum funding standard with respect to any Plan; (e) the incurrence by the Borrower or any of its ERISA Affiliates of any liability under Title IV of ERISA with respect to the termination of any Plan; (f) the receipt by the borrower or any ERISA Affiliate from the PBGC or a plan administrator of any notice relating to an intention to terminate any Plan or Plans or to appoint a trustee to administer any Plan; (g) the incurrence by the Borrower or any of its ERISA Affiliates of any liability with respect to the "withdrawal" or "partial withdrawal" (as such terms are defined respectively in Sections 4203 and 4205 of ERISA) from any Single Employer Plan or Multiemployer Plan; or (h) the receipt by the Borrower or any ERISA Affiliate of any notice, or the receipt by any Multiemployer Plan from

the Borrower or any ERISA Affiliate of any notice, concerning the imposition of Withdrawal Liability (or that would reasonably be expected to result in Withdrawal Liability) or a determination that a Multiemployer Plan is, or is expected to be, insolvent or in reorganization, within the meaning of Title IV of ERISA.

"***Eurocurrency Liabilities***" has the meaning specified in Regulation D of the Board of Governors of the Federal Reserve System, as in effect from time to time.

"***Eurodollar Lending Office***" means, with respect to any Lender, the office of such Lender specified as its "Eurodollar Lending Office" opposite its name on Schedule 1.1 hereto (or, if no such office is specified, its Domestic Lending Office) or in the Assignment and Acceptance pursuant to which it became a Lender, or such other office of such Lender as such Lender may from time to time specify to the Borrowers and the Administrative Agent.

"***Eurodollar Rate***" means, for the Interest Period for each Eurodollar Rate Advance comprising part of the same Borrowing, an interest rate *per annum* equal to the average (rounded upward to the nearest whole multiple of 1/100 of 1% *per annum*, if such average is not such a multiple) of the rate *per annum* determined on the basis of the rate for deposits in U.S. dollars for a period equal to such Interest Period commencing on the first day of such Interest Period appearing on Page 3750 of the Telerate screen as of 11:00 A.M., London time, two Business Days prior to the beginning of such Interest Period. In the event that such rate does not appear on Page 3750 of the Telerate screen (or otherwise on such screen), the "***Eurodollar Rate***" shall be determined by reference to such other comparable publicly available service for displaying eurodollar rates as may be selected by the Administrative Agent or, in the absence of such availability, by reference to the rate at which the Administrative Agent is offered U.S. dollar deposits at or about 11:00 A.M., New York City time, two Business Days prior to the beginning of such Interest Period in the interbank eurodollar market where its eurodollar and foreign currency and exchange operations are then being conducted for delivery on the first day of such Interest Period for the number of days comprised therein.

"***Eurodollar Rate Advance***" means an Advance which bears interest as provided in Section 2.8(b).

"***Event of Default***" has the meaning specified in Section 7.1.

"***Excepted Subsidiaries***" means CG&E, PSI Energy and ULH&P.

"***Existing Credit Agreements***" means the Existing Five-Year Credit Agreement and the Existing Three-Year Credit Agreement.

"***Existing Letters of Credit***" means the letters of credit described on Schedule 3.9.

"***Existing Five-Year Credit Agreement***" means the Five Year Senior Revolving Credit Agreement, dated as of December 9, 2004, by and among Cinergy, the lenders parties thereto and Barclays, as administrative agent for such lenders.

"***Existing Three-Year Credit Agreement***" means the Three Year Senior Revolving Credit Agreement, dated as of April 26, 2004, by and among Cinergy, the lenders parties thereto and Barclays, as administrative agent for such lenders.

"***Extension of Credit***" means (a) the making by any Lender of an Advance, (b) the issuance of a Letter of Credit by the LC Bank or (c) the amendment of any Letter of Credit having the effect of extending the stated termination date thereof or increasing the LC Outstandings.

"***Facility Fee***" has the meaning specified in Section 2.3(a).

"***Federal Funds Rate***" means, for any day in any period, the rate set forth for such day opposite the caption "*Federal Funds (Effective)*" in the weekly statistical release designated as

"*H.15(519)*", or any successor publication, published by the Board of Governors of the Federal Reserve System.

"***Financing Documents***" means this Agreement and the Notes.

"***Financing Lease***" means any lease of property, real or personal, the obligations of the lessee in respect of which are required by GAAP to be capitalized on a balance sheet of the lessee.

"***GAAP***" means generally accepted accounting principles in the United States of America in effect from time to time.

"***Governmental Authority***" means any nation or government, any state or other political subdivision thereof and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"***Guarantee Obligation***" means, as to any Person (the "***guaranteeing person***"), any obligation of such Person guaranteeing, or having the effect of guaranteeing any Indebtedness, leases, dividends or other obligations ("***primary obligations***") of any other Person (the "***primary obligor***") in any manner, whether directly or indirectly, contingently or otherwise. Guarantee Obligations shall include (but not be limited to) any obligation of the guaranteeing person (i) to reimburse or indemnify any bank, insurer or other Person in respect of payments made under any letter of credit, demand guaranty or similar instrument issued by such bank, insurer or other Person (ii) to purchase any primary obligation or any property constituting direct or indirect security for any primary obligation, (iii) to advance or supply funds for the purchase or payment of any primary obligation, (iv) to advance or supply funds to maintain working capital or the net worth or solvency of any primary obligor, (v) to purchase property, securities or services primarily for the purpose of providing funds to assure payment of any primary obligation or (vi) otherwise to assure or hold harmless the creditor or beneficiary of any primary obligation against loss; *provided, however*, that the term Guarantee Obligation shall not include endorsements of instruments for deposit or collection in the ordinary course of business. The amount of any Guarantee Obligation shall be deemed to be the lower of (a) an amount equal to the stated or determinable amount of the related primary obligation and (b) the maximum amount for which such guaranteeing person may be liable pursuant to the terms of such Guarantee Obligation, unless such primary obligation and the maximum amount for which such guaranteeing person may be liable are not stated or determinable, in which case the amount of such Guarantee Obligation shall be the guaranteeing person's maximum reasonably anticipated liability in respect thereof as determined in good faith.

"***Hazardous Materials***" means any hazardous materials, hazardous wastes, hazardous constituents, hazardous or toxic substances, petroleum products (including crude oil or any fraction thereof), defined or regulated as such in or under any Environmental Law.

"***Hedging Agreement***" means, for any Person, any and all agreements, devices or arrangements designed to protect such Person or any of its Subsidiaries from the fluctuations of interest rates, exchange rates applicable to such party's assets, liabilities or exchange transactions, including, but not limited to, dollar–denominated or cross–currency interest rate exchange agreements, forward currency exchange agreements, interest rate cap or collar protection agreements, commodity swap agreements, forward rate currency or interest rate options, puts and warrants. Notwithstanding anything herein to the contrary, "Hedging Agreements" shall also include fixed–for–floating interest rate swap agreements and similar instruments.

"***Indebtedness***" means, as to any Person, (a) all indebtedness of such Person 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) or which is evidenced by a note, bond, debenture or similar instrument,

(b) all obligations of such Person under Financing Leases, (c) all obligations of such Person in respect of bankers' acceptances (or similar instruments) issued or created for the account of such Person, and (d) all liabilities secured by any Lien on any property owned by such Person even though such Person has not assumed or otherwise become liable for the payment thereof.

"***Increasing Lender***" has the meaning specified in Section 2.17.

"***Interest Period***" means, for each Eurodollar Rate Advance comprising part of the same Borrowing, (a) initially, the period commencing on the date of such Advance or conversion, as the case may be, and ending on the last day of the period selected by the relevant Borrower pursuant to the provisions below and (b) thereafter, each period commencing on the last day of the next preceding Interest Period applicable to such Eurodollar Rate Advance and ending on the last day of the period selected by the relevant Borrower pursuant to the provisions below. The duration of each such Interest Period shall be one, two, three or six months as the relevant Borrower may select in its Notice of Borrowing or Notice of Conversion, in the case of (a) above or in its Notice of Continuation, in the case of (b) above; *provided, however*, that:

(i) any Interest Period which would otherwise end after the Termination Date shall end on the Termination Date;

(ii) Interest Periods commencing on the same date for Advances comprising part of the same Borrowing shall be of the same duration;

(iii) any Interest Period commencing on the last Business Day of any calendar month, or any day for which there is no numerically corresponding day in the applicable subsequent calendar month, shall end on the last Business Day of the applicable subsequent calendar month; and

(iv) whenever the last day of any Interest Period would otherwise occur on a day other than a Business Day, the last day of such Interest Period shall be extended to occur on the next succeeding Business Day; *provided*, that if such extension would cause the last day of such Interest Period to occur in the next following calendar month, the last day of such Interest Period shall occur on the next preceding Business Day.

"***JPMCB***" has the meaning specified in the caption to this Agreement.

"***LC Bank***" means Barclays, in its capacity as issuer of any Letter of Credit pursuant to Article III hereof.

"***LC Outstandings***" means, for any date of determination, the aggregate maximum amount available to be drawn under all Letters of Credit outstanding on such date (assuming the satisfaction of all conditions for drawing enumerated therein).

"***LC Sublimit***" means, as of any day for the determination thereof, $500,000,000.

"***Lenders***" means the Banks listed on the signature pages hereof, each other bank or financial institution that shall become a party hereto pursuant to Section 9.7(a), and, if and to the extent so provided in Section 3.5(d), the LC Bank.

"***Letter of Credit***" means a letter of credit issued by the LC Bank pursuant to Article III, as such letter of credit may

from time to time be amended, modified or extended in accordance with the terms of this Agreement.

"***LIBOR Reserve Percentage***" of any Lender for the Interest Period for any Eurodollar Rate Advance means the reserve percentage applicable during such Interest Period or such term (or if more than one such percentage shall be so applicable, the daily average of such percentages for those days in such Interest Period or such term during which any such percentage shall be so applicable) under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, without limitation, any emergency, supplemental or other marginal reserve requirement) for such Lender with respect to liabilities or assets consisting of or including Eurocurrency Liabilities having a term equal to such Interest Period or term, as the case may be.

"***Lien***" means any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), or preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including, without limitation, any conditional sale or other title retention agreement and any Financing Lease having substantially the same economic effect as any of the foregoing.

"***Long-Term Debt Designation***" has the meaning specified in Section 2.6(c).

"***Material Adverse Effect***" means, with respect to any Borrower, a material adverse effect on (a) the business, operations, property or condition (financial or otherwise) of such Borrower and its Subsidiaries taken as a whole, (b) the ability of such Borrower to perform its obligations under this Agreement, or (c) the validity or enforceability of this Agreement or the rights or remedies of the Administrative Agent or the Lenders hereunder.

"***Material Indebtedness***" means, with respect to any Borrower, Indebtedness (other than Indebtedness under this Agreement), Guarantee Obligations or obligations in respect of one or more Hedging Agreements of such Borrower and its Subsidiaries, in an aggregate principal amount exceeding $50,000,000. For purposes of determining Material Indebtedness, the "principal amount" of the obligations of such Borrower or any Subsidiary of such Borrower in respect of any Hedging Agreement at any time shall be the maximum aggregate amount (giving effect to any netting agreements) that such Borrower or such Subsidiary would be required to pay if such Hedging Agreement were terminated at such time.

"***Material Subsidiary***" means, any Subsidiary of Cinergy which (a) for the most recent fiscal year of Cinergy accounted for more than 10% of the consolidated revenues of Cinergy determined in accordance with GAAP or (b) as of the end of such fiscal year, was the owner of more than 10% of the consolidated assets of Cinergy determined in accordance with GAAP, all as shown on the consolidated financial statements of Cinergy for such fiscal year; *provided*, that, notwithstanding the foregoing, (i) CG&E, PSI Energy and ULH&P shall each be deemed "Material Subsidiaries" of Cinergy and (ii) Cinergy Services, Inc. shall not be deemed a "Material Subsidiary".

"***Maximum Borrowing Amount***" means, (i) in the case of Cinergy, an amount equal to the Total Commitment then in effect, (ii) in the case of CG&E, an amount equal to the CG&E Sublimit then in effect, (iii) in the case of PSI Energy, an amount equal to the PSI Energy Sublimit then in effect and (iv) in the case of ULH&P, an amount equal to the ULH&P Sublimit then in effect.

"***Moody's***" means Moody's Investors Service, Inc. or any successor thereto.

"***Multiemployer Plan***" means any Plan that is a "multiemployer plan" as defined in Section 4001(a)(3) of ERISA.

"***New Lender***" has the meaning specified in Section 2.17.

"***Non-Excluded Taxes***" has the meaning specified in Section 2.13(a).

"***Non-Recourse Debt***" means Indebtedness of each Borrower or any of their respective Subsidiaries, in respect of which no recourse may be had by the creditors under such Indebtedness against such Borrower or such Subsidiary in its individual capacity or against the assets of such Borrower or such Subsidiary, other than assets which were purchased, constructed or developed by such Borrower or such Subsidiary with the proceeds of such Indebtedness.

"***Non-U.S. Lender***" has the meaning specified in Section 2.13(d).

"***Note***" means any promissory note evidencing Advances.

"***Notice of Borrowing***" has the meaning specified in Section 2.2(a).

"***Notice of Continuation***" shall mean a notice from the Borrower electing the continuation of Eurodollar Rate Advances in accordance with the provisions of Section 2.7(b).

"***Notice of Conversion***" shall mean a notice from the Borrower electing the conversion of Eurodollar Rate Advances to Base Rate Advances or Base Rate Advances to Eurodollar Rate Advances, in each case, in accordance with the provisions of Section 2.7(a).

"***Other Taxes***" has the meaning specified in Section 2.13(b).

"***Outstanding Extensions of Credit***" means, as of any day for the determination thereof, (a) the aggregate principal amount of all Advances outstanding on such day *plus* (b) the LC Outstandings on such day *plus* (c) the aggregate amount of all Unreimbursed LC Disbursements outstanding on such day.

"***PBGC***" means the Pension Benefit Guaranty Corporation under Title IV of ERISA, or any successor thereto.

"***Person***" means an individual, partnership, corporation (including a business trust), joint stock company, trust, unincorporated association, joint venture, limited liability company or other entity, or a government or any political subdivision, agency or instrumentality thereof.

"***Plan***" means an employee pension benefit plan as defined in Section 3(2) of ERISA and in respect of which any Borrower or any ERISA Affiliate is (or, if such plan were terminated, would under Section 4069 of ERISA be deemed to be) an "employer" as defined in Section 3(5) of ERISA.

"***PSI Energy First Mortgage Trust Indenture***" shall mean the first mortgage trust indenture, dated as of September 1, 1939 between PSI Energy (formerly known as Public Service Company or Indiana, Inc. and successor by consolidation to Public Service Company of Indiana) and LaSalle Bank National Association (formerly known as LaSalle National Bank Company and successor, as trustee, to First National Bank of Chicago), as trustee, as amended, modified or supplemented from time to time, and any successor or replacement mortgage trust indenture.

"***PSI Energy Outstanding Extensions of Credit***" means, as of any day for the determination thereof, (a) the aggregate principal amount of all Advances made to PSI Energy outstanding on such day *plus* (b) the LC Outstandings of PSI Energy on such day *plus* (c) the aggregate amount of all Unreimbursed LC Disbursements of PSI Energy outstanding on such

day.

"***PSI Energy Sublimit***" means $500,000,000.

"***Preferred Trust Securities***": means Cinergy's 6.9% preferred trust securities, due February 2007, or any other preferred trust securities issued on terms substantially similar thereto; *provided* that the amount of any such preferred trust securities issued and outstanding until the Termination Date may not exceed $500,000,000 in the aggregate at any time.

"***Rating Agencies***" means, collectively, Moody's and S&P; each, individually, a "***Rating Agency***".

"***Receivable Financing Transaction***" means any transaction or series of transactions involving a sale for cash of accounts receivable, without recourse based upon the collectibility of the receivables sold, by such Borrower or any of its Subsidiaries to a Special Purpose Subsidiary and a subsequent sale or pledge of such accounts receivable (or an interest therein) by such Special Purpose Subsidiary, in each case without any guarantee by such Borrower or any of its Subsidiaries (other than the Special Purpose Subsidiary).

"***Reference Ratings***" means, with respect to each Borrower, the ratings issued or maintained from time to time by the Rating Agencies in respect of the senior non-credit-enhanced unsecured long-term debt of such Borrower.

"***Register***" has the meaning specified in Section 9.7(c).

"***Removed Borrower***" has the meaning specified in Section 9.1(b).

"***Required Lenders***" means Lenders having more than 50% of the Commitments; provided, however, that if the Commitments shall have been terminated, "Required Lenders" shall mean Lenders holding more than 50% of the then Outstanding Extensions of Credit.

"***Requirement of Law***" means, as to any Person, the certificate of incorporation and by-laws or other organizational or governing documents of such Person, and any law, treaty, rule or regulation or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

"***Responsible Officer***" means the chief executive officer, president, chief financial officer, comptroller, vice-president, treasurer or assistant treasurer of the applicable Person.

"***Single Employer Plan***" means any Plan which is covered by Title IV of ERISA, but which is not a Multiemployer Plan.

"***S&P***" means Standard & Poor's Ratings Group, or any successor thereto.

"***Special Purpose Subsidiary***" means any Material Subsidiary of a Borrower created by a Borrower for the sole purpose of facilitating a Receivable Financing Transaction; *provided*, that such Special Purpose Subsidiary shall cease to be a Special Purpose Subsidiary if at any time such Special Purpose Subsidiary engages in any business other than Receivable Financing Transactions and activities directly related thereto.

"***SPV***" has the meaning specified in Section 9.7(f).

"***Subsidiary***" means, as to any Person, a corporation, partnership or other entity: (i) of which shares of stock or other ownership interests having ordinary voting power (other than stock or such other ownership interests having such power only by reason of the happening of a contingency) to elect a majority of the board of directors or other managers of such corporation, partnership or other entity are at the time owned, directly or indirectly through one or more intermediaries by such Person and/or (ii) the management of which is otherwise controlled, directly or indirectly through one or more intermediaries by such Person.

"***Termination Date***" means, as to any Lender, September 9, 2010, such earlier date of termination in whole of the Commitments pursuant to Section 2.4 or 7.1, or such later date of termination as may be in effect pursuant to an election pursuant to Section 2.18.

"***Total Commitment***" has the meaning specified in Section 2.1(b).

"***Type***" has the meaning specified in the definition of "Advance".

"***ULH&P First Mortgage Trust Indenture***" shall mean the first mortgage trust indenture, dated as of February 1, 1949 between ULH&P and The Bank of New York (successor to Irving

Trust Company), as trustee, as amended, modified or supplemented from time to time, and any successor or replacement mortgage trust indenture.

"***ULH&P Outstanding Extensions of Credit***" means, as of any day for the determination thereof, (a) the aggregate principal amount of all Advances made to ULH&P outstanding on such day *plus* (b) the LC Outstandings of ULH&P on such day *plus* (c) the aggregate amount of all Unreimbursed LC Disbursements of ULH&P outstanding on such day.

"***ULH&P Sublimit***" means $65,000,000, as such amount may be increased in accordance with Section 2.5(b).

"***Unreimbursed LC Disbursement***" means the unpaid obligation (or, if the context so requires, the amount of such obligation) of any Borrower to reimburse the LC Bank for a payment made by the LC Bank under a Letter of Credit for the account of such Borrower, but shall not include any portion of such obligation that has been repaid with the proceeds of, or converted to, Advances hereunder.

"***Withdrawal Liability***" means liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part I of Subtitle E of Title IV of ERISA.

### *SECTION 1.2.* Computation of Time Periods.

In this Agreement in the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including" and the words "to" and "until" each means "to but excluding."

### *SECTION 1.3.* Accounting Terms.

All accounting terms not specifically defined herein shall be construed in accordance with GAAP consistent with those applied in the preparation of the financial statements referred to in Section 5.1(d).

## ARTICLE II
## AMOUNTS AND TERMS OF THE ADVANCES

### *SECTION 2.1.* The Commitments and Advances.

(a) Each Lender severally agrees, on the terms and conditions hereinafter set forth, to make Advances to each Borrower and to participate in the issuance of Letters of Credit (and the LC Outstandings and Unreimbursed LC Disbursements thereunder) from time to time on any Business Day during the period from the Effective Date until the Termination Date in an aggregate amount not to exceed at any time outstanding the amount set forth opposite such Lender's name on Schedule 1.1 hereto or, if such Lender has entered into one or more Assignment and Acceptances, set forth for such Lender in the Register maintained by the Administrative Agent pursuant to Section 9.7(c), as such amount may be reduced pursuant to Section 2.4 (such Lender's "***Commitment***").

(b) The sum of the Commitments is hereinafter referred to as the "***Total Commitment***". The Total Commitment shall be in an initial amount of $2,000,000,000, as the same may be reduced or increased from time to time in accordance with Section 2.4 or Section 2.17 hereof.

(c) Each Borrowing shall be in an aggregate amount not less than $3,000,000 or an integral multiple of $1,000,000 in excess thereof and shall consist of Advances of the same Type made on the same day by the Lenders ratably according to their respective Commitments. Within the limits and

subject to the conditions set forth herein, each Borrower may borrow, repay or prepay and reborrow and request the issuance of Letters of Credit under the Commitments.

(d) Notwithstanding anything contained in this Agreement to the contrary, at no time shall (i) the Outstanding Extensions of Credit exceed the Total Commitment as in effect at such time; (ii) the CG&E Outstanding Extensions of Credit exceed the CG&E Sublimit; (iii) the PSI Energy Outstanding Extensions of Credit exceed the PSI Energy Sublimit; or (iii) the ULH&P Outstanding Extensions of Credit exceed the ULH&P Sublimit.

*SECTION 2.2.* **Making the Advances.**

(a) Each Borrowing shall be made on notice given by the relevant Borrower to the Administrative Agent via facsimile transmission in accordance with Section 9.2 hereof not later than 11:00 A.M. (New York City time) on the Business Day that is: (i) three Business Days prior to the Borrowing Date of the proposed Borrowing, in the case of a Borrowing comprised of Eurodollar Rate Advances, or (ii) the Borrowing Date of the proposed Borrowing, in the case of a Borrowing comprised of Base Rate Advances. Each such notice of a Borrowing (a "***Notice of Borrowing***") shall be in substantially the form of Exhibit B hereto, specifying therein the requested Borrowing Date of such Borrowing, the Type of Advances comprising such Borrowing, the aggregate amount of such Borrowing, and the Interest Period to be applicable thereto. Upon receipt of any Notice of Borrowing, the Administrative Agent shall give to each Lender prompt notice thereof and the Administrative Agent shall promptly notify each Lender and the Borrower of the applicable interest rate pursuant to Section 2.8.

(b) Each Lender shall, before 1:00 P.M. (New York City time) on the Borrowing Date of such Borrowing, make available for the account of its Applicable Lending Office to the Administrative Agent at its address referred to in Section 9.2, in immediately available funds, such Lender's Commitment Percentage of such Borrowing. After the Administrative Agent's receipt of such funds and upon fulfillment of the applicable conditions set forth in Article IV, the Administrative Agent will make such funds available to the relevant Borrower at the Administrative Agent's aforesaid address or as otherwise directed by the Borrower.

(c) Anything in Section 2.2(a), above, to the contrary notwithstanding,

(i) if any Lender shall notify the Administrative Agent that the introduction of or any change in or in the interpretation of any law or regulation makes it unlawful, or that any central bank or other Governmental Authority asserts that it is unlawful, for such Lender or its Eurodollar Lending Office to perform its obligations hereunder to make Eurodollar Rate Advances or to fund or maintain Eurodollar Rate Advances hereunder, the obligation of such Lender to make, fund or maintain Eurodollar Rate Advances shall be suspended, and, until such Lender shall notify the Administrative Agent that the circumstances causing such suspension no longer exist, (1) each Advance by such Lender shall be a Base Rate Advance, and (2) Cinergy shall have the right to replace such Lender by causing such Lender to enter into one or more Assignments and Acceptances in respect of its entire Commitment, the Advances held by it and all other amounts owing to it in respect thereof with one or more banks or other financial institutions selected by Cinergy with the consent of the Administrative Agent (not to be unreasonably withheld), pursuant to Section 9.7 hereof. Each Lender agrees to enter into any such Assignments and Acceptances as may be required by this clause (assuming the same are properly and accurately completed);

(ii) if the Administrative Agent shall have determined in good faith and in its reasonable discretion (which determination shall be conclusive and binding upon the Borrowers) that, by reason of circumstances affecting the relevant market, adequate and reasonable means do

not exist for ascertaining the Eurodollar Rate for such Interest Period, the right of the Borrowers to select Eurodollar Rate Advances for such Borrowing or any subsequent Borrowing shall be suspended until the Administrative Agent shall notify the Borrowers and the Lenders that the circumstances causing such suspension no longer exist, and each Advance comprising such Borrowing shall be a Base Rate Advance; and

(iii) if Lenders having more than 50% of the Commitments shall, at least one Business Day before the date of any requested Borrowing, notify the Administrative Agent that the Eurodollar Rate for Eurodollar Rate Advances comprising such Borrowing will not adequately reflect the cost to such Lenders of making or funding their respective Eurodollar Rate Advances for such Borrowing, the right of the Borrowers to select Eurodollar Rate Advances for such Borrowing or any subsequent Borrowing shall be suspended until the Administrative Agent shall notify the Borrowers and the Lenders that the circumstances causing such suspension no longer exist, and each Advance comprising such Borrowing shall be a Base Rate Advance.

(d) Each Notice of Borrowing shall be irrevocable and binding on the relevant Borrower. Unless the Administrative Agent and the relevant Borrower shall have received written notice via facsimile transmission from a Lender prior to (A) 5:00 P.M. (New York City time) one Business Day prior to the date of any Eurodollar Rate Advance Borrowing or (B) 12:00 noon (New York City time) on the date of any Base Rate Advance Borrowing that such Lender will not make available to the Administrative Agent such Lender's ratable portion of such Borrowing, the Administrative Agent may assume that such Lender has made such portion available to the Administrative Agent on the date of such Borrowing in accordance with this Section 2.2 and the Administrative Agent may, in reliance upon such assumption, make available to relevant Borrower on such date a corresponding amount. If and to the extent that such Lender shall not have so made such ratable portion available to the Administrative Agent, such Lender and the relevant Borrower severally agree to repay to the Administrative Agent forthwith on demand such corresponding amount together with interest thereon, for each day from the date such amount is made available to the relevant Borrower until the date such amount is repaid to the Administrative Agent, at (i) in the case of the relevant Borrower, the interest rate applicable at the time to Advances comprising such Borrowing and (ii) in the case of such Lender, the Federal Funds Rate. If, prior to such time as the relevant Borrower shall have repaid such amount, such Lender shall repay to the Administrative Agent such corresponding amount with interest as aforesaid, such amount so repaid shall constitute such Lender's Advance as part of such Borrowing for purposes of this Agreement as if made on the original date of such Borrowing.

(e) The failure of any Lender to make the Advance to be made by it as part of any Borrowing shall not relieve any other Lender of its obligation, if any, hereunder to make its Advance on the date of such Borrowing, but no Lender shall be responsible for the failure of any other Lender to make the Advance to be made by such other Lender on the date of any Borrowing.

*SECTION 2.3.* **Facility Fee; Letter of Credit Risk Participation Fee; Other Fees.**

(a) Cinergy agrees to pay to the Administrative Agent for the account of each Lender a facility fee (the "***Facility Fee***") on the average daily amount of such Lender's Commitment (whether used or unused), from the date hereof in the case of each Bank listed on the signature pages hereto and from the effective date specified in the Assignment and Acceptance pursuant to which it became a Lender in the case of any other Lender, until the Termination Date, payable on the basis of the actual number of days elapsed and a year of 360 days, in arrears on the last Business Day of March, June, September and December in each year and on the Termination Date, at the rate *per annum* set forth below as determined by reference to the Applicable Rating Level for Cinergy:

| Applicable Rating Level | Facility Fee |
|---|---|
| Level I | 0.080% |
| Level II | 0.100% |
| Level III | 0.125% |
| Level IV | 0.150% |
| Level V | 0.200% |

; *provided* that if at any time Cinergy shall fail to pay such Facility Fee within five days of the date when such Facility Fee is due, each of CG&E, PSI Energy and ULH&P severally, but not jointly, agree to pay upon demand to the Administrative Agent for the account of each Lender the amount of such unpaid Facility Fee multiplied by the percentage which the Maximum Borrowing Amount applicable to such Borrower represents of the Total Commitment.

(b) Each Borrower agrees to pay to the Administrative Agent for the account of each Lender, ratably in accordance with their respective Commitments, a letter of credit risk participation fee on the average daily amount of LC Outstandings with respect to Letters of Credit issued for its account, from the date hereof in the case of each Bank listed on the signature pages hereto, and from the effective date specified in the Assignment and Acceptance pursuant to which it became a Lender in the case of any other Lender, until the Termination Date, payable (on the basis of the actual number of days elapsed and a year of 360 days) on the last Business day of March, June, September and December in each year and on the Termination Date, at a rate per annum equal to the Applicable Margin for Eurodollar Rate Advances then determined to be in effect for such Borrower *plus,* during any period from the occurrence of an Event of Default under Section 7.1(a), to the day when such Event of Default shall be cured or waived, 2% *per annum.*

(c) The Borrowers shall pay to the Administrative Agent, for its own account and for the account of the Lenders such other fees as have been or may from time to time be agreed between them in writing.

(d) Any change in the Facility Fee or letter of credit risk participation fee caused by a change in the Applicable Rating Level shall take effect at the time such change in the Applicable Rating Level shall occur.

(e) Each Borrower shall pay to the LC Bank a fronting fee and such other fees as such Borrower and the LC Bank shall agree to from time to time in writing.

*SECTION 2.4.* **Optional Reduction of the Commitments.**

(a) Cinergy shall have the right, upon at least three Business Days' irrevocable notice to the Administrative Agent, to terminate in whole or permanently reduce ratably in part the Commitments by either terminating in whole or in part the Total Commitment as Cinergy may specify in such notice; *provided*, that:

(i) each such partial reduction shall be in the aggregate amount of $10,000,000 or any integral multiple of $1,000,000 in excess thereof and shall reduce ratably and permanently

the amount then in effect of (A) the Commitments and (B) the Total Commitment, as specified by Cinergy ;

(ii) any such reduction shall be accompanied by (i) the prepayment of Advances, together with all interest thereon accrued to the date of such prepayment or repayment on the amount prepaid or repaid and, in the case of prepayments of Eurodollar Rate Advances, any amount payable to the Lenders pursuant to Section 2.15 and/or (ii) in the case of any LC Outstandings, the deposit in cash in a cash collateral account established with the Administrative Agent, on terms and conditions satisfactory to the Administrative Agent and the LC Bank, in each case to the extent, if any, that the Outstanding Extensions of Credit exceed the amount of the Total Commitment as proposed to be reduced; and

(iii) Cinergy shall not have the right to reduce the Total Commitment to an amount less than the aggregate then existing LC Outstandings.

(b) CG&E shall have the right, upon at least three Business Days' irrevocable notice to the Administrative Agent, to permanently reduce or terminate the CG&E Sublimit in whole or in part as CG&E may specify in such notice; *provided* that:

(i) each such partial reduction shall be in the aggregate amount of $10,000,000 or any integral multiple of $1,000,000 in excess thereof;

(ii) any such reduction shall be accompanied by (i) the prepayment of Advances, together with all interest thereon accrued to the date of such prepayment or repayment on the amount prepaid or repaid and, in the case of prepayments of Eurodollar Rate Advances, any amount payable to the Lenders pursuant to Section 2.15 and/or (ii) in the case of any LC Outstandings, the deposit in cash in a cash collateral account established with the Administrative Agent, on terms and conditions satisfactory to the Administrative Agent and the LC Bank, in each case to the extent, if any, that the CG&E Outstanding Extensions of Credit exceed the amount of the CG&E Sublimit as proposed to be reduced; and

(iii) CG&E shall not have the right to reduce the CG&E Sublimit to an amount less than the aggregate then existing LC Outstandings with respect to Letters of Credit issued for its account.

(c) PSI Energy shall have the right, upon at least three Business Days' irrevocable notice to the Administrative Agent, to permanently reduce or terminate the PSI Energy Sublimit in whole or in part as PSI Energy may specify in such notice; *provided* that:

(i) each such partial reduction shall be in the aggregate amount of $10,000,000 or any integral multiple of $1,000,000 in excess thereof;

(ii) any such reduction shall be accompanied by (i) the prepayment of Advances, together with all interest thereon accrued to the date of such prepayment or repayment on the amount prepaid or repaid and, in the case of prepayments of Eurodollar Rate Advances, any amount payable to the Lenders pursuant to Section 2.15 and/or (ii) (ii) in the case of any LC Outstandings, the deposit in cash in a cash collateral account established with the Administrative Agent, on terms and conditions satisfactory to the Administrative Agent and the LC Bank, in each case to the extent, if any, that the PSI Energy Outstanding Extensions of Credit exceed the amount of the PSI Energy Sublimit as proposed to be reduced; and

(iii) PSI Energy shall not have the right to reduce the PSI Energy Sublimit to an amount less than the aggregate then existing LC Outstandings with respect to Letters of Credit issued for its account.

(d) ULH&P shall have the right, upon at least three Business Days' irrevocable notice to the Administrative Agent, to permanently reduce or terminate the ULH&P Sublimit in whole or in part as ULH&P may specify in such notice; *provided* that:

(i) each such partial reduction shall be in the aggregate amount of $10,000,000 or any integral multiple of $1,000,000 in excess thereof;

(ii) any such reduction shall be accompanied by (i) the prepayment of Advances, together with all interest thereon accrued to the date of such prepayment or repayment on the amount prepaid or repaid and, in the case of prepayments of Eurodollar Rate Advances, any amount payable to the Lenders pursuant to Section 2.15 and/or (ii) (ii) in the case of any LC Outstandings, the deposit in cash in a cash collateral account established with the Administrative Agent, on terms and conditions satisfactory to the Administrative Agent and the LC Bank, in each case to the extent, if any, that the ULH&P Outstanding Extensions of Credit exceed the amount of the ULH&P Sublimit as proposed to be reduced; and

(iii) ULH&P shall not have the right to reduce the ULH&P Sublimit to an amount less than the aggregate then existing LC Outstandings with respect to Letters of Credit issued for its account.

*SECTION 2.5.* **Mandatory Reduction of CG&E Sublimit; Increase in ULH&P Sublimit.**

(a) The CG&E Sublimit shall, upon the disposition by CG&E or its Subsidiaries of all or substantially all of the generation assets of CG&E and its Subsidiaries, other than to a direct or indirect wholly-owned Subsidiary of CG&E, be permanently reduced to $250,000,000. Such reduction shall be accompanied by (i) the prepayment of Advances, together with all interest thereon accrued to the date of such prepayment or repayment on the amount prepaid or repaid and, in the case of prepayments of Eurodollar Rate Advances, any amount payable to the Lenders pursuant to Section 2.15, and/or (ii) the deposit in cash in a cash collateral account established with the Administrative Agent, on terms and conditions satisfactory to the Administrative Agent and the LC Bank, in each case to the extent, if any, that the CG&E Outstanding Extensions of Credit exceed the amount of the CG&E Sublimit, as reduced. Notwithstanding the above, the CG&E Sublimit shall not be reduced if the Consolidated Net Worth of CG&E following such disposition of generation assets is at least $1,000,000,000.

(b) The ULH&P Sublimit may be increased to $100,000,000 upon receipt by the Administrative Agent of a notice from a Responsible Officer of ULH&P certifying that the transactions described in Schedule 2.5(b) have been consummated.

*SECTION 2.6.* **Repayment of Advances; Prepayment.**

(a) Each Borrower shall repay the outstanding principal amount of all Advances made to it no later than the Termination Date.

(b) Each Borrower may upon notice given by such Borrower to the Administrative Agent via facsimile transmission in accordance with Section 9.2 hereof not later than 11:00 A.M. (New York City time) on the Business Day that is: (i) three Business Days prior to the proposed prepayment of Eurodollar Rate Advances, or (ii) one Business Day prior to the proposed prepayment of Base Rate Advances, stating the proposed date and aggregate principal amount of the prepayment and if such notice is given such

Borrower shall, prepay the outstanding principal amounts of the Advances made as part of the same Borrowing in whole or ratably in part, together with accrued interest to the date of such prepayment on the principal amount prepaid; *provided, however*, that (A) each partial prepayment shall be in an aggregate principal amount not less than $3,000,000 or any integral multiple of $1,000,000 in excess thereof and (B) in the case of any such prepayment of a Eurodollar Rate Advance, such Borrower shall be obligated to reimburse the Lenders in respect thereof pursuant to Section 2.14 on the date of such prepayment.

(c) Until such time as any Borrower designates all or a portion of its Maximum Borrowing Amount as "long-term" pursuant to a notice (each, a "***Long-Term Debt Designation***") substantially in the form of Exhibit F hereto, each Borrower designates that Advances made to such Borrower which have not been designated as long term shall be repayable within 365 days from the date of the Advance. Any such Long-Term Debt Designation may designate any outstanding Advance made to such Borrower as a long-term loan, repayable more than 365 days from the date of the Advance but no later than the Termination Date. Designation of any outstanding Advance as long-term shall not affect the Type of such Advance or the Interest Rate Period applicable thereto.

*SECTION 2.7.* **Conversion and Continuation Options.**

(a) The Borrower may elect from time to time to convert Eurodollar Rate Advances to Base Rate Advances by giving the Administrative Agent prior irrevocable notice of such election no later than 11:00 A.M., New York City time, on the Business Day of the proposed conversion date, *provided* that any such conversion of Eurodollar Rate Advances may only be made on the last day of an Interest Period with respect thereto. The Borrower may elect from time to time to convert Base Rate Advances to Eurodollar Rate Advances by giving the Administrative Agent prior irrevocable notice of such election no later than 11:00 A.M., New York City time, three Business Days prior to the proposed conversion date (which notice shall specify the length of the initial Interest Period therefor), *provided* that no Base Rate Advance may be converted into a Eurodollar Rate Advance when any Event of Default has occurred and is continuing and the Administrative Agent or the Required Lenders have determined in its or their sole discretion not to permit such conversions. Upon receipt of any such notice the Administrative Agent shall promptly notify each Lender thereof.

(b) Any Eurodollar Rate Advance may be continued as such upon the expiration of the then current Interest Period with respect thereto by the Borrower giving irrevocable notice to the Administrative Agent not later than 11:00 A.M., New York City time, three Business Days prior to the last day of the then current Interest Period, of the length of the next Interest Period to be applicable to such Advances, *provided* that no Eurodollar Rate Advance may be continued as such when any Event of Default has occurred and is continuing and the Administrative Agent has or the Required Lenders have determined in its or their sole discretion not to permit such continuations. Upon receipt of any such notice the Administrative Agent shall promptly notify each Lender thereof.

*SECTION 2.8.* **Interest on Advances.**

Each Borrower shall pay interest on the unpaid principal amount of each Advance made to it by each Lender under the Total Commitment from the date such Advance is made until such principal amount shall be paid in full, at the following rates *per annum*:

(a) ***Base Rate Advances***. If such Advance is a Base Rate Advance, a rate *per annum* equal at all times to the sum of (i) the Base Rate in effect from time to time and (ii) the Applicable Margin, payable on the last Business Day of each March, June, September and December to occur while such Advance is outstanding and on the date such Base Rate Advance shall be paid in full; *provided, however*, that any amount of principal or interest which is not paid when due (whether at stated maturity, by acceleration or

otherwise) shall bear interest, from the date on which such amount is due until such amount is paid in full, payable on demand, at a rate *per annum* equal at all times to 2% *per annum* plus the Base Rate in effect from time to time.

(b) ***Eurodollar Rate Advances.*** If such Advance is a Eurodollar Rate Advance, a rate *per annum* equal at all times during the Interest Period for such Advance to the sum of (i) the Eurodollar Rate for such Interest Period plus (ii) the Applicable Margin, payable on the last day of such Interest Period, and also, in the case of any Interest Period of six months' duration, on that day of the third month of such Interest Period which corresponds with the first day of such Interest Period (or, if any such month does not have a corresponding day, then on the last day of such third month); *provided, however*, that any amount of principal or interest which is not paid when due (whether at stated maturity, by acceleration or otherwise) shall bear interest, from the date on which such amount is due until such amount is paid in full, payable on demand, at a rate *per annum* equal at all times to 2% *per annum* above the rate *per annum* required to be paid on such Advance immediately prior to the date on which such amount became due.

*SECTION 2.9.* **Additional Interest on Eurodollar Rate Advances.**

Each Borrower shall pay to each Lender, so long as such Lender shall be required under regulations of the Board of Governors of the Federal Reserve System to maintain reserves with respect to liabilities or assets consisting of or including Eurocurrency Liabilities, additional interest on the unpaid principal amount of each Eurodollar Rate Advance made to it by such Lender, from the date of such Advance until such principal amount is paid in full, at an interest rate *per annum* equal at all times to the difference obtained by *subtracting* (a) the Eurodollar Rate for the Interest Period for such Eurodollar Rate Advance from (b) the rate obtained by dividing such Eurodollar Rate by a percentage equal to 100% *minus* the LIBOR Reserve Percentage of such Lender for such Interest Period or such term, as the case may be, payable on each date on which interest is payable on such Advance. Such additional interest shall be determined by such Lender and notified to such Borrower through the Administrative Agent.

*SECTION 2.10.* **Interest Rate Determination.**

The Administrative Agent shall give prompt notice to the Borrowers and the Lenders of the applicable interest rate determined by the Administrative Agent for purposes of Section 2.8(a) or Section 2.8(b).

*SECTION 2.11.* **Increased Costs; Capital Adequacy.**

(a) If, due to either (i) the introduction of or any change in or in the interpretation of any law or regulation after the date hereof, or (ii) the compliance with any guideline or request from any central bank or other Governmental Authority (whether or not having the force of law) issued or made after the date hereof, there shall be reasonably incurred any increase in (A) the cost to any Lender of agreeing to make or making, funding or maintaining Eurodollar Rate Advances, or of participating in the issuance, maintenance or funding of any Letter of Credit or any Unreimbursed LC Disbursement, or (B) the cost to the LC Bank of issuing or maintaining any Letter of Credit or any Unreimbursed LC Disbursement, then the relevant Borrower shall from time to time, upon demand by such Lender or the LC Bank, as the case may be (with a copy of such demand to the Administrative Agent), pay to the Administrative Agent for the account of such Lender or the LC Bank, as the case may be, additional amounts sufficient to compensate such Lender or the LC Bank, as the case may be, for such increased cost.

(b) If any Lender or the LC Bank determines that (i) compliance with any law or regulation or any guideline or request from any central bank or other Governmental Authority (whether or not having the force of law) affects or would affect the amount of capital required or expected to be maintained by such Lender, any Person controlling such Lender or the LC Bank, whether directly, or indirectly as a

result of commitments of any such Person controlling such Lender or the LC Bank (but without duplication), and (ii) the amount of such capital is increased by or based upon (A) the existence of such Lender's or the LC Bank's commitment to lend or issue or participate in any Letter of Credit hereunder, or (B) the participation in or issuance or maintenance of any Letter of Credit or Advance or (C) other similar such commitments hereunder, then, upon demand by such Lender, such Person controlling such Lender or the LC Bank, the relevant Borrower shall immediately pay to the Administrative Agent for the account of such Lender or the LC Bank from time to time as specified by such Lender or the LC Bank additional amounts sufficient to compensate such Lender, such Person controlling such Lender or the LC Bank in the light of such circumstances, to the extent that such Lender, such Person controlling such Lender or the LC Bank reasonably determines such increase in capital to be allocable to the transactions contemplated hereby.

(c) Each Borrower's obligations under this Section 2.11 shall survive the repayment of all amounts owing to the Lenders, the LC Bank and the Administrative Agent under the Financing Documents and the termination of the Commitments.

*SECTION 2.12.* **Payments and Computations.**

(a) Each Borrower shall make each payment hereunder not later than 11:00 A.M. (New York City time) on the day when due in U.S. dollars and without offset or counterclaim to the Administrative Agent at its address referred to in Section 9.2 in same day funds, and, in the case of a payment made to the Administrative Agent for the account of the Lenders, such payment shall be deemed to have been received by the Lenders upon receipt thereof by the Administrative Agent. The Administrative Agent will promptly thereafter cause to be distributed like funds to the Lenders entitled thereto for the account of their respective Applicable Lending Offices, in each case to be applied in accordance with the terms of this Agreement.

(b) All computations of interest based on the Base Rate (when based on the prime rate) shall be made by the Administrative Agent on the basis of a year of 365 or 366 days, as the case may be, and all computations of interest based on the Eurodollar Rate or Federal Funds Rate (including the Base Rate when based on the Federal Funds Rate) shall be made by the Administrative Agent, and all computations of interest pursuant to Section 2.9 shall be made by a Lender, on the basis of a year of 360 days, in each case for the actual number of days (including the first day but excluding the last day) occurring in the period for which such interest is payable. Each determination by the Administrative Agent (or, in the case of Section 2.9, by a Lender) of an interest rate hereunder shall be conclusive and binding for all purposes, absent manifest error.

(c) Whenever any payment hereunder shall be stated to be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of payment of interest or any fee payable or contemplated hereunder, as the case may be; *provided, however*, if such extension would cause payment of interest on or principal of Eurodollar Rate Advances to be made in the next following calendar month, such payment shall be made on the next preceding Business Day.

(d) Unless the Administrative Agent shall have received notice from a Borrower prior to the date on which any payment is due to the Lenders hereunder that such Borrower will not make such payment in full, the Administrative Agent may assume that such Borrower has made such payment in full to the Administrative Agent on such date and the Administrative Agent may, in reliance upon such assumption, cause to be distributed to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent such Borrower shall not have so made such payment in full to the Administrative Agent, each Lender shall repay to the Administrative Agent forthwith on demand such amount distributed to such Lender together with interest thereon, for each day from the date such amount

is distributed to such Lender until the date such Lender repays such amount to the Administrative Agent, at the Federal Funds Rate.

*SECTION 2.13.* **Taxes.**

(a) Any and all payments by the Borrowers hereunder shall be made, in accordance with Section 2.12, free and clear of, and without deduction or withholding for or on account of, any present or future income, stamp or other taxes, levies, imposts, duties, charges, fees, deductions or withholdings, now or hereafter imposed, levied, collected, withheld or assessed by any Governmental Authority, excluding net income taxes, taxes on overall capital and franchise or capital taxes (imposed in lieu of net income taxes) imposed on the Administrative Agent or any Lender as a result of a present or former connection between the Administrative Agent or such Lender and the jurisdiction of the Governmental Authority imposing such tax or any political subdivision or taxing authority thereof or therein (other than any such connection arising solely from the Administrative Agent or such Lender having executed, delivered or performed its obligations or received a payment under, or enforced, this Agreement). If any such non-excluded taxes, levies, imposts, duties, charges, fees, deductions or withholdings ("***Non-Excluded Taxes***") or Other Taxes (as defined below) are required to be withheld from any amounts payable to the Administrative Agent or any Lender hereunder, the amounts so payable to the Administrative Agent or such Lender shall be increased to the extent necessary to yield to the Administrative Agent or such Lender (after payment of all Non-Excluded Taxes and Other Taxes) interest or any such other amounts payable hereunder at the rates or in the amounts specified in this Agreement, *provided, however*, that no Borrower shall be required to increase any such amounts payable to any Lender with respect to any Non-Excluded Taxes (i) that are attributable to such Lender's failure to comply with the requirements of paragraph (d) or (e) of this Section 2.13 at all times during the continuance of this agreement or (ii) that are United States withholding taxes imposed on amounts payable to such Lender at the time such Lender becomes a party to this Agreement, except to the extent that such Lender's assignor (if any) was entitled, at the time of assignment, to receive additional amounts from such Borrower with respect to such Non-Excluded Taxes pursuant to this paragraph.

(b) In addition, each Borrower agrees to pay any and all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made hereunder or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement ("***Other Taxes***").

(c) Whenever any Non-Excluded Taxes or Other Taxes are payable by a Borrower, as promptly as possible thereafter such Borrower shall send to the Administrative Agent for its own account or for the account of the relevant Lender, as the case may be, a certified copy of an original official receipt received by such Borrower showing payment thereof. If such Borrower fails to pay any Non-Excluded Taxes or Other Taxes when due to the appropriate taxing authority or fails to remit to the Administrative Agent the required receipts or other required documentary evidence, such Borrower shall indemnify the Administrative Agent and the Lenders for any incremental taxes, interest or penalties that may become payable by the Administrative Agent or any Lender as a result of any such failure; *provided* no Borrower shall be liable hereunder for any incremental taxes, interest or penalties resulting from the failure to pay when due any Non-Excluded Taxes or Other Taxes imposed directly on the Administrative Agent or any Lender if such Borrower shall not have received written notice at least five Business Days prior to the due date thereof.

(d) Each Lender (or Transferee) that is not a "U.S. Person" as defined in Section 7701(a)(30) of the Code (a "***Non-U.S. Lender***") shall deliver to the Borrowers and the Administrative Agent (or, in the case of a Participant, to the Lender from which the related participation shall have been purchased) two copies of either U.S. Internal Revenue Service Form W-8BEN or Form W-8ECI, or, in the case of a Non-U.S. Lender claiming exemption from U.S. federal withholding tax under Section 871(h) or 881(c)

of the Code with respect to payments of "portfolio interest", a statement substantially in the form of Exhibit H and a Form W–8BEN, or any subsequent versions thereof or successors thereto, properly completed and duly executed by such Non–U.S. Lender claiming complete exemption from, or a reduced rate of, U.S. federal withholding tax on all payments by the Borrowers under this Agreement. Such forms shall be delivered by each Non–U.S. Lender on or before the date it becomes a party to this Agreement (or, in the case of any Participant, on or before the date such Participant purchases the related participation). In addition, each Non–U.S. Lender shall deliver such forms promptly upon the obsolescence or invalidity of any form previously delivered by such Non–U.S. Lender. Each Non–U.S. Lender shall promptly notify the Borrowers at any time it determines that it is no longer in a position to provide any previously delivered certificate to the Borrowers (or any other form of certification adopted by the U.S. taxing authorities for such purpose). Notwithstanding any other provision of this paragraph, a Non–U.S. Lender shall not be required to deliver any form pursuant to this paragraph that such Non–U.S. Lender is not legally able to deliver.

(e) A Lender that is entitled to an exemption from or reduction of non–U.S. withholding tax under the law of the jurisdiction in which any Borrower is located, or any treaty to which such jurisdiction is a party, with respect to payments under this Agreement shall deliver to such Borrower (with a copy to the Administrative Agent), at the time or times prescribed by applicable law or reasonably requested by such Borrower, such properly completed and executed documentation prescribed by applicable law as will permit such payments to be made without withholding or at a reduced rate, *provided* that such Lender is legally entitled to complete, execute and deliver such documentation and in such Lender's judgment such completion, execution or submission would not materially prejudice the legal position of such Lender.

(f) The agreements in this Section 2.13 shall survive the termination of this Agreement and the payment of the Advances and all other amounts payable hereunder. The Lenders and the Administrative Agent use commercially reasonable efforts to avoid or mitigate any tax, duty or charge for which the Borrower may be liable under this Section 2.13.

*SECTION 2.14.* **Sharing of Payments, Etc.**

If any Lender shall obtain any payment (whether voluntary, involuntary, through the exercise of any right of set–off or otherwise) on account of principal or interest in respect of Advances owing to it or on account of any fee, expense, indemnification or other obligation payable by any Borrower to such Lender hereunder (other than pursuant to Sections 2.2(c)(i), 2.9, 2.11, 2.13, 2.16 and 9.7) and the ratio of the amount of such payment (a "***non–pro rata payment***") to the total amount of such interest, principal, fee, expense, indemnification or other obligation then payable to it shall exceed the ratio of the amount of the payment substantially coincidentally received by any other Lender on account of principal or interest, in respect of such other Lender's Advances or such fee, expense, indemnification or other obligation to the total amount of such interest, principal, fee, expense, indemnification or other obligation then payable to such other Lender (a Lender being entitled to assume, in the absence of knowledge to the contrary, that a payment received from the Administrative Agent pursuant to Section 2.12(a) is not a non–*pro rata* payment), such Lender shall forthwith purchase from each such other Lender such participation or participations in the right of each such other Lender to receive such principal, interest, fee, expense, indemnification or other obligation as shall be necessary to cause such purchasing Lender to share such non–*pro rata* payment ratably (relative to the amounts of such principal, interest, fee, expense, indemnification or other obligation payable at the date of the obtaining of such non–*pro rata* payment to such Lender and each such other Lender, respectively, unless the relevant Lenders shall agree as to another basis for sharing), *provided, however*, that if all or any portion of such excess payment is thereafter recovered from such purchasing Lender, such purchase from each Lender shall be rescinded and each such Lender shall repay to the purchasing Lender the purchase price to the extent of such recovery together with an amount equal to such Lender's ratable share (according to the proportion of

(a) the amount of such Lender's required repayment to (b) the total amount so recovered from the purchasing Lender) of any interest or other amount paid or payable by the purchasing Lender in respect of the total amount so recovered. Each Borrower agrees that any Lender so purchasing a participation from another Lender pursuant to this Section 2.14 may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of set-off) with respect to such participation as fully as if such Lender were the direct creditor of such Borrower in the amount of such participation.

*SECTION 2.15.* **Funding Indemnity.**

Each Borrower agrees to indemnify and hold harmless the Administrative Agent and the Lenders from any loss or expense which they or any of them may sustain or incur as a result of:

(a) the failure of such Borrower to make a Borrowing or a conversion into or continuation of Eurodollar Rate Advances after having notified the Administrative Agent of its intention to do so in accordance with Section 2.2 or 2.7, as applicable (whether by reason of such Borrower's election not to proceed with, or the non-fulfillment of any applicable condition precedent to, such Borrowing);

(b) the failure by such Borrower to prepay any Advance or make any conversion from Eurodollar Rate Advances after giving notice of its intention to do so pursuant to Section 2.6(b) or 2.7(a), as applicable;

(c) the repayment or prepayment of any Advance in whole or in part by such Borrower other than (i) on the last day of the Interest Period applicable thereto, in the case of a Eurodollar Rate Advance or (ii) on the date specified in a notice given in accordance with Section 2.6(b) in the case of any Advance; or

(d) the failure by such Borrower to pay the principal of or interest on any Advance when due (whether at stated maturity, upon acceleration or otherwise), including but not limited to any such loss or expense arising from interest, fees or other amounts payable by the Administrative Agent or any of the Lenders to lenders of funds obtained by them in order to make and maintain the Advances hereunder.

*SECTION 2.16.* **Notice of Amounts Payable; Mitigation Obligations; Replacement of Lenders.**

(a) In the event that the LC Bank or any Lender becomes aware that any amounts are or will be owed to it pursuant to Section 2.11, 2.13, or 2.15, then it shall promptly notify the relevant Borrower thereof and, as soon as possible thereafter, such Lender shall submit such Borrower a certificate indicating the amount owing to it and the calculation thereof. The amounts set forth in such certificate shall be prima facie evidence of the obligations of the Company hereunder; *provided, however*, that the failure of the Company to pay any amount owing to any Lender pursuant to subsection 2.11, 2.13 or 2.15 shall not be deemed to constitute a Default or an Event of Default hereunder to the extent that the relevant Borrower is contesting in good faith its obligation to pay such amount by ongoing discussions diligently pursued with such Lender or by appropriate proceedings. The Borrowers shall not be required to compensate a Lender pursuant to Section 2.11, 2.13, or 2.15 suffered more than 180 days prior to the date that such Lender notifies the relevant Borrower of the circumstances giving rise to such additional amount owed and of such Lender's intention to claim compensation therefor (except that, if the circumstance giving rise to such additional amount is retroactive, then the 180-day period referred to above shall be extended to include the period of retroactive effect thereof).

(b) If any Lender requests compensation under Section 2.11, or requires any Borrower to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.13, then such Lender shall use commercially reasonable efforts to designate a different

lending office for funding or booking its Advances hereunder or to assign its rights and obligations hereunder to another of its offices, branches or affiliates, if, in the judgment of such Lender, such designation or assignment (i) would eliminate or reduce amounts payable pursuant to Section 2.11 or 2.13, as the case may be, in the future and (ii) would not subject such Lender to any unreimbursed cost or expense and would not otherwise be disadvantageous to such Lender. Each Borrower hereby agrees to pay all reasonable documented costs and expenses incurred by any Lender in connection with any such designation or assignment.

(c) If any Lender shall (i) fail to repay within five Business Days of the date of the requested Advance any amounts owing by such Lender pursuant to Section 2.2(d), (ii) make any claim for compensation pursuant to Section 2.11 or 2.13 hereunder, or (iii) decline to consent to any waiver or amendment of, or departure from, the terms of this Agreement described in the first proviso to Section 9.1 (any such Lender described in clause (i), (ii) or (iii) being herein referred to as an "***Affected Lender***"), such Borrower shall have the right to replace such Affected Lender by causing such Affected Lender to enter into one or more Assignments and Acceptances (the terms of which shall be reasonably acceptable to such Affected Lender) in respect of its entire Commitment, the Advances held by it and all other amounts owing to it in respect thereof (including pursuant to Section 2.15, unless paid by such Borrower directly) with one or more banks or other financial institutions selected by such Borrower with the consent of the Administrative Agent (not to be unreasonably withheld) and the LC Bank (which consent may be granted or withheld in the sole discretion of the LC Bank). The effective date of any such Assignment and Acceptance shall be such date as may be selected by such Borrower and the relevant assignee(s), and all other matters relating to such Assignment and Acceptance shall be governed by Section 9.7 hereof. Each Lender agrees to enter into any such Assignments and Acceptances as may be required by this Section (assuming the same are properly and accurately completed) in the event such Lender becomes an Affected Lender.

*SECTION 2.17.* **Total Commitment Increase.**

Cinergy may, at any time by written notice to the Administrative Agent, propose an increase in the Total Commitment (each such proposed increase being a "***Commitment Increase***") either by having a Lender increase its Commitment then in effect (each an "***Increasing Lender***") or by adding as a Lender with a new Commitment a Person which is not then a Lender hereunder (each a "***New Lender***"), subject, in the case of a New Lender to the consent of the Administrative Agent (which consent shall not be unreasonably withheld or delayed) and the LC Bank (which consent may be granted or withheld in the sole discretion of the LC Bank), which notice shall specify the name of each Increasing Lender and/or New Lender, as applicable, the amount of the Commitment Increase and the portion thereof being assumed by each such Increasing Lender or New Lender, and the date on which such Commitment Increase is to be effective (the "***Commitment Increase Effective Date***") (which shall be a Business Day at least three Business Days after delivery of such notice and 30 days prior to the Termination Date); *provided*, that:

(a) the minimum amount of the increase of the Commitment of any Increasing Lender, and the minimum amount of the Commitment of any New Lender, as part of any Commitment Increase shall be $5,000,000 or an integral multiple of $1,000,000 in excess thereof;

(b) immediately after giving effect to any Commitment Increase, the Total Commitment hereunder shall not exceed $2,500,000,000;

(c) no Default or Event of Default shall have occurred and be continuing on the relevant Commitment Increase Date or shall result from any Commitment Increase;

(d) the Administrative Agent shall have received (i) a copy of the resolutions, in form and substance satisfactory to the Administrative Agent, of the Board of Directors or the Executive Committee of the Board of Directors of Cinergy authorizing the borrowings contemplated pursuant to such increase, certified by the Secretary or an Assistant Secretary of Cinergy and (ii) from any New Lender, any administrative information reasonably requested from the Administrative Agent; and

(e) as of any Commitment Increase Effect Date the representations and warranties contained in Section 5.1 are true and correct in all material respects, as if made on and as of such date (or, if any such representation or warranty is expressly stated to have been made as of a specific date, as of such specific date);

Each Commitment Increase (and the increase of the Commitment of each Increasing Lender and/or the new Commitment of each New Lender, as applicable, resulting therefrom) shall become effective as of the relevant Commitment Increase Date upon receipt by the Administrative Agent, on or prior to 11:00 a.m., New York City time, on such Commitment Increase Date, of (A) a certificate of a duly authorized officer of Cinergy stating that the conditions with respect to such Commitment Increase under this Section 2.17 have been satisfied and (B) an agreement, in form and substance reasonably satisfactory to Cinergy and the Administrative Agent, pursuant to which, effective as of such Commitment Increase Date, the Commitment of each such Increasing Lender shall be increased and/or each such New Lender shall undertake a Commitment, duly executed by such Increasing Lender or New Lender, as the case may be, and the Borrowers and acknowledged by each Person for whom consent is required. Upon the Administrative Agent's receipt of a fully executed agreement from each Increasing Lender and/or New Lender referred to in clause (B) above, together with the certificate referred to in clause (A) above, the Administrative Agent shall record the information contained in each such agreement and give prompt notice of the relevant Commitment Increase to the Borrowers and the Lenders (including, if applicable, each New Lender). On each Commitment Increase Date, in the event Advances are then outstanding, (i) each relevant Increasing Lender and New Lender shall make available to the Administrative Agent such amounts in immediately available funds as such Administrative Agent shall determine, for the benefit of the other relevant Lenders, as being required in order to cause, after giving effect to such increase and the application of such amounts to make payments to such other relevant Lenders, the Advances to be held ratably by all Lenders in accordance with their respective Commitments, (ii) the Borrowers shall be deemed to have prepaid and reborrowed all outstanding Advances as of such Commitment Increase Date (with such borrowing to consist of the Loans, with related Interest Periods if applicable, specified in a notice delivered by the applicable Borrower in accordance with the requirements hereof and (iii) Cinergy shall pay to the relevant Lenders the amounts, if any, payable under Section 2.15 as a result of such prepayment. Notwithstanding the foregoing, no Lender shall be under any obligation to increase the amount of its Commitment, and each Lender may, in its sole discretion, decline a proposition to increase its Commitment.

*SECTION 2.18.* **Extension of Termination Date.**

On two occasions, not more than 60 days and not less than 45 days, prior to each anniversary of the Effective Date prior to and including the Termination Date then in effect, the Borrower may by written notice to the Administrative Agent request that the Termination Date be extended for an additional one-year period. Each Lender may, in its sole discretion, agree or decline the requested extension. The Termination Date as to the Commitment of each consenting Lender shall be extended for an additional one-year period as of the date of such anniversary of the Effective Date, subject to (a) the consent of the Required Lenders to each such extension request and (b) the following statements made by each Borrower to the extent applicable to it shall be true and correct as of the date of such request (and the giving of the applicable notice shall constitute a representation and warranty that such statements are true and correct as of such date): (i) no Default or Event of Default has occurred and is continuing and (ii) the

representations and warranties contained in Section 5.1 shall be true and correct in all material respects. The Borrower shall be permitted to replace any non-consenting Lender with a bank or financial institution acceptable to the Administrative Agent and the LC Bank; *provided* that after giving effect to any extension of the Termination Date, the outstanding Extensions of Credit shall not exceed the Total Commitment then in effect.

## ARTICLE III
## LETTERS OF CREDIT

### *SECTION 3.1.* LC Bank.

(a) Subject to the terms and conditions hereof, each Borrower may from time to time request Barclays, as LC Bank, to issue one or more Letters of Credit hereunder for the account of the requesting Borrower. Any such request by any Borrower shall be notified to the Administrative Agent at least two Business Days prior to the date upon which such Borrower proposes that the LC Bank issue such Letter of Credit. At no time, as a result of the issuance of any Letter of Credit hereunder, shall (i) the aggregate face amount of all Letters of Credit outstanding exceed the LC Sublimit then in effect, (ii) the Outstanding Extensions of Credit exceed the Total Commitment then in effect, (iii) the CG&E Outstanding Extensions of Credit exceed the CG&E Sublimit, (iv) the PSI Energy Outstanding Extensions of Credit exceed the PSI Sublimit then in effect or (v) the ULH&P Outstanding Extensions of Credit exceed the ULH&P Sublimit then in effect.

### *SECTION 3.2.* Letters of Credit.

Each Letter of Credit shall be issued (or the stated maturity thereof extended or terms thereof modified or amended) on not less than two Business Days' prior written notice thereof to the Administrative Agent (which shall promptly distribute copies thereof to the Lenders) and the LC Bank. Each such notice (a "***Request for Issuance***") shall specify (a) the date (which shall be a Business Day) of issuance of such Letter of Credit (or the date of effectiveness of such extension, modification or amendment) and the stated expiry date thereof (which shall not be later than (i) the Termination Date, in the case of any Letter of Credit issued during the period from the Effective Date until the date that is the fourth anniversary thereof and (ii) one year from the date of issuance of such Letter of Credit, in the case of any Letter of Credit issued after the date which is the fourth anniversary of the Effective Date; *provided* that no Letter of Credit issued on or after the date which is 90 days prior to the Termination Date shall have a stated expiry date which is later than the Termination Date), (b) the proposed stated amount of such Letter of Credit and (c) such other information as shall demonstrate compliance of such Letter of Credit with the requirements specified therefor in this Agreement. Each Request for Issuance shall be irrevocable unless modified or rescinded by the relevant Borrower not less than two days prior to the proposed date of issuance (or effectiveness) specified therein. If the LC Bank shall have approved the form of such Letter of Credit (or such extension, modification or amendment thereof), the LC Bank shall not later than 11:00 A.M. (New York City time) on the proposed date specified in such Request for Issuance, and upon fulfillment of the applicable conditions precedent and the other requirements set forth herein and as otherwise agreed to between the LC Bank and the relevant Borrower, issue (or extend, amend or modify) such Letter of Credit and provide notice and a copy thereof to the Administrative Agent. The Administrative Agent shall furnish (x) to each Lender, a copy of such notice and (y) to each Lender that may so request, a copy of such Letter of Credit.

### *SECTION 3.3.* Reimbursement on Demand.

Subject to the provisions of Section 3.4 hereof, each Borrower hereby agrees to pay (whether with the proceeds of Advances made pursuant to this Agreement or otherwise) to the LC Bank on demand (a) on and after each date on which the LC Bank shall pay any amount under any Letter of Credit issued for its account a sum equal to such amount so paid (which sum shall constitute a demand loan from the

LC Bank to such Borrower from the date of such payment by the LC Bank until so paid by such Borrower), plus (b) interest on any amount remaining unpaid by such Borrower to the LC Bank under clause (a), above, from the date such amount becomes payable on demand until payment in full, at a rate per annum which is equal to 2% plus the then applicable Base Rate until paid in full.

*SECTION 3.4.* **Advances for Unreimbursed LC Disbursements.**

If the LC Bank shall make any payment under any Letter of Credit and if the conditions precedent set forth in Section 4.2 of this Agreement have been satisfied as of the date of such honor, then, each Lender's payment made to the LC Bank pursuant to Section 3.5 hereof in respect of such Unreimbursed LC Disbursement shall be deemed to constitute a Base Rate Advance made for the account of such Borrower by such Lender.

*SECTION 3.5.* **Participation; Reimbursement of LC Bank.**

(a) Upon the issuance of any Letter of Credit by the LC Bank, the LC Bank hereby sells and transfers to each Lender, and each Lender hereby acquires from the LC Bank, an undivided interest and participation to the extent of such Lender's Commitment Percentage in and to such Letter of Credit, including the obligations of the LC Bank under and in respect thereof and the relevant Borrower's reimbursement and other obligations in respect thereof, whether now existing or hereafter arising.

(b) If the LC Bank shall not have been reimbursed in full for any payment made by the LC Bank under any Letter of Credit on the date of such payment, the LC Bank shall promptly notify the Administrative Agent and the Administrative Agent shall promptly notify each Lender of such non-reimbursement and the amount thereof. Upon receipt of such notice from the Administrative Agent, each Lender shall pay to the Administrative Agent for the account of the LC Bank an amount equal to such Lender's Commitment Percentage of such Unreimbursed LC Disbursement, plus interest on such amount at a rate per annum equal to the Federal Funds Rate from the date of such payment by the LC Bank to the date of payment to the LC Bank by such Lender. All such payments by each Lender shall be made in United States dollars and in same day funds not later than 3:00 P.M. (New York City time) on the later to occur of (i) the Business Day immediately following the date of such payment by the LC Bank and (ii) the Business Day on which such Lender shall have received notice of such non-reimbursement; provided, however, that if such notice is received by such Lender later than 11:00 A.M. (New York City time) on such Business Day, such payment shall be payable on the next Business Day. Each Lender agrees that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever. If a Lender shall have paid to the LC Bank its ratable portion of any Unreimbursed LC Disbursement, together with all interest thereon required by the second sentence of this subsection (b), such Lender shall be entitled to receive its ratable share of all interest paid by the relevant Borrower in respect of such Unreimbursed LC Disbursement. If such Lender shall have made such payment to the LC Bank, but without all such interest thereon required by the second sentence of this subsection (b), such Lender shall be entitled to receive its ratable share of the interest paid by the relevant Borrower in respect of such Unreimbursed LC Disbursement only from the date it shall have paid all interest required by the second sentence of this subsection (b).

(c) The failure of any Lender to make any payment to the LC Bank in accordance with subsection (b) above, shall not relieve any other Lender of its obligation to make payment, but neither the LC Bank nor any Lender shall be responsible for the failure of any other Lender to make such payment. If any Lender shall fail to make any payment to the LC Bank in accordance with subsection (b) above, then such Lender shall pay to the LC Bank forthwith on demand such corresponding amount together with interest thereon, for each day until the date such amount is repaid to the LC Bank at the Federal Funds Rate. Nothing herein shall in any way limit, waive or otherwise reduce any claims that any party hereto may have against any non-performing Lender.

(d) If any Lender shall fail to make any payment to the LC Bank in accordance with subsection (b) above, then, in addition to other rights and remedies which the LC Bank may have, the Administrative Agent is hereby authorized, at the request of the LC Bank, to withhold and to apply to the payment of such amounts owing by such Lender to the LC Bank and any related interest, that portion of any payment received by the Administrative Agent that would otherwise be payable to such Lender. In furtherance of the foregoing, if any Lender shall fail to make any payment to the LC Bank in accordance with subsection (b), above, and such failure shall continue for five Business Days following written notice of such failure from the LC Bank to such Lender, the LC Bank may acquire, or transfer to a third party in exchange for the sum or sums due from such Lender, such Lender's interest in the related Unreimbursed LC Disbursement and all other rights of such Lender hereunder in respect thereof, without, however, relieving such Lender from any liability for damages, costs and expenses suffered by the LC Bank as a result of such failure, and prior to such transfer, the LC Bank shall be deemed, for purposes of Section 2.14 and Article VII hereof, to be a Lender hereunder owed an Advance in an amount equal to the outstanding principal amount due and payable by such Lender to the Administrative Agent for the account of such LC Bank pursuant to Section 3.5(b), above. The purchaser of any such interest shall be deemed to have acquired an interest senior to the interest of such Lender and shall be entitled to receive all subsequent payments which the LC Bank or the Administrative Agent would otherwise have made hereunder to such Lender in respect of such interest.

*SECTION 3.6.* **Obligations Absolute.**

The payment obligations of each Lender under Section 3.5(b) and of each Borrower under Section 3.3 of this Agreement in respect of any payment under any Letter of Credit and any Advance made under Section 3.4 shall be unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement under all circumstances, including, without limitation, the following circumstances:

(a) any lack of validity or enforceability of any Financing Document or any other agreement or instrument relating thereto or to such Letter of Credit;

(b) any amendment or waiver of, or any consent to departure from, all or any of the Financing Documents;

(c) the existence of any claim, set–off, defense or other right which the relevant Borrower may have at any time against any beneficiary, or any transferee, of such Letter of Credit (or any Persons for whom any such beneficiary or any such transferee may be acting), the LC Bank, or any other Person, whether in connection with this Agreement, the transactions contemplated herein or by such Letter of Credit, or any unrelated transaction;

(d) any statement or any other document presented under such Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect;

(e) payment in good faith by the LC Bank under the Letter of Credit issued by the LC Bank against presentation of a draft or certificate which does not comply with the terms of such Letter of Credit; or

(f) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing.

*SECTION 3.7.* **Liability of LC Bank and the Lenders.**

Each Borrower assumes all risks of the acts and omissions of any beneficiary or transferee of any Letter of Credit issued for its account. Neither the LC Bank, the Lenders nor any of their respective officers, directors, employees, agents or Affiliates shall be liable or responsible for (a) the use that may be made of such Letter of Credit or any acts or omissions of any beneficiary or transferee thereof in connection therewith; (b) the validity, sufficiency or genuineness of documents, or of any endorsement thereon, even if such documents should prove to be in any or all respects invalid, insufficient, fraudulent or forged; (c) payment by the LC Bank against presentation of documents that do not comply with the terms of such Letter of Credit, including failure of any documents to bear adequate reference to such Letter of Credit; or (d) any other circumstances whatsoever in making or failing to make payment under such Letter of Credit, except that such Borrower or any Lender shall have the right to bring suit against the LC Bank, and the LC Bank shall be liable to such Borrower and any Lender, to the extent of any direct, as opposed to consequential, damages suffered by such Borrower or such Lender which such Borrower or such Lender proves were caused by the LC Bank's willful misconduct or gross negligence, including the LC Bank's failure to make timely payment under such Letter of Credit following the presentation to it by the beneficiary thereof of a draft and accompanying certificate(s) which strictly comply with the terms and conditions of such Letter of Credit. In furtherance and not in limitation of the foregoing, the LC Bank may accept sight drafts and accompanying certificates presented under the Letter of Credit issued by the LC Bank that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary. Notwithstanding the foregoing, no Lender shall be obligated to indemnify such Borrower for damages caused by the LC Bank's willful misconduct or gross negligence, and the obligation of such Borrower to reimburse the Lenders hereunder shall be absolute and unconditional, notwithstanding the gross negligence or willful misconduct of the LC Bank.

*SECTION 3.8.* **Cash Collateralization of Letters of Credit.**

If any Letters of Credit issued under this Article III shall remain outstanding as of the Termination Date as permitted by Section 3.2, each relevant Borrower shall, (a) not less than ten days prior to the Termination Date, deliver a notice to Administrative Agent and the LC Bank identifying each such Letter of Credit, including the respective amounts, not to exceed $50,000,000 in the aggregate, and stated expiry dates thereof and (b) not less than five Business Days prior to the Termination Date, deposit in cash in a cash collateral account established with the Administrative Agent, on terms and conditions satisfactory to the Administrative Agent and the LC Bank, an amount equal to the LC Outstandings with respect to such Letters of Credit, which Letters of Credit shall be permitted to remain outstanding after the Termination Date. The obligations of the Lenders under this Article III with respect to any such Letters of Credit shall expire on the Termination Date; *provided, however*, the obligations of such Borrower under this Article III in respect of such Letters of Credit shall survive the Termination Date and shall remain in effect until no such Letters of Credit remain outstanding.

*SECTION 3.9.* **Existing Letters of Credit.**

Each of the letters of credit described on Schedule 3.9 hereto shall be deemed to be issued and outstanding under this Agreement on and as of the Effective Date.

## ARTICLE IV
## CONDITIONS PRECEDENT

*SECTION 4.1.* **Conditions Precedent to Effective Date.**

This Agreement shall not become effective, and no Extensions of Credit shall be made hereunder, unless all of the conditions precedent set forth in this Section 4.1 shall have been satisfied:

(a) The Administrative Agent shall have received, with a copy for each Bank:

(i) the certificate or articles of incorporation, as then in effect, of each Borrower, certified by the Secretary or an Assistant Secretary of such Borrower on the Effective Date;

(ii) (A) a certificate of good standing of each Borrower (other than PSI Energy) from its state of incorporation and (B) satisfactory evidence of the status of PSI Energy as a duly organized and validly existing corporation under the laws of the State of Indiana, dated, in each case, as of a recent date;

(iii) the by–laws, as then in effect, of each Borrower, certified by the Secretary or an Assistant Secretary of such Borrower on the Effective Date;

(iv) the resolutions of the Board of Directors of each Borrower, authorizing the execution and delivery of each Financing Document to which it is a party, and the continuing performance of the Financing Documents and the Borrowings herein provided for, certified by a Secretary or Assistant Secretary of such Borrower on the Effective Date;

(v) certified copies of all documents evidencing other necessary corporate action and governmental and regulatory approvals required to be obtained by each Borrower in connection with the execution and delivery of the Financing Documents, and the continuing performance of the Financing Documents and the Borrowings herein provided for, certified by the Secretary or an Assistant Secretary of such Borrower on the Effective Date; and

(vi) a certificate of the Secretary or an Assistant Secretary of each Borrower, dated the Effective Date, certifying the names and true signatures of the officers of such Borrower authorized to sign this Agreement and the other documents and instruments contemplated by this Agreement.

(b) The Administrative Agent shall have received the Notes payable by each of the Borrowers to the order of each Bank with respect to its proportionate share of the Commitments.

(c) The Administrative Agent shall have received favorable opinions, dated the Effective Date, of:

(i) J. William DuMond, Esq., Senior Counsel of the Borrowers, in substantially the form of Exhibit C; and

(ii) Simpson Thacher & Bartlett LLP, special counsel for the Administrative Agent, substantially in the form of Exhibit D hereto.

(d) The following statements shall be true and the Administrative Agent shall have received, with a copy for each of the Banks, a certificate of a Responsible Officer of each Borrower, dated as of the Effective Date, stating that:

(i) the representations and warranties set forth in Section 5.1 of this Agreement are true and correct on and as of the Effective Date as though made on and as of such date (except to the extent such representations and warranties expressly relate to another date, in which case such representations and warranties are true as of such other date), and

(ii) no event has occurred and is continuing that constitutes a Default or an Event of Default.

(e) The Borrowers shall have paid all fees under or referenced in Section 2.3 hereof, to the extent then due and payable.

(f) The commitments of the lenders under the Existing Credit Agreements shall have been terminated, no extensions of credit (other than the Existing Letters of Credit) and no interest thereon shall be outstanding or other amounts be due and owing thereunder.

(g) The Administrative Agent shall have received such other approvals, opinions or documents as any Bank through the Administrative Agent may reasonably request.

*SECTION 4.2.* **Conditions Precedent to All Extensions of Credit.**

The several obligations of the Lenders to make any Extension of Credit and of the LC Bank to issue any Letter of Credit hereunder are subject to the satisfaction of the following conditions precedent:

The following statements made by each Borrower to the extent applicable to it and with respect to Extensions of Credit made to it shall be true on the date such Extension of Credit is made (and the giving of the applicable Notice of Borrowing and the issuance by the LC Bank of any Letter of Credit at the request of any Borrower shall constitute a representation and warranty by such Borrower that such statements are true on the date such Extension of Credit is made):

(i) The representations and warranties of such Borrower contained in Section 5.1 (other than the representations and warranties contained in paragraphs (e), (f) and (k) thereof which shall be deemed made only as of the Effective Date) are true and correct in all material respects on and as of the date such Extension of Credit is made, before and after giving effect to such Extension of Credit and to the application of the proceeds thereof, as though made on and as of such date (except to the extent such representations and warranties expressly relate to another date, in which case such representations and warranties are true and correct in all material respects as of such other date);

(ii) No event has occurred and is continuing, or would result from such Extension of Credit or the application of the proceeds thereof, which constitutes an Event of Default or a Default by such Borrower or its Subsidiaries (other than, in the case of CG&E, ULH&P); and

(iii) After giving effect to such Extension of Credit and the application of the proceeds thereof, the Outstanding Extensions of Credit do not exceed the Total Commitment, as determined on the date such Extension of Credit is made and (A) in the case of an Extension of Credit to CG&E, the CG&E Outstanding Extensions of Credit do not exceed the CG&E Sublimit; (B) in the case of an Extension of Credit to PSI Energy, the PSI Energy Outstanding Extensions of Credit do not exceed the PSI Energy Sublimit; and (C) in the case of an Extension of Credit to ULH&P, the ULH&P Outstanding Extensions of Credit do not exceed the ULH&P Sublimit.

*SECTION 4.3.* **Reliance on Certificates.**

The Administrative Agent and the Lenders shall be entitled to rely conclusively upon the certificates delivered from time to time by officers of Borrowers as to the names, incumbency, authority and signatures of the respective persons named therein until such time as the Administrative Agent may receive a replacement certificate, in form acceptable to the Administrative Agent, from an officer of such Person identified to the Administrative Agent as having authority to deliver such certificate, setting forth the names and true signatures of the officers and other representatives of such Person thereafter authorized to act on behalf of such Person.

## ARTICLE V
## REPRESENTATIONS AND WARRANTIES

*SECTION 5.1.* **Representations and Warranties of the Borrowers.**

Each Borrower, severally but not jointly, hereby represents and warrants as follows:

(a) Each of such Borrower and its Material Subsidiaries (i) is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, (ii) has the corporate power and authority, and the legal right, to own and operate its property, to lease the property it operates as lessee and to conduct the business in which it is currently engaged, (iii) is duly qualified as a foreign corporation and in good standing under the laws of each jurisdiction where its ownership, lease or operation of property or the conduct of its business requires such qualification except any such jurisdiction where the failure to so qualify would not, in the aggregate, reasonably be expected to have a Material Adverse Effect on such Borrower and (iv) is in compliance with all Requirements of Law except to the extent that the failure to comply therewith would not, in the aggregate, reasonably be expected to have a Material Adverse Effect on such Borrower.

(b) Such Borrower has the corporate power and authority, and the legal right, to make, deliver and perform the Financing Documents to which it is a party and to borrow hereunder and has taken all necessary corporate action to authorize the borrowings on the terms and conditions of this Agreement and to authorize the execution, delivery and performance of the Financing Documents to which it is a party. No consent or authorization of, filing with or other act by or in respect of, any Governmental Authority or any other Person is required in connection with the borrowings hereunder or with the execution, delivery, performance, validity or enforceability of the Financing Documents to which it is a party, except for consents, authorizations or filings which have been obtained or made, as the case may be, and are in full force and effect. Each Financing Document to which such Borrower is a party has been duly executed and delivered on behalf of such Borrower. Each Financing Document to which it is or becomes a party upon execution will constitute a legal, valid and binding obligation of such Borrower enforceable against such Borrower in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and by general equitable principles (whether enforcement is sought by proceedings in equity or at law).

(c) The execution, delivery and performance of the Financing Documents to which it is a party, the borrowings and other Extensions of Credit hereunder and the use of the proceeds thereof (i) will not violate any Requirement of Law or Contractual Obligation of such Borrower or of any of its Subsidiaries, except for such violations, if any, as would not result in a Material Adverse Effect on such Borrower, and (ii) will not result in, or require, the creation or imposition of any Lien on any of its or their respective properties or revenues pursuant to any such Requirement of Law or Contractual Obligation.

(d) (i) The consolidated balance sheets of Cinergy, CG&E, PSI Energy, ULH&P and their respective consolidated Subsidiaries, each as at December 31, 2004 and the related consolidated statements of income and of cash flows for the fiscal year ended on such date, copies of which have heretofore been furnished to the Administrative Agent and each Bank, are complete and correct in all material respects and present fairly the consolidated financial condition of such Borrower and its consolidated Subsidiaries as of such dates, and the consolidated results of their operations and their consolidated cash flows for the fiscal year then ended.

(ii) The consolidated balance sheets of Cinergy, CG&E, PSI Energy, ULH&P and their respective consolidated Subsidiaries, and the related consolidated statements of income and cash flows, each most recently delivered pursuant to Section 6.1(a) are complete and correct in all material respects and present fairly the consolidated financial condition and the consolidated results of operations and consolidated cash flows of such Borrower and its consolidated Subsidiaries as at and for the periods ended on the dates therein indicated.

(iii) All such financial statements referred to in subsection (i) and subsection (ii), above, as they relate to such Borrower, including the related schedules and notes thereto, have been prepared in accordance with GAAP applied consistently throughout the periods involved (except as approved by Deloitte & Touche LLP (or such other nationally recognized firm of independent certified public accountants) or a Responsible Officer, as the case may be, and as disclosed therein) and, in the case of quarterly financial statements, subject to normal year end audit adjustments and to the fact that such financial statements may be abbreviated and may omit footnotes or contain incomplete footnotes).

(e) Except as disclosed in any Disclosure Document, since December 31, 2004, there has been no development or event which has had or would reasonably be expected to have a Material Adverse Effect on such Borrower.

(f) Except as set forth in the financial statements referred to in Section 5.1(d)(i) or in any Disclosure Document, no litigation, investigation or proceeding of or before any arbitrator or Governmental Authority is pending or, to the knowledge of such Borrower or any of its consolidated Subsidiaries, threatened by or against such Persons or against any of its or their respective properties or revenues which would reasonably be expected to have a Material Adverse Effect on such Borrower.

(g) Each of such Borrower and its Subsidiaries has filed or caused to be filed all tax returns which, to the knowledge of such Borrower, are required to be filed and has paid all taxes shown to be due and payable on said returns or on any assessments made against it or any of its property and all other taxes, fees or other charges imposed on it or any of its property by any Governmental Authority (other than any such taxes, fees or other charges (A) the amount or validity of which are currently being contested in good faith by appropriate proceedings and with respect to which reserves in conformity with GAAP have been provided on the books of such Borrower or its Subsidiaries, as the case may be, or (B) the failure to pay which, when aggregated, would not reasonably be expected to have a Material Adverse Effect on such Borrower).

(h) No part of the proceeds of any Advances will be used for "purchasing" or "carrying" any "margin stock" within the respective meanings of each of the quoted terms under Regulation U of the Board of Governors of the Federal Reserve System as now and from time to time hereafter in effect or for any purpose which violates the provisions of such regulations of such Board of Governors.

(i) No ERISA Event has occurred or is reasonably expected to occur that, when taken together with all other such ERISA Events for which liability is reasonably expected to occur, would reasonably be expected to have a Material Adverse Effect. Except to the extent that it would not reasonably be

expected to have a Material Adverse Effect on such Borrower, neither such Borrower nor any ERISA Affiliate is required to provide security to a Plan under Section 401(a)(29) of the Code. Each Plan (other than any Multiemployer Plan) complies in form and operation with the applicable provisions of ERISA and the Code, except as would not reasonably be expected to have a Material Adverse Effect.

(j) Such Borrower is not an "investment company", or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended. Other than the Public Utility Holding Company Act of 1935, as amended, such Borrower is not subject to regulation under any Federal or State statute or regulation which limits its ability to incur Indebtedness.

(k) Except as disclosed in any Disclosure Document, such Borrower has complied with all Environmental Laws and has obtained, maintained and complied with all permits, licenses and other approvals required under any Environmental Law except to the extent that the failure to do so would not reasonably be expected to have a Material Adverse Effect on such Borrower.

## ARTICLE VI
## COVENANTS OF THE BORROWERS

### *SECTION 6.1.* General Affirmative Covenants of the Borrowers.

So long as this Agreement shall remain in effect, any Advance or any other amount due hereunder shall remain unpaid, any Letter of Credit shall remain outstanding or any Lender shall have any Commitment hereunder, each Borrower, severally but not jointly, hereby agrees that it will, and (except in the case of delivery of financial information, reports and notices) will cause each of its Subsidiaries to, unless the Required Lenders shall otherwise consent in writing:

(a) ***Reporting Requirements***. Furnish to each Lender (it being understood that to the extent that such Borrower's reports on Form 10--Q or Form 10–K set forth the information called for in subsection (i) or (ii), respectively, the delivery of such reports shall be deemed to satisfy the requirements of such subsections):

(i) as soon as available, and in any event within 75 days after the end of each of the first three quarters of each fiscal year of such Borrower, the consolidated balance sheets of such Borrower and its consolidated Subsidiaries, in each case as of the end of such quarter, and the related unaudited consolidated statements of income and changes in cash flows for such portion of the fiscal year through the end of such quarter, setting forth in each case in comparative form the figures for the previous year (except that, in the case of the unaudited consolidated balance sheets, comparison is between the figures as of the fiscal quarter then ended versus the figures as of the immediately preceding fiscal year–end), certified by a Responsible Officer of such Borrower as having been prepared in accordance with GAAP consistent with those applied in the preparation of the financial statements referred to in Section 5.1(d);

(ii) as soon as available, and in any event within 120 days after the end of each fiscal year of such Borrower, after filing such information on Form–10–K with the Securities and Exchange Commission, a copy of the consolidated balance sheets of such Borrower, and its consolidated Subsidiaries as at the end of such year, and the related consolidated statements of income, changes in common equity and cash flows for such year, certified by Deloitte & Touche LLP (or such other nationally recognized firm of independent certified public accountants) as having been prepared in accordance with GAAP, and setting forth in each case in comparative form the figures for the previous year, reported on without a "going concern" or like qualification or exception, or qualification arising out of the scope of the audit;

(iii) within five days after the same are filed, copies of all reports on Form 8-K (or any successor form) which such Borrower or any its consolidated Subsidiaries may file with the Securities and Exchange Commission or any successor or analogous Governmental Authority;

(iv) as soon as possible and in any event within five Business Days after obtaining knowledge of the occurrence of any Event of Default or Default by such Borrower or any of its Subsidiaries continuing on the date of such statement, the statement of the Treasurer or an Assistant Treasurer of such Borrower setting forth details of such Event of Default or Default and the action which such Borrower proposes to take with respect thereto;

(v) promptly after becoming aware thereof, notice as to the occurrence of any ERISA Event that, alone or together with any other ERISA Events that have occurred, would reasonably be expected to have a Material Adverse Effect on such Borrower;

(vi) to the extent not otherwise disclosed by such Borrower in a report on Form 10-K, Form 10-Q or Form 8-K to be filed with the Securities and Exchange Commission, promptly after becoming aware thereof, notice as to any development or event which has had or would reasonably be expected to have a Material Adverse Effect on such Borrower;

(vii) promptly after becoming aware thereof, notice as to each decrease or increase in the Reference Ratings of any of the Rating Agencies; and

(viii) simultaneously with any delivery of each set of financial statements referred to in clauses (i) and (ii) above, a certificate of a Responsible Officer of such Borrower (A) setting forth in reasonable detail the calculations required to establish whether such Borrower was in compliance with the requirements of Section 6.2(d) on the date of such financial statements and (B) stating whether any Default or Event of Default exists on the date of such certificate and, if any Default or Event of Default then exists, setting forth the details thereof and the action which such Borrower is taking or proposes to take with respect thereto.

Documents required to be delivered pursuant to subparagraphs (i), (ii) or (iii) of this Section 6.1(a) shall be deemed to have been delivered on the date on which such items are posted on the Securities and Exchange Commission's website on the Internet at www.sec.gov, *provided* such Borrower shall give notice of any such posting to the Administrative Agent (who shall then give notice of any such posting to the Lenders) and documents required to be delivered pursuant to subparagraph (viii) of this Section 6.1(a) shall be deemed to have been delivered as of the date on which such documents are delivered to the Administrative Agent to be posted on such Borrowers' behalf on the IntraLinks website at www.intralinks.com. To the extent that any documents required to be delivered under this Section 6.1(a) pertain to more than one of the Borrowers, only one copy of such document shall be required to be delivered.

(b) ***Compliance with Laws, Etc.*** Comply in all material respects with all Requirements of Law, and all applicable rules, regulations and orders thereunder (including, without limitation, with respect to taxes, ERISA and Environmental Laws), noncompliance with which would reasonably be expected to have a Material Adverse Effect on such Borrower except Requirements of Law, rules, regulations and orders being contested in good faith and by proper proceedings.

(c) ***Preservation of Corporate Existence, Etc.*** Continue to engage in business of the same general type as now conducted by it and preserve, renew and keep in full force and effect its corporate existence and take all reasonable action to maintain all rights, privileges and franchises necessary or desirable in the normal conduct of its business except as otherwise permitted pursuant to Section 6.2(b) and except that any Subsidiary that is not a Material Subsidiary may cease to exist or maintain any such

rights, privileges or franchises if such Borrower reasonably determines such cessation to be necessary, advisable or practical.

(d) ***Taxes, Etc.*** Pay or discharge or cause to be paid or discharged, before the same shall become delinquent, all taxes, assessments and governmental charges levied or imposed upon it or upon its income, profits or property; *provided, however,* that such Borrower or such Subsidiary, as the case may be, shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim (i) whose amount, applicability or validity is being contested in good faith by appropriate procedures and reserves in conformity with GAAP with respect thereto have been provided on the books of such Borrower or such Subsidiary, as the case may be, or (ii) to the extent that the failure to do so would not reasonably be expected to have a Material Adverse Effect on such Borrower.

(e) ***Inspection of Property; Books and Records; Discussions.*** With respect to such Borrower and each of its Material Subsidiaries, keep proper books of records and accounts in which full, true and correct entries in conformity with GAAP (except as not otherwise required to do so) and all Requirements of Law shall be made of all dealings and transactions in relation to its business and activities; and permit representatives of the Administrative Agent and, if an Event of Default shall have occurred and be continuing, each Lender (subject to receipt by such Borrower of reasonable prior notice and such reasonable confidentiality agreement as may be required by such Borrower), to visit and inspect any of its properties and examine and make abstracts from any of its books and records, upon reasonable prior written notice, at any reasonable time and as often as may reasonably be desired and to discuss the business, operations, properties and financial and other condition of such Borrower and its Subsidiaries with officers and employees of such Borrower and its Subsidiaries.

(f) ***Use of Proceeds.*** The Commitments, Letters of Credit and the proceeds of the Advances hereunder shall be used by such Borrower only in accordance with all Requirements of Law. In addition, the proceeds of the Advances shall be used by such Borrower for general corporate purposes, including as liquidity support for such Borrower's commercial paper program, if any.

*SECTION 6.2.* **Negative Covenants of the Borrowers.**

So long as this Agreement shall remain in effect, any Advance or any other amount due hereunder shall remain unpaid, any Letter of Credit shall remain outstanding or any Lender shall have any Commitment hereunder, each Borrower, severally but not jointly, hereby agrees that it will not (and shall not permit any of its Subsidiaries to) without the prior written consent of the Required Lenders, directly or indirectly:

(a) ***Liens, Etc.*** Create, incur, assume or suffer to exist any Lien upon any of its property, assets or revenues, whether now owned or hereafter acquired, except for:

(i) Liens for taxes not yet due or which are being contested in good faith by appropriate proceedings, *provided* that adequate reserves with respect thereto are maintained on the books of such Borrower or its Subsidiaries, as the case may be, in conformity with GAAP;

(ii) carriers', warehousemen's, mechanics', materialmen's, repairmen's or other like Liens arising in the ordinary course of business which are not overdue for a period of more than 60 days or which are being contested in good faith by appropriate proceedings;

(iii) pledges or deposits in connection with workers' compensation, unemployment insurance and other social security legislation, including any Lien securing letters of credit issued

in the ordinary course of business in connection therewith and deposits securing liabilities to insurance carriers under insurance and self–insurance programs;

(iv) deposits to secure the performance of bids, trade contracts (other than for borrowed money), leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business;

(v) easements, rights–of–way, restrictions and other similar encumbrances incurred in the ordinary course of business which, in the aggregate, are not substantial in amount and which do not in any case materially detract from the value of the property subject thereto or materially interfere with the ordinary conduct of the business of such Borrower or its Subsidiaries;

(vi) attachment, judgment or other similar Liens arising in connection with court or arbitration proceedings to the extent covered by insurance or involving individually or in the aggregate, no more than $50,000,000 at any one time in excess of the applicable insurance coverage, provided that the same are discharged, or that execution or enforcement thereof is stayed pending appeal, within 60 days or, in the case of any stay of execution or enforcement pending appeal, within such lesser time during which such appeal may be taken;

(vii) Liens securing obligations (other than obligations representing Indebtedness for borrowed money) under operating, reciprocal easement or similar agreements entered into in the ordinary course of business;

(viii) statutory Liens and rights of offset arising in the ordinary course of business of such Borrower and its Subsidiaries;

(ix) Liens on receivables and related assets subject to a Receivable Financing Transaction;

(x) Liens securing obligations under Hedging Agreements entered into to protect against fluctuations in interest rates or exchange rates or commodity prices and not for speculative purposes, provided that such Liens run in favor of a Lender hereunder or a Person who was, at the time of issuance, a Lender;

(xi) Liens on assets at the time such assets were transferred (whether directly or indirectly) to Borrowers or their Subsidiaries and were not created in anticipation thereof;

(xii) Liens on assets of any Subsidiary of such Borrower (other than, (A) in the case of Cinergy, CG&E, PSI Energy, ULH&P, and (B) in the case of CG&E, ULH&P) created to secure Indebtedness owing by such Subsidiary to such Borrower or to any other Subsidiary of such Borrower;

(xiii) Liens arising in connection with Financing Leases in an aggregate amount not to exceed (A) in the case of Cinergy, $350,000,000, (B) in the case of each of CG&E and PSI Energy, $175,000,00 and (C) in the case of ULH&P, $75,000,000 (determined in accordance with GAAP and in the same manner as the calculation of capitalized leases in a balance sheet of the Borrower);

(xiv) Liens securing Indebtedness incurred to finance or refinance the acquisition of assets acquired by such Borrower or any of its Subsidiaries on or after January 1, 2005, if such Indebtedness is incurred within 90 days following such acquisition; provided that such Liens shall be confined solely to the assets so acquired (and improvements and attachments thereto);

(xv) Liens securing Non-Recourse Debt of any Subsidiary of any Borrower incurred to replace financing provided directly or indirectly by such Borrower to such Subsidiary of such Borrower in the form of inter-company loans or equity contributions, so long as the net proceeds of such Non-Recourse Debt are contributed by such Subsidiary to such Borrower in repayment of such financing provided by such Borrower;

(xvi) Liens on assets existing at the time of the acquisition thereof by such Borrower or any Subsidiary of such Borrower; *provided*, that such Liens shall be confined solely to the assets so acquired;

(xvii) Liens resulting from legal proceedings being contested in good faith by appropriate proceedings by such Borrower or a Subsidiary of such Borrower and as to which such Borrower or such Subsidiary, as the case may be, shall have set aside on its books appropriate reserves in accordance with (and to the extent required by) GAAP;

(xviii) in the case of each of CG&E, PSI Energy and ULH&P, Liens existing or created under the CG&E First Mortgage Trust Indenture, PSI Energy First Mortgage Trust Indenture or ULH&P First Mortgage Trust Indenture, respectively; and

(xix) extensions, renewals or replacements of Liens permitted by the foregoing clauses (i) - (xviii) above.

(xx) Liens not otherwise permitted by the foregoing clauses of this Section 6.2(a) securing obligations in an aggregate principal or face amount at any date not to exceed, (A) in the case of each of Cinergy, CG&E and PSI Energy, $150,000,000 and (B) in the case of ULH&P, $50,000,000;

*provided* that, no Borrower or any Subsidiary of any Borrower shall create, incur, assume or suffer to exist any Lien upon any of the Capital Stock of CG&E, PSI Energy or ULH&P.

(b) ***Fundamental Change***. Merge, consolidate or amalgamate, or liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution), or convey, sell, lease, assign, transfer or otherwise dispose of, all or substantially all of its property, business or assets, or make any material (in the context of the overall business operations of such Borrower or such Subsidiary, as the case may be) change in its present method of conducting business, except that:

(i) any Subsidiary of such Borrower may merge, consolidate or amalgamate with or into such Borrower (*provided* that such Borrower shall be the continuing or surviving corporation) or with or into any one or more wholly-owned Subsidiaries of such Borrower;

(ii) any Subsidiary of such Borrower may sell, lease, transfer or otherwise dispose of any or all of its assets (upon voluntary liquidation or otherwise) to such Borrower or any other Subsidiary of such Borrower;

(iii) any Subsidiary of such Borrower (other than, in the case of Cinergy, CG&E, PSI Energy and ULH&P) at the time of such transaction may:

(A) merge, consolidate or amalgamate with or into any Person other than a Subsidiary of such Borrower or such Borrower and not (1) be the continuing or surviving Person or (2) remain a Subsidiary of such Borrower;

(B) liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution);

(C) convey, sell, lease, assign, transfer or otherwise dispose of, all or substantially all of its property, business or assets; or

(D) make any material (in the context of the overall business operations of such Borrower or such Subsidiary, as the case may be) change in its present method of conducting business;

so long as, such Borrower would have been in compliance with the covenants contained in Section 6.2(d) for the prior four full fiscal quarters if such merger or consolidation had been consummated on the first day of such four fiscal quarter period; and

(iv) such Borrower may merge or consolidate with another Person other than a Subsidiary of such Borrower if:

(A) such other Person is engaged in substantially the same business as such Borrower;

(B) either:

(1) such Borrower is the survivor of such transaction, or

(2) a. the survivor of such transaction is a Person organized under the laws of any State of the United States of America that effectively assumes such Borrower's obligations under the Financing Documents, whether by written instrument or by operation of law;

b. as of the date of the consummation of such transaction the Reference Ratings of the survivor are at least investment grade (i.e. BBB–, in the case of S&P, and Baa3, in the case of Moody's); and

c. in the case of the merger or consolidation of CG&E, PSI Energy or ULH&P, the survivor of such transaction is a direct wholly–owned subsidiary of Cinergy (or any successor of Cinergy permitted by this Section 6.2(b)) (or, in the case of ULH&P, so long as it is a wholly–owned direct Subsidiary of CG&E, a wholly–owned indirect Subsidiary of Cinergy or any successor of Cinergy permitted by this Section 6.2(b));

(C) the survivor of such transaction shall have delivered to the Administrative Agent such opinions or other documents or information as the Administrative Agent (acting on its own behalf or on behalf of any Bank) and its counsel may reasonably require; and

(D) the survivor of such transaction would have been in compliance with the covenants contained in Section 6.2(d) for the prior four full fiscal quarters if such merger or consolidation had been consummated on the first day of such four fiscal quarter period;

*provided* that, in the case of any transaction otherwise permitted by this Section 6.2(b), both before and after giving effect to such transaction no Default or Event of Default by such Borrower or its Subsidiaries shall have occurred or be in existence.

Notwithstanding the foregoing, the parties agree that the transaction described in the Agreement and Plan of Merger by and among Duke Energy Corporation, Cinergy, Deer Holding Corp., Deer Acquisition Corp., and Cougar Acquisition Corp., dated as of May 8, 2005, as disclosed in Form 8-K filed by Cinergy with the Securities and Exchange Commission on May 10, 2005, and other filings made by Cinergy at least five Business Days prior to the Effective Date with respect to such transaction, shall not be considered a fundamental change, subject to the limitations of this Section 6.2(b).

(c) ***Limitation on Restrictions on Distributions from Subsidiaries.*** Create or otherwise cause or permit to exist or become effective any consensual encumbrance or consensual restriction on the ability of any Subsidiary of such Borrower to pay dividends or make any other distribution on its Capital Stock to such Borrower (other than any encumbrance or restriction pursuant to an agreement or instrument in effect on the Effective Date or any such identical encumbrance or restriction as may be contained in an agreement or instrument entered into thereafter) to the extent any such encumbrance or restriction would reasonably be expected to have a Material Adverse Effect on such Borrower.

(d) ***Financial Covenants.***

(i) ***Ratio of Consolidated Indebtedness to Consolidated Total Capitalization.*** Permit, on the last day of any period of four consecutive fiscal quarters, the ratio of (i) Consolidated Indebtedness of such Borrower at such time to (ii) Consolidated Total Capitalization of such Borrower at such time to exceed 0.65 to 1.00.

(ii) ***Consolidated Net Worth.***

(A) in the case of Cinergy, permit Consolidated Net Worth of Cinergy at any time to be less than $2,000,000,000;

(B) in the case of CG&E (so long as it remains a Borrower), permit Consolidated Net Worth of CG&E at any time to be less than $1,000,000,000, *provided* that in the event that the CG&E Sublimit has been reduced to $250,000,000 pursuant to Section 2.5(a), then the foregoing reference to $1,000,000,000 shall be $500,000,000 from and after such date;

(C) in the case of PSI Energy (so long as it remains a Borrower), permit Consolidated Net Worth of PSI Energy at any time to be less than $900,000,000; and

(D) in the case of ULH&P (so long as it remains a Borrower), permit Consolidated Net Worth of ULH&P at any time to be less than $150,000,000, *provided* that in the event that the ULH&P Sublimit has been increased to $100,000,000 pursuant to Section 2.5(b), then the foregoing reference to $150,000,000 shall be $200,000,000 from and after such date.

## ARTICLE VII
## EVENTS OF DEFAULT

*SECTION 7.1.* **Events of Default.**

If any of the following events ("***Events of Default***") with respect to a particular Borrower shall occur and be continuing:

(a) Such Borrower shall fail to pay any principal of any Advance or LC Outstanding when due in accordance with the terms thereof and hereof; or such Borrower shall fail to pay any interest on any Advance or LC Outstanding or any other amount payable hereunder within five days after such interest or other amount becomes due in accordance with the terms thereof or hereof; or

(b) Any representation or warranty made or deemed made by such Borrower herein or which is contained in any certificate, document or financial or other statement delivered at any time pursuant to this Agreement shall prove to have been incorrect in any material respect on or as of the date made or deemed made; or

(c) Such Borrower shall default in the observance or performance of any agreement contained in Section 6.1(a)(iv), 6.1(c) or 6.2; or

(d) Such Borrower shall default in the observance or performance of any other agreement contained in this Agreement (other than as provided in paragraphs (a) through (c) of this Section), and such default shall continue unremedied for a period of 30 days from the time such Borrower receives notice of such default from the Administrative Agent; or

(e) Such Borrower or any of its Subsidiaries shall (i) default in any payment of principal of or interest on any of its Material Indebtedness, in each case beyond the period of grace, if any, provided in the instrument or agreement under which such Material Indebtedness was created; or (ii) default in the observance or performance of any other agreement or condition relating to such Material Indebtedness or contained in any instrument or agreement evidencing, securing or relating to such Material Indebtedness, or any other event shall occur or condition exist, the effect of which default or other event or condition is to cause, or to permit the holder or holders of or beneficiary or beneficiaries (or a trustee or agent on behalf of such holder or holders or beneficiary or beneficiaries) of such Material Indebtedness to cause, with the giving of notice if required, such Material Indebtedness to become due prior to its stated maturity; *provided* that this clause (e)(ii) shall not apply to secured Indebtedness which becomes due as a result of the voluntary sale or transfer of the property or assets securing such Indebtedness; or

(f) (i) Such Borrower or any of its Material Subsidiaries shall commence any case, proceeding or other action (A) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts, or (B) seeking appointment of a receiver, trustee, custodian or other similar official for it or for all or any substantial part of its assets, or such Borrower or any of its Material Subsidiaries shall make a general assignment for the benefit of its creditors; or (ii) there shall be commenced against such Borrower or any of its Material Subsidiaries any case, proceeding or other action of a nature referred to in clause (i) above which (A) results in the entry of an order for relief or any such adjudication or appointment; or (B) remains undismissed, undischarged or unbonded for a period of 60 days; or (iii) there shall be commenced against such Borrower or any of its Material Subsidiaries any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets which results in the entry of an order for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal within 60 days from the entry thereof; or (iv) such Borrower or any of its Material Subsidiaries shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (i), (ii), or (iii) above; or (v) such Borrower or any of its Material Subsidiaries shall generally not, or shall be unable to, or shall admit in writing its inability to, pay its debts as they become due; or

(g) An ERISA Event shall have occurred, or any other event or condition shall occur or exist with respect to any Plan, that when taken together with all other events or conditions with respect to any Plan, would reasonably be expected to have a Material Adverse Effect on such Borrower; or

(h) One or more judgments for the payment of money in an aggregate amount (to the extent not covered by insurance) in excess of $50,000,000 for such Borrower shall have been entered against such Borrower or any of its Subsidiaries and all such judgments or decrees shall not have been paid, vacated, discharged, stayed or bonded pending appeal within 60 days from the entry thereof; or

(i) (i) Except in a transaction otherwise permitted under Section 6.2(b) hereof, a Change of Control of such Borrower shall occur;

THEN, AND IN ANY SUCH CASE, the Administrative Agent shall at the request, or may with the consent, of the Required Lenders, upon notice to such Borrower (i) declare the Commitments and the obligation of each Lender to make Advances and to participate in any as-yet unissued Letters of Credit to be terminated, whereupon the same shall forthwith terminate, and/or (ii) declare the Advances, all interest thereon and all other amounts payable or to become payable under this Agreement by such Borrower, whether matured or unmatured, fixed, liquidated, contingent or otherwise (including all interest thereon) to be immediately due and payable, whereupon the same shall immediately become due and payable without demand, presentment, protest or further notice of any kind, all of which are hereby expressly waived by such Borrower; *provided, however*, that upon the occurrence of any of the events described in subsection (f) of this Section, (1) the Commitments and the obligation of each Lender to make Advances and of each Lender to participate in as-yet unissued Letters of Credit shall automatically be terminated in their entirety and (2) the Advances, all such interest and all other amounts payable or to become payable under this Agreement by such Borrower, whether matured or unmatured, fixed, liquidated, contingent or otherwise (including all interest thereon) shall immediately become due and payable without demand, presentment, protest or further notice of any kind, all of which are hereby expressly waived by such Borrower; *provided* no such termination of the Commitments after an Event of Default shall reduce the Total Commitment to an amount which is less than the CG&E Sublimit and/or the PSI Energy Sublimit and/or the ULH&P Sublimit if such Event of Default does not arise out of a Default by such Borrower or its Subsidiaries (other than, in the case of CG&E, ULH&P).

Notwithstanding anything to the contrary contained herein,

(i) no notice given or declaration made by the Administrative Agent pursuant to this Section 7.1 shall affect (i) the obligation of the LC Bank to make any payment under any Letter of Credit in accordance with the terms of such Letter of Credit or (ii) the obligations of each Lender in respect of each such Letter of Credit; *provided, however*, that upon the occurrence and during the continuance of any Event of Default, such Borrower shall at such time deposit with the Administrative Agent an amount in the cash account (the "***Cash Account***") described below equal to the then current LC Outstandings. Such Cash Account shall at all times be free and clear of all rights or claims of third parties. The Cash Account shall be maintained with the Administrative Agent in the name of, and under the sole dominion and control of, the Administrative Agent, and amounts deposited in the Cash Account shall bear interest at a rate equal to the rate generally offered by Barclays for deposits equal to the amount deposited by such Borrower in the Cash Account pursuant to this Section 7.1, for a term to be agreed to between such Borrower and the Administrative Agent. If any drawings then outstanding or thereafter made are not reimbursed in full immediately upon demand or, in the case of subsequent drawings, upon being made, then, in any such event, the Administrative Agent may apply the amounts then on deposit in the Cash Account, in such priority as the Administrative Agent shall elect, toward the payment in full of any or all of such Borrower's obligations hereunder as and when such obligations shall become due and payable. Upon payment in full, after the termination of the

Letters of Credit, of all such obligations, the Administrative Agent will repay to such Borrower any remaining cash then on deposit in the Cash Account. In addition, if at any time the balance held in the Cash Account shall exceed the sum of (x) the then current LC Outstandings plus (y) all other matured amounts then currently due and owing hereunder, the Administrative Agent shall repay such excess to such Borrower upon such Borrower's written request; and

(ii) In no event shall a Default or Event of Default for either CG&E, PSI Energy or ULH&P result solely from the occurrence of a Default or Event of Default by any other Borrower or their respective Subsidiaries, or in the case of CG&E, from the occurrence of a Default or Event of Default relating solely to ULH&P.

## ARTICLE VIII
## THE ADMINISTRATIVE AGENT

### *SECTION 8.1.* Authorization and Action.

Each Lender and the LC Bank hereby appoints and authorizes the Administrative Agent to take such action as agent on its behalf and to exercise such powers under this Agreement as are delegated to the Administrative Agent by the terms hereof, together with such powers as are reasonably incidental thereto. As to any matters not expressly provided for by this Agreement (including, without limitation, enforcement of this Agreement or collection of any amounts outstanding hereunder), the Administrative Agent shall not be required to exercise any discretion or take any action, but shall be required to act or to refrain from acting (and shall be fully protected in so acting or refraining from acting) upon the instructions of the Required Lenders (or, in the case of certain matters arising under Article IX, the Lenders described therein) and such instructions shall be binding upon all Lenders; *provided, however,* that the Administrative Agent shall not be required to take any action which exposes the Administrative Agent to personal liability or which is contrary to this Agreement or applicable law. The Administrative Agent agrees to give to each Lender prompt notice of each notice given to it by any Borrower pursuant to the terms of this Agreement.

### *SECTION 8.2.* Administrative Agent's Reliance, Etc.

Neither the Administrative Agent nor any of its directors, officers, agents or employees shall be liable for any action taken or omitted to be taken by it or them under or in connection with this Agreement, except for its or their own gross negligence or willful misconduct. Without limitation of the generality of the foregoing, the Administrative Agent: (a) may treat the payee of any Note as the holder thereof until it receives written notice of the assignment or transfer thereof signed by such payee and in form satisfactory to the Administrative Agent; (b) may consult with legal counsel (including counsel for the Borrowers), independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants or experts; (c) makes no warranty or representation to any Lender and shall not be responsible to any Lender for any statements, warranties or representations made in or in connection with the Financing Documents; (d) shall not have any duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of the Financing Documents by the Borrowers or to inspect the property (including the books and records) of the Borrowers; (e) shall not be responsible to any Lender for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement, any Note, or any other instrument or document furnished pursuant thereto; and (f) shall incur no liability under or in respect of this Agreement by acting upon any notice, consent, certificate or other instrument or writing (which may be by telegram, cable, telex or facsimile) believed by it to be genuine and signed or sent by the proper party or parties.

*SECTION 8.3.* **Barclays and Affiliates.**

With respect to its Commitment and the Advances made by it, Barclays has the same rights and powers under this Agreement as any other Lender and may exercise the same as though Barclays were not the Administrative Agent; and the term Lender or Lenders shall, unless otherwise expressly indicated, include Barclays in its individual capacity. Barclays and its affiliates may accept deposits from, lend money to, act as trustee under indentures of, and generally engage in any kind of business with, the Borrowers or any of their Subsidiaries and any Person who may do business with or own securities of the Borrowers or any such Subsidiary of the Borrowers, all as if Barclays were not the Administrative Agent and without any duty to account therefor to the Lenders.

*SECTION 8.4.* **Lender Credit Decision.**

Each Lender acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Lender and based on the financial statements referred to in Section 5.1(d)(i) and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement.

*SECTION 8.5.* **Indemnification.**

The Lenders agree to indemnify at any time the Administrative Agent (to the extent not reimbursed by the Borrowers), ratably according to their respective Commitment Percentages (and if an indemnified item (as defined below) is incurred at any time after the termination of the Commitments and such indemnified item is incurred, in the opinion of the Administrative Agent, solely for the benefit of the Lenders having Advances outstanding to each of them at such time, then ratably according to the respective principal amounts of Advances outstanding to each of them at the date of payment by the Administrative Agent of such indemnified item or, if not yet paid, at the date of the assertion of the indemnified item), from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever (each of the foregoing being an "***indemnified item***") which may be imposed on, incurred by, or asserted against the Administrative Agent in any way relating to or arising out of this Agreement or any action taken or omitted by the Administrative Agent under this Agreement; *provided* that no Lender shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from the Administrative Agent's gross negligence or willful misconduct. Without limitation of the foregoing, each Lender agrees to reimburse the Administrative Agent promptly upon demand for its ratable share (ratably in accordance with the first sentence of this Section 8.5) of any out-of-pocket expenses (including counsel fees) incurred by the Administrative Agent in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement, to the extent that the Administrative Agent is not reimbursed for such expenses by the Borrowers.

*SECTION 8.6.* **Successor Administrative Agent.**

The Administrative Agent may resign at any time by giving 30 days prior written notice thereof to the Lenders and the Borrowers and may be removed at any time with cause by the Required Lenders. Upon any such resignation or removal of the Administrative Agent, the Required Lenders shall have the right to appoint a successor Administrative Agent reasonably acceptable to the Borrowers. If no successor Administrative Agent shall have been so appointed by the Required Lenders and accepted by the Borrowers, and shall have accepted such appointment, within 30 days after the retiring Administrative

Agent's giving of notice of resignation or the Required Lenders' removal of the retiring Administrative Agent, then the retiring Administrative Agent may, on behalf of the Lenders, appoint a successor Administrative Agent, which shall be a Lender. Upon the acceptance of any appointment as Administrative Agent hereunder by a successor Administrative Agent, such successor Administrative Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations under this Agreement. After any retiring Administrative Agent's resignation or removal hereunder as Administrative Agent, the provisions of this Article VIII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement.

## ARTICLE IX
## MISCELLANEOUS

*SECTION 9.1.* **Amendments, Etc.**

(a) Except as set forth in Section 9.1(b), no amendment or waiver of any provision of this Agreement, nor consent to any departure by the Borrowers therefrom, shall in any event be effective unless the same shall be in writing and signed by the Required Lenders, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; *provided, however*, that subject to the provisions of Section 2.16, no such amendment, waiver or consent shall: (i) forgive the principal amount or extend the final scheduled date of maturity of any Advance or Unreimbursed LC Disbursement, reduce the stated rate of any interest or fee payable hereunder (except in connection with the waiver of applicability of any post-default increase in interest rates (which waiver shall be effective with the consent of the Required Lenders)) or extend the scheduled date of any payment thereof, or increase the amount or extend the expiration date of any Lender's Commitment, in each case without the written consent of each Lender directly affected thereby; (ii) reduce any percentage specified in the definition of Required Lenders or consent to the assignment or, except as otherwise permitted by Section 6.2(b), transfer by any Borrower of any of its rights and obligations under this Agreement and the other Financing Documents, without the written consent of all Lenders; (iii) amend, modify or waive any provision of this Agreement affecting the rights or duties of the Administrative Agent without the written consent of the Administrative Agent; or (iv) amend, modify or waive any provision of this Agreement affecting the rights or duties of the LC Bank without the written consent of the LC Bank. Any such waiver and any such amendment, supplement or modification shall apply equally to each of the Lenders and shall be binding upon the Borrowers, the Lenders, the Administrative Agent and all future holders of the Advances. In the case of any waiver, the Borrowers, the Lenders and the Administrative Agent shall be restored to their former position and rights hereunder and under the other Financing Documents, and any Default or Event of Default waived shall be deemed to be cured and not continuing; but no such waiver shall extend to any subsequent or other Default or Event of Default, or impair any right consequent thereon.

Notwithstanding the foregoing, this Agreement may be amended (or amended and restated) to add one or more additional credit facilities to this Agreement and to permit the extensions of credit from time to time outstanding thereunder and the accrued interest and fees in respect thereof to share ratably in the benefits of this Agreement with the Extensions of Credit and the accrued interest and fees in respect thereof with the written consent of the Required Lenders, the Administrative Agent, the LC Bank and each Borrower to whom extensions of credit thereunder would be made available.

(b) This Agreement may be amended by Cinergy to remove any of CG&E, PSI Energy or ULH&P as a Borrower (a "***Removed Borrower***") hereunder subject to: (i) the receipt by the Administrative Agent of prior written notification from Cinergy of such amendment, (ii) repayment in full of all Advances made to such Borrower, (iii) cash collateralization of all reimbursement obligations in respect of any Letters of Credit issued for the account of such Borrower (or the amendment of such Letter

of Credit to provide for Cinergy as the account party) and (iv) repayment in full of all other amounts owing by such Borrower under this Agreement (it being agreed that any such repayment shall be in accordance with the other terms of this Agreement). Upon the satisfaction of the foregoing conditions the rights and obligations of such Removed Borrower hereunder shall terminate; *provided, however*, that the obligations of such Removed Borrower under Section 9.4 shall survive such amendment.

*SECTION 9.2.* **Notices, Etc.**

All notices and other communications provided for hereunder shall be in writing (including facsimile transmission) and (except when particular means are specified) mailed, faxed or delivered:

(a) if to Cinergy, at its address at 139 East Fourth Street, Cincinnati, Ohio 45202, Attention: Treasurer, telecopy: (513) 287–2749;

(b) if to CG&E, at its address at 139 East Fourth Street, Cincinnati, Ohio 45202, Attention: Treasurer, telecopy: (513) 287–2749, with a copy to Cinergy, at its address at 139 East Fourth Street, Cincinnati, Ohio 45202, Attention: Treasurer, telecopy: (513) 287–2749;

(c) if to PSI Energy, 139 East Fourth Street, Cincinnati, Ohio 45202, Attention: Treasurer, telecopy: (513) 287–2749, with a copy to Cinergy, at its address at 139 East Fourth Street, Cincinnati, Ohio 45202, Attention: Treasurer, telecopy: (513) 287–2749

(d) if to ULH&P, 139 East Fourth Street, Cincinnati, Ohio 45202, Attention: Treasurer, telecopy: (513) 287–2749, with a copy to Cinergy, at its address at 139 East Fourth Street, Cincinnati, Ohio 45202, Attention: Treasurer, telecopy: (513) 287–2749;

(e) if to the LC Bank, at the Domestic Lending Office of Barclays specified opposite its name on Schedule 1.1 hereto;

(f) if to the Administrative Agent, c/o Barclays Capital Service LLC, 200 Cedar Knolls Road, Whippany, NJ 07981, Attention May Wong, telecopy: (973) 576–3694;

(g) if to any Bank, at its Domestic Lending Office specified opposite its name on Schedule 1.1 hereto; and

(h) if to any Lender other than a Bank, at its Domestic Lending Office specified in the Assignment and Acceptance pursuant to which it became a Lender;

or, as to each party, at such other address as shall be designated by such party in a written notice to the other parties. All such notices and communications shall, when mailed or facsimiled, be effective when deposited in the mails or transmitted, respectively, except that notices and communications to the Administrative Agent pursuant to Article II, III or IX shall not be effective until received by the Administrative Agent. Without limitation of the foregoing, the Administrative Agent shall be fully protected in acting upon any notice or instruction received by it by telephone or by facsimile transmission so long as the Administrative Agent reasonably believes such notice or instruction to be genuine, but any such notice or instruction shall be promptly confirmed in writing. The Administrative Agent and each Borrower may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it; *provided* that approval of such procedures may be limited to particular notices or communications.

*SECTION 9.3.* **No Waiver; Remedies.**

No failure on the part of any Lender or the Administrative Agent to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

*SECTION 9.4.* **Costs, Expenses and Taxes; Indemnification.**

(a) Each Borrower agrees to pay on demand all reasonable costs and expenses in connection with the preparation, execution, delivery, administration, modification and amendment of this Agreement, any Note and any other documents to be delivered hereunder, including, without limitation, the reasonable fees and out-of-pocket expenses of counsel for the Administrative Agent with respect thereto and with respect to advising the Administrative Agent as to its rights and responsibilities under this Agreement and of the LC Bank with respect to the execution, delivery, administration, modification and amendment of any Letters of Credit to be issued by it hereunder relating to the performance by such Borrower under this Agreement, and to reimburse and hold harmless the Lenders, the LC Bank and the Administrative Agent for and against all of their reasonable costs and expenses arising in connection with the enforcement or preservation of rights and remedies under (whether in litigation, by negotiation, in workouts, restructurings or other negotiations, or otherwise) this Agreement, the Letters of Credit and any Note or in connection with the transactions contemplated hereby and thereby against such Borrower, including but not limited to the reasonable fees and expenses of counsel to the Administrative Agent, each Lender and the LC Bank (*provided* that the Borrowers shall not be obligated to reimburse for more than one law firm (and in addition to such law firm, any local counsel engaged in each relevant jurisdiction by such law firm) as counsel for the Administrative Agent and the Lenders, except to the extent that multiple law firms are reasonably required to and, in fact do represent the Administrative Agent and the Lenders, or if an actual conflict between represented parties shall exist) and all stamp taxes, recording taxes and fees and filing taxes and fees which may be payable in respect thereof; *provided* that the Borrowers shall not be required to reimburse the costs and expenses of any Lender that arise out of any assignment or participation by such Lender hereunder (other than any assignment pursuant to Section 2.16).

(b) Each Borrower shall further indemnify, reimburse and hold harmless the Lenders, the LC Bank, the Administrative Agent and their respective officers, directors, employees, affiliates, agents and controlling Persons (each, an "***Indemnified Party***") from and against any and all claims, damages, losses, costs and liabilities (including but not limited to the reasonable fees and expenses of counsel to each such Indemnified Party) which any of them may incur or which may be claimed against any of them by any person or entity or in any investigative, administrative or judicial proceeding (whether or not such Indemnified Party shall be designated a party thereto) as a result of, in connection with, or otherwise arising from the Commitments, the Advances, the Letters of Credit or any actual or proposed use of the proceeds of the Extensions of Credit hereunder relating to the performance of such Borrower under this Agreement; *provided*, that, no Indemnified Party shall have the right to be indemnified hereunder for such Indemnified Party's own gross negligence or willful misconduct.

(c) Any request for reimbursement of any out-of-pocket expenses shall be accompanied by reasonable documentation in respect thereof, including copies of invoices from third parties, and in the case of charges for counsel, the invoice shall include a breakdown of the hourly time and a short summary of services rendered by date and service provider, a summary of the charges, hourly rate and total hours provided by each service provider and a breakdown of reasonable out-of-pocket expenses of counsel.

(d) Notwithstanding anything to the contrary herein, the obligations of each Borrower under this Section 9.4 shall be the joint and several obligation of Cinergy; *provided* that the foregoing shall not be construed as a guarantee of payment by Cinergy of any obligation of another Borrower hereunder.

(e) Each Borrower's obligations under this Section (including Cinergy's joint and several obligation with respect to the respect to each other Borrower) shall survive the repayment of all amounts owing to the Lenders, the LC Bank and the Administrative Agent under the Financing Documents and the termination of the Commitments. If and to the extent that the obligations of any Borrower under this Section are unenforceable for any reason, such Borrower agrees to make the maximum contribution to the payment and satisfaction thereof which is permissible under applicable law.

*SECTION 9.5.* **Right of Set-off.**

Upon (a) the occurrence and during the continuance of any Event of Default arising out a breach by a Borrower or its Subsidiaries and (b) the making of the request or the granting of the consent specified by Section 7.1 to authorize the Administrative Agent to declare the Advances due and payable pursuant to the provisions of Section 7.1 (unless such Event of Default is an Event of Default described in Section 7.1(f), in which case the requirement of this clause (b) shall be inapplicable), each Lender and the LC Bank and each of their respective Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final), except in dedicated payroll accounts or in margin accounts, at any time held and other indebtedness at any time owing by such Lender or the LC Bank or such Affiliate to or for the credit or the account of such Borrower against any and all of the obligations of such Borrower now or hereafter existing under this Agreement, irrespective of whether or not such Lender or the LC Bank shall have made any demand under this Agreement and although such obligations may be unmatured. Each Lender and the LC Bank agrees promptly to notify such Borrower after any such set-off and application made by such Lender or the LC Bank or any of their respective Affiliates; *provided* that, the failure to give such notice shall not affect the validity of such set-off and application. The rights of each Lender or the LC Bank or their respective Affiliates under this Section are in addition to other rights and remedies (including, without limitation, other rights of set-off) which such Lender or the LC Bank or their respective Affiliates may have.

*SECTION 9.6.* **Binding Effect.**

This Agreement shall become effective when it shall have been executed by each Borrower and the Administrative Agent and when the Administrative Agent shall have been notified by each Bank that such Bank has executed it and thereafter shall be binding upon and inure to the benefit of each Borrower, the Administrative Agent, the LC Bank and each Lender and their respective successors and assigns, except that no Borrower shall have the right to assign its rights or obligations hereunder or any interest herein without the prior written consent of all of the Lenders.

*SECTION 9.7.* **Assignments, New Lenders and Participations.**

(a) Each Lender may (i) with the consent of the LC Bank (which consent may be granted or withheld in the sole discretion of the LC Bank) assign to one or more Lenders, an affiliate of a Lender or an Approved Fund or (ii) with the consent of Cinergy (which consent shall not be unreasonably withheld or delayed and shall not be required while any Event of Default shall have occurred and be continuing) and the Administrative Agent (which consent shall not be unreasonably withheld or delayed) and the LC Bank (which consent may be granted or withheld in the sole discretion of the LC Bank), assign to one or more banks or other entities other than Lenders, an affiliate of a Lender or an Approved Fund, all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitment and the Advances owing to it); *provided, however*, that (i) each such assignment shall be of a constant, and not a varying, percentage of all of the assigning Lender's rights and obligations under this Agreement, (ii) the amount of the Commitment of the assigning Lender being assigned pursuant to each such assignment (determined as of the date of the Assignment and Acceptance with respect to such assignment) shall not be less than $5,000,000 and shall be an integral multiple of

$1,000,000 in excess thereof, unless (A) the amount of the Commitment being assigned is the whole Commitment of the assigning Lender, (B) the Assignee shall, prior to such assignment, already be a Lender hereunder, or (C) each of Cinergy and the Administrative Agent otherwise consent (it being understood that no such consent of Cinergy shall be required if an Event of Default shall have occurred and be continuing), and (iii) the parties to each such assignment shall execute and deliver to the Administrative Agent, for its acceptance and recording in the Register, an Assignment and Acceptance, and a processing and recordation fee of $3,500 payable by the assigning Lender and/or the assignee Lender (or, in the case of a replacement of a Lender pursuant to Section 2.2(c)(i) or Section 2.16, payable by the relevant Borrower) with respect to the administration and processing of the assignments of rights and obligations of the assigning Lender to the assignee Lender hereunder. Upon such execution, delivery, acceptance and recording, from and after the effective date specified in each Assignment and Acceptance, which effective date shall be at least three Business Days after the execution thereof, (x) the assignee thereunder shall be a party hereto and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such Assignment and Acceptance, have the rights and obligations of a Lender hereunder and (y) the Lender assignor thereunder shall, to the extent that rights and obligations hereunder have been assigned by it pursuant to such Assignment and Acceptance, relinquish its rights (other than pursuant to Sections 2.11, 2.13 and 9.4, which rights shall survive the execution and delivery of such Assignment and Acceptance) and be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto, except as to Sections 2.11, 2.13 and 9.4). Any assignment or transfer by a Lender of rights and obligations under this Agreement that does not comply with this Section 9.7 shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with paragraph (e) of this Section 9.7.

(b) By executing and delivering an Assignment and Acceptance, the Lender assignor thereunder and the assignee thereunder confirm to and agree with each other and the other parties hereto as follows:

(i) other than as provided in such Assignment and Acceptance, such assigning Lender makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement or any other instrument or document furnished pursuant hereto or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or any other instrument or document furnished pursuant hereto;

(ii) such assigning Lender makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Borrowers or the performance or observance by the Borrowers of any of their obligations under this Agreement or any other instrument or document furnished pursuant hereto;

(iii) such assignee confirms that it has received a copy of this Agreement, together with copies of the most recent financial statements referred to in Section 5.1(d) and/or Section 6.1(a)(i) and (ii) and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance;

(iv) such assignee will, independently and without reliance upon the Administrative Agent, such assigning Lender or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement;

(v) such assignee appoints and authorizes the Administrative Agent to take such action as Administrative Agent on its behalf and to exercise such powers under this Agreement as

are delegated to the Administrative Agent by the terms hereof, together with such powers as are reasonably incidental thereto; and

(vi) such assignee agrees that it will perform in accordance with their terms all of the obligations which by the terms of this Agreement are required to be performed by it as a Lender.

(c) The Administrative Agent shall maintain at its address referred to in Section 9.2 a copy of each Assignment and Acceptance delivered to and accepted by it and a register for the recordation of the names and addresses of the Lenders and the Commitment of, and principal amount of the Advances owing to, each Lender from time to time (the "***Register***"). The entries in the Register shall be conclusive and binding for all purposes, absent manifest error, and the Borrowers, the Administrative Agent and the Lenders may treat each Person whose name is recorded in the Register as a Lender hereunder for all purposes of this Agreement. The Register shall be available for inspection by the Borrowers or any Lender at any reasonable time and from time to time upon reasonable prior notice.

(d) Upon its receipt of an Assignment and Acceptance executed by an assigning Lender and an assignee consented to by Cinergy, the Administrative Agent shall, if such Assignment and Acceptance has been completed and is in substantially the form of Exhibit E hereto, (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register and (iii) give prompt notice thereof to the Borrowers.

(e) Each Lender may sell participations to one or more banks or other entities ("***Participants***") in or to all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitment and the Advances owing to it); *provided, however,* that (i) such Lender's obligations under this Agreement (including, without limitation, its Commitment to the Borrowers hereunder) shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) the Borrowers, the Administrative Agent, the LC Bank and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement and (iv) the holder of any such participation, other than an affiliate of such Lender, shall not be entitled to require such Lender to take or omit to take any action hereunder, except action (A) extending the time for payment of interest on, or the principal amount of, the Advances, Unreimbursed LC Disbursements, (B) increasing or extending such Lender's Commitment or reducing the rate of interest payable on the Advances, Unreimbursed LC Disbursements, (C) forgiving the payment of interest on or principal of the Advances, Unreimbursed LC Disbursements or (D) reducing the Facility Fee or letter of credit risk participation fee referred to in Section 2.3 hereof. Each Borrower agrees that if amounts outstanding under this Agreement are due and unpaid, or shall have been declared or shall have become due and payable upon the occurrence of an Event of Default by such Borrower or its Subsidiaries, each Participant shall be deemed to have the right of set-off in respect of its participating interest in amounts owing under this Agreement to the same extent as if the amount of its participating interest were owing directly to it as a Lender under this Agreement; *provided,* that such right of set-off shall be subject to the obligation of such Participant to share with the Lenders, and the Lenders agree to share with such Participant, as provided in Section 2.14. Each Borrower also agrees that each Participant shall be entitled to the benefits of Sections 2.11, 2.13, 2.15 and 9.4 with respect to its participation interest in the Commitments and the Advances outstanding from time to time; *provided* that no Participant shall be entitled to receive any greater amount pursuant to such Sections 2.11, 2.13, 2.15 and 9.4 than the transferor Lender would have been entitled to receive in respect of the amount of the participation transferred by such transferor Lender to such Participant if such transfer had not occurred.

(f) Notwithstanding anything to the contrary contained herein, any Lender (a "***Granting Lender***") may grant to a special purpose funding vehicle (an "***SPV***") utilized by such Granting Lender identified as such in writing from time to time by the Granting Lender to the Administrative Agent and the Borrowers, the option to provide to the Borrowers all or any part of any Advance that such Granting

Lender would otherwise be obligated to make to the Borrowers pursuant to this Agreement; *provided*, that (i) such SPV is an "Accredited investor" (as defined in Rule 501 of Regulation D under the Securities Act of 1933, as amended), (ii) nothing herein shall constitute a commitment by any such SPV to make any Advance, (iii) if such SPV elects not to exercise such option or otherwise fails to provide all or any part of such Advance or perform any other obligation of a "Lender" hereunder, the Granting Lender shall be obligated to make such Advance or perform such other obligation pursuant to the terms hereof and (iv) no SPV or Granting Lender shall be entitled to receive any greater amount pursuant to Section 2.9, 2.11 or 2.13 than the Granting Lender would have been entitled to receive had the Granting Lender not otherwise granted such SPV the option to provide any Advance to the Borrowers. The making of an Advance by an SPV hereunder shall utilize the Commitment of the Granting Lender to the same extent, and as if, such Advance were made by such Granting Lender. Each party hereto hereby agrees that no SPV shall be liable for any indemnity or other payment obligation under this Agreement for which a Lender would otherwise be liable so long as, and to the extent that, the related Granting Lender provides such indemnity or makes such payment.

In furtherance of the foregoing, each party hereto hereby agrees (which agreement shall survive the termination of this Agreement) that, prior to the date that is one year and one day after the payment in full of all outstanding commercial paper or other senior indebtedness of any SPV, it will not institute against or join any other person in instituting against such SPV any bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings under the laws of the United States or any State thereof. Notwithstanding the foregoing, the Granting Lender unconditionally agrees to indemnify the Borrowers, the Administrative Agent and each Lender against all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be incurred by or asserted against any Borrower, the Administrative Agent or such Lender, as the case may be, arising as a consequence of any such forbearance or delay in the initiation of any such proceeding against its SPV.

As to any Advance or portion thereof made by it, each SPV shall have all the rights that its Granting Lender would have had under this Agreement had such Granting Lender made such Advance; provided, however, that each SPV shall have granted to its Granting Lender an irrevocable power of attorney to deliver and receive all communications and notices under this Agreement (and any related documents), to receive all payments in respect of the Advances funded by it and to exercise on such SPV's behalf all of such SPV's consent rights under this Agreement and, as a result thereof, no other party hereto shall be required to communicate with, make any payment to, or act on any instruction or demand of, such SPV, it being understood that such SPV's Granting Lender shall have the exclusive rights of a "Lender" with respect to any Advance or portion thereof made by an SPV by virtue of such power of attorney.

Notwithstanding anything to the contrary contained in this Agreement any SPV may (i) with notice to, but without the prior written consent of any other party hereto, assign all or a portion of its interest in any Advances to the Granting Lender or to any financial institution providing liquidity and/or credit support to or for the account of such SPV to support the funding or maintenance of Advances and (ii) disclose on a confidential basis any confidential information relating to its Advances to any rating agency, commercial paper dealer or provider of any surety, guarantee or credit or liquidity enhancement to such SPV. This Section may not be amended without the prior written consent of each Granting Lender, all or any part of whose Advance is being funded by an SPV at the time of such amendment.

(g) (i) Any Lender may, in connection with any assignment or participation, or proposed assignment or participation, or any designation or grant to an SPV, or any proposed designation or grant to an SPV, pursuant to this Section 9.7, disclose to the assignee or participant, or proposed assignee or participant, or designee or grantee, or proposed designee or grantee, any information relating to the Borrowers furnished to such Lender by or on behalf of the Borrowers; *provided* that, prior to any such disclosure, the assignee or participant, or proposed assignee or

participant, or designee or grantee, or proposed designee or grantee, shall agree to preserve the confidentiality of any confidential information (except any such disclosure as may be required by law) relating to the Borrowers, received by it from such Lender.

(ii) In addition, each Borrower hereby acknowledges and agrees that each Lender may share with any of its affiliates any information relating to such Borrower or any of its Subsidiaries (including, without limitation, any non–public information regarding the creditworthiness of such Borrower and its Subsidiaries), *provided*, that any such Person shall be subject to the provisions of this paragraph (g) to the same extent as the applicable Lender.

(h) Anything in this Section 9.7 to the contrary notwithstanding, any Lender may assign and pledge all or any portion of its Commitment and the Advances owing to it to any Federal Reserve Bank (and its transferees) as collateral security pursuant to Regulation A of the Board of Governors of the Federal Reserve System and any Operating Circular issued by such Federal Reserve Bank. No such assignment shall release the applicable Lender from its obligations hereunder.

(i) Each Borrower, upon receipt of written notice from the relevant Lender, agrees to issue Notes to any Lender requiring Notes to facilitate transactions of the type described in paragraph (h) above.

*SECTION 9.8.* **No Recourse.**

No recourse shall be had for the payment of any obligation or any claim arising out of or relating to this Agreement against any incorporator, stockholder, affiliate, officer or director of the Borrowers or any partner or employee thereof. The provisions of this Section 9.8 shall be binding on the parties hereto and their respective successors and assigns, and shall survive the termination of this Agreement.

*SECTION 9.9.* **Consent to Jurisdiction; Waiver of Jury Trial.**

(a) To the fullest extent permitted by law, each Borrower hereby irrevocably (i) submits to the non–exclusive jurisdiction of any New York State or Federal court sitting in New York City and any appellate court from any thereof in any action or proceeding arising out of or relating to this Agreement, and (ii) agrees that all claims in respect of such action or proceeding may be heard and determined in such New York State court or in such Federal court. Each Borrower hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding. Each Borrower also irrevocably consents, to the fullest extent permitted by law, to the service of any and all process in any such action or proceeding by the mailing by certified mail of a copy of such process to such Borrower at its address specified in Section 9.2. Each Borrower agrees, to the fullest extent permitted by law, that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law.

(b) EACH BORROWER, THE ADMINISTRATIVE AGENT, THE LC BANK AND THE LENDERS HEREBY IRREVOCABLY WAIVE ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY NOTE, OR ANY OTHER INSTRUMENT OR DOCUMENT DELIVERED HEREUNDER OR THEREUNDER.

*SECTION 9.10.* **Governing Law.**

THIS AGREEMENT AND THE NOTES SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

*SECTION 9.11.* **Execution in Counterparts.**

This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

*SECTION 9.12.* **Entire Agreement; Exhibits and Schedules.**

The Financing Documents, together with all other instruments, agreements and certificates executed by the parties in connection therewith or with reference thereto, embody the entire understanding and agreement between the parties hereto and thereto with respect to the subject matter hereof and thereof and supersede all prior agreements, understandings and inducements, whether express or implied, oral or written. Each of the Exhibits and each of the Schedules attached hereto are incorporated into this Agreement and by this reference made a part hereof.

*SECTION 9.13.* **Confidentiality.**

Each of the Administrative Agent and each Lender agrees to keep confidential all non–public information provided to it by any Borrower, Subsidiary of any Borrower, the Administrative Agent or any Lender pursuant to or in connection with this Agreement that is designated by the provider thereof as confidential; provided that nothing herein shall prevent the Administrative Agent or any Lender from disclosing any such information (a) to the Administrative Agent, any other Lender or any affiliate thereof directly involved in the negotiation or syndication of this Agreement, (b) subject to an agreement to comply with the provisions of this Section, to any actual or prospective assignee or Participant, (c) to its employees, directors, agents, attorneys, accountants and other professional advisors or those of any of its affiliates directly involved in the negotiation or syndication of this Agreement, (d) upon the request or demand of any Governmental Authority, (e) in response to any order of any court or other Governmental Authority or as may otherwise be required pursuant to any Requirement of Law, (f) if requested or required to do so in connection with any litigation or similar proceeding, (g) that has been publicly disclosed, (h) to the National Association of Insurance Commissioners or any similar organization or any nationally recognized rating agency that requires access to information about a Lender's investment portfolio in connection with ratings issued with respect to such Lender, or (i) in connection with the exercise of any remedy hereunder or under any other Finance Document.

***SECTION 9.14. USA PATRIOT Act.*** Each Lender hereby notifies the Borrowers that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107–56 (signed into law October 26, 2001)) (the "***Act***"), it is required to obtain, verify and record information that identifies each Borrower, which information includes the name and address of each Borrower and other information that will allow such Lender to identify such Borrower in accordance with the Act.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

CINERGY CORP.
139 East Fourth Street
Cincinnati, Ohio 45202
Taxpayer ID: 31-1385023

By /s/ Wendy L. Aumiller
Name: Wendy L. Aumiller
Title: Vice President and Treasurer

THE CINCINNATI GAS & ELECTRIC COMPANY
139 East Fourth Street
Cincinnati, Ohio 45202
Taxpayer ID: 31-0240030

By /s/ Wendy L. Aumiller
Name: Wendy L. Aumiller
Title: Vice President and Treasurer

PSI ENERGY, INC.
1000 East Main Street
Plainfield, Indiana 46168
Taxpayer ID: 35-0594457

By /s/ Wendy L. Aumiller
Name: Wendy L. Aumiller
Title: Vice President and Treasurer

THE UNION LIGHT, HEAT AND POWER COMPANY
139 East Fourth Street
Cincinnati, Ohio 45202
Taxpayer ID: 31-0473080

By /s/ Wendy L. Aumiller
Name: Wendy L. Aumiller
Title: Vice President and Treasurer

BARCLAYS BANK PLC, as Administrative Agent, LC Bank and as a Lender

By /s/ Sydney G. Dennis
Name: Sydney G. Dennis
Title: Director

JPMORGAN CHASE BANK, N.A., as Syndication Agent and as a Lender

By /s/ Thomas L. Casey
Name: Thomas L. Casey
Title: Vice President

# FORM 8-K

## UNION LIGHT HEAT &POWER CO - N/A

**Filed: August 19, 2004 (period: August 19, 2004)**

Report of unscheduled material events or corporate changes.

# Table of Contents

# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

---

# FORM 8–K

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

---

Date of report (Date of earliest event reported): **August 19, 2004**

# CINERGY CORP.

(Exact Name of Registrant as Specified in Its Charter)

---

| Commission File Number | Registrant, State of Incorporation, Address and Telephone Number | I.R.S. Employer Identification No. |
|---|---|---|
| 1–11377 | **CINERGY CORP.**<br>(A Delaware Corporation)<br>139 East Fourth Street<br>Cincinnati, Ohio 45202<br>(513) 421–9500 | 31–1385023 |
| 1–1232 | **THE CINCINNATI GAS & ELECTRIC COMPANY**<br>(An Ohio Corporation)<br>139 East Fourth Street<br>Cincinnati, Ohio 45202<br>(513) 421–9500 | 31–0240030 |
| 1–3543 | **PSI ENERGY, INC.**<br>(An Indiana Corporation)<br>1000 East Main Street<br>Plainfield, Indiana 46168<br>(513) 421–9500 | 35–0594457 |
| 2–7793 | **THE UNION LIGHT, HEAT AND POWER COMPANY**<br>(A Kentucky Corporation)<br>139 East Fourth Street<br>Cincinnati, Ohio 45202<br>(513) 421–9500 | 31–0473080 |

**Item 5. Other Events and Regulation FD Disclosure**

On August 18, 2004, the Cinergy Corp. issued a press release announcing the rotation of several members of the Registrants' senior management team effective September 1, 2004. A copy of the press release is attached hereto as Exhibit 99.1 and incorporated into this Report by reference.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, each Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

CINERGY CORP.

THE CINCINNATI GAS & ELECTRIC COMPANY

PSI ENERGY, INC.

THE UNION LIGHT, HEAT AND POWER COMPANY

Dated: August 19, 2004

By /s/ MARC E. MANLY
Name: Marc E. Manly
Title: Executive Vice President and Chief Legal Officer

**Exhibit 99.1**

**NEWS RELEASE**

Cinergy Corp.
139 East Fourth Street
P.O. Box 960
Cincinnati, OH 45201-0960

News contact: Steve Brash 513-287-2226 (w) 513-231-6895 (h)
Angeline Protogere 317-838-1338 (w) 317-298-3090 (h)

Investor contact: Brad Arnett 513-287-3024

Website: www.cinergy.com


FOR IMMEDIATE RELEASE – August 18, 2004

## CINERGY ANNOUNCES SENIOR MANAGEMENT ROTATION

CINCINNATI – Cinergy Corp. (NYSE:CIN) announced today the rotation of several members of its senior management team, effective September 1, 2004.

Michael J. Cyrus, currently chief executive officer of the commercial business unit, will become chief executive officer of the regulated businesses unit. Regulated businesses include the transmission and distribution of gas and electricity in Cinergy's traditional service area in Ohio, Indiana and Kentucky under state regulation.

R. Foster Duncan, currently chief financial officer, will become chief executive officer of the commercial businesses unit. The commercial businesses include the company's wholesale electric, gas and coal marketing and trading, energy services, power generation and engineering.

James L. Turner, currently chief executive officer of the regulated businesses unit, will become chief financial officer. In his new position, he will be responsible for the company's financial operations, strategic planning, corporate development and investor relations.

Cyrus, Duncan and Turner remain executive vice presidents of Cinergy Corp.

"We continue to work on creating a sustainable future for our company and stakeholders," said James E. Rogers, chairman, president and chief executive officer of Cinergy. "With these moves, we are preparing for the future and helping to drive organizational changes coming from our CIN-10 continuous improvement project.

(more)

"We are also facilitating further development of key members of the senior team. I am confident that these members of the senior management team will do a great job in their new roles, and we look forward to other organizational changes that will flow from these moves."

The CIN-10 initiative has targeted approximately $50 million in operations and maintenance expense reductions in 2005 and the adoption of new capital expenditure processes. The CIN-10 process involves a company-wide effort to elicit employee ideas in improvements and growth opportunities.

Cinergy Corp. has a balanced, integrated portfolio consisting of two core businesses: regulated operations and commercial businesses. Cinergy's regulated delivery operations in Ohio, Indiana, and Kentucky serve 1.5 million electric customers and about 500,000 gas customers. In addition, its Indiana regulated operations own 7,000 megawatts of generation. Cinergy's commercial business unit is a Midwest leader in low-cost generation owning 6,300 megawatts of capacity with a profitable balance of stable existing customer portfolios, new customer origination, marketing and trading, and industrial-site cogeneration.

*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, unanticipated weather conditions; unscheduled generation outages; unusual maintenance or repairs; unanticipated changes in costs; environmental incidents, including costs of compliance with existing and future environmental requirements; 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; 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; and costs and effects of legal and administrative proceedings, settlements, investigations, and claims. Please refer to the company's SEC filings for additional information concerning factors that could cause actual results to differ materially from those in the forward-looking statements. The Company undertakes no obligation to update the information contained herein.*

###


# FORM 10-K

## UNION LIGHT HEAT &POWER CO - N/A

**Filed: March 02, 2006 (period: December 31, 2005)**

Annual report which provides a comprehensive overview of the company for the past year

# Table of Contents

EX-31.B

EX-32.A

EX-32.B

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10–K

**(Mark One)**

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

For the fiscal year ended **December 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.**<br>(A Delaware Corporation)<br>139 East Fourth Street<br>Cincinnati, Ohio 45202<br>(513) 421–9500 | 31–1385023 |
| 1–1232 | **THE CINCINNATI GAS & ELECTRIC COMPANY**<br>(An Ohio Corporation)<br>139 East Fourth Street<br>Cincinnati, Ohio 45202<br>(513) 421–9500 | 31–0240030 |
| 1–3543 | **PSI ENERGY, INC.** | 35–0594457 |

(An Indiana Corporation)

1000 East Main Street

Plainfield, Indiana 46168

(513) 421–9500

2–7793

# THE UNION LIGHT, HEAT AND POWER COMPANY

31–0473080

(A Kentucky Corporation)

139 East Fourth Street

Cincinnati, Ohio 45202

(513) 421–9500

---

**Each of the following classes or series of securities registered pursuant to Section 12(b) of the Act is registered on the New York Stock Exchange:**

| Registrant | Title of each class | |
|---|---|---|
| **Cinergy Corp.** | Common Stock | |
| **The Cincinnati Gas & Electric Company** | Cumulative Preferred Stock | 4% |
| **PSI Energy, Inc.** | Cumulative Preferred Stock | 4.32% |
| | Cumulative Preferred Stock | 4.16% |
| **The Union Light, Heat and Power Company** | None | |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities 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 if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) 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 each registrant (1) has 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 such registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrants' knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Requirements pursuant to Item 405 of Regulation S-K are not applicable for **The Union Light, Heat and Power Company**.

**The Union Light, Heat and Power Company** meets the conditions set forth in General Instruction I (1)(a) and (b) of Form 10-K and is therefore filing this Form 10-K with the reduced disclosure format specified in General Instruction I (2) of Form 10-K.

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.** | ☒ | ☐ | ☐ |
| **The Cincinnati Gas & Electric Company** | ☐ | ☐ | ☒ |
| **PSI Energy, Inc.** | ☐ | ☐ | ☒ |
| **The Union Light, Heat and Power Company** | ☐ | ☐ | ☒ |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

As of June 30, 2005, the aggregate market value of the common equity of **Cinergy Corp.** held by non-affiliates (shareholders who are not directors or executive officers) was $7.3 billion based on the closing sale price as reported on the New York Stock Exchange. All of the common stock of **The Cincinnati Gas & Electric Company** and **PSI Energy, Inc.** is owned by **Cinergy Corp.**, and all of the common stock of **The Union Light, Heat and Power Company** is owned by **The Cincinnati Gas & Electric Company**. As of January 31, 2006, each registrant had the following shares of common stock outstanding:

| Registrant | Description | Shares |
|---|---|---|

| | | |
|---|---|---|
| **Cinergy Corp.** | Par value $.01 per share | 199,809,709 |
| **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 |

## DOCUMENTS INCORPORATED BY REFERENCE

| Document | Parts Into Which Incorporated |
|---|---|
| Cinergy Proxy Statement for the 2006 Annual Meeting of Shareholders | Part III |
| PSI Information Statement for the 2006 Annual Meeting of Shareholders | Part III |

This combined Form 10–K 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 registrants other than itself.

TABLE OF CONTENTS

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.

- 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.

We undertake no obligation to update the information contained herein.

# PART I

## ITEM 1. BUSINESS

### WEBSITE ACCESS TO REPORTS

We make our annual report on Form 10–K, quarterly reports on Form 10–Q, current reports on Form 8–K, and amendments to those reports, filed or furnished pursuant to section 13(a) or 15(d) of the Securities Exchange Act of 1934 (Exchange Act) available free of charge on or through our internet website, www.cinergy.com, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (SEC).

As of January 1, 2006, The Union Light, Heat and Power Company **(ULH&P)** ceased to be subject to the reporting requirements of section 13(a) or 15(d) of the Exchange Act. **ULH&P** is considering discontinuing filing reports and other information under such sections.

### ORGANIZATION

**Cinergy Corp.**, a Delaware corporation organized in 1993, owns all outstanding common stock of The Cincinnati Gas & Electric Company (**CG&E**) and PSI Energy, Inc. (**PSI**), both of which are public utilities, as well as Cinergy Investments (Investments), its non–regulated investment holding company.

**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.

**CG&E** is transitioning out of a market development period for residential customers and is in the competitive retail electric market for non–residential customers. **CG&E** is also transitioning to deregulation of electric generation and a competitive retail electric service market in the state of Ohio. Applicable legislation governing the transition period provides for a market development (frozen rate) period that began January 1, 2001, ended December 31, 2004 for non–residential customers and ended December 31, 2005 for residential customers. At the end of these market development periods, **CG&E** did not implement market rates, but rather a rate stabilization plan (RSP) approved by the Public Utilities Commission of Ohio (PUCO) that covers the period after the market development period through 2008. The RSP, among other things, increases rates for environmental costs and capacity reserves and provides for a fuel and emission allowance cost recovery mechanism through 2008. See "**CG&E** Electric Rate Stabilization Plan" for additional information.

**PSI**, an Indiana corporation organized in 1942, is a vertically integrated and cost of service 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 | Major Cities Served | Approximate Population Served |
|---|---|---|---|
| **CG&E** and subsidiaries(1) | • Generation, transmission, and distribution of electricity<br>• Sale and/or transportation of natural gas<br>• Electric commodity marketing and trading operations | Cincinnati, OH<br>Middletown, OH<br>Covington, KY<br>Florence, KY<br>Newport, KY | 2,077,000 |
| **PSI** | • Generation, transmission, and distribution of electricity | Bloomington, IN<br>Carmel, IN<br>Columbus, IN<br>Kokomo, IN<br>Lafayette, IN<br>New Albany, IN<br>Terre Haute, IN | 2,307,000 |
| **ULH&P**(1) | • Transmission and distribution of electricity<br>• Sale and transportation of natural gas | Covington, KY<br>Florence, KY<br>Newport, KY | 347,000 |

(1) See "Electric Industry – Kentucky" in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) – Future Expectations/Trends" for further discussion of the transfer of certain generation assets in January 2006. Following the transfer of generating assets, generation will be provided to cities of Covington, KY; Florence, KY; and Newport, KY by **ULH&P**.

The following table presents further information related to the operations of our other principal subsidiaries, Cinergy Services, Inc. (Services) and Investments:

| | Principal Services and Line(s) of Business |
|---|---|
| **Services**(1) | • Administrative services<br>• Management services<br>• Support services |
| **Investments** | • Cogeneration and energy efficiency investments<br>• Natural gas marketing and trading operations(2) |

(1) Services provides the noted services to our subsidiaries.

(2) Natural gas marketing and trading operations are primarily conducted through Cinergy Marketing & Trading, LP (Marketing & Trading), one of **Cinergy's** subsidiaries.

**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: The 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:

Completed:

- 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 November 2005, the Kentucky Public Service Commission (KPSC) approved Duke's and **Cinergy's** application seeking approval of a transfer and acquisition of control of **ULH&P**.

- In November 2005, the state utility regulatory agency in South Carolina approved Duke's application requesting authorization to enter into a business combination.

- In December 2005, the PUCO approved **Cinergy's** application of a change in control with respect to **CG&E**. The PUCO affirmed the approval in February 2006.

- In December 2005, the FERC approved Duke's and **Cinergy's** application requesting approval of the merger and the subsequent internal restructuring and consolidation of the merged company.

- In February 2006, the NRC approved Duke's application requesting approval of the merger.

- The FCC has approved assignment of all eight **Cinergy** wireless telecommunications licenses.

- In light of the repeal of the Public Utility Holding Company Act of 1935 (PUHCA 1935), as amended, effective February 2006, the merger will no longer require SEC authorization under the PUHCA 1935.

Pending:

- 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. On December 15, 2005, **PSI** filed with the IURC a settlement agreement reached with the staff of the IURC, the Indiana Office of Utilities Consumer Counsel and the PSI Industrial Group. Settlement hearings were held in January 2006 and a final order is expected in March 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. Hearings were held in January 2006 and a final order is expected in March 2006.

- Special meetings of shareholders of both companies for the purpose of voting on the merger will be held on March 10, 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, with respect to one plant located in Indiana the IURC. The FERC approved this transaction in December 2005. **CG&E** and the Duke affiliate that owns the interest in the Indiana plant filed an application with the IURC requesting approval for the transfer (as well as the declination by the IURC of jurisdiction over **CG&E** following the transfer) in October 2005. A final order approving the transfer and the IURC's declination of jurisdiction over **CG&E** was received in February 2006. Duke and **Cinergy** intend to effectuate the transfer as an equity infusion into **CG&E** at book value. In conjunction with the transfer, Duke Capital LLC, a subsidiary of Duke, and **CG&E** intend to enter into a financial arrangement covering a multi–year period, to eliminate any potential cash shortfalls that may result from **CG&E** owning and operating the five stations. 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.

## BUSINESS SEGMENTS

We conduct operations through our subsidiaries and manage our businesses 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).

The following section describes the activities of our business segments as of December 31, 2005.

See Note 18 of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data" for financial information by business segment.

### Regulated

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 ratemaking where rates to be charged to customers are based on prudently incurred costs over a test period plus a reasonable rate of return. Regulated operated approximately 57,000 circuit miles (the total length in miles of

separate circuits) of electric lines to provide regulated transmission and distribution service to approximately 1.6 million customers as of December 31, 2005. Regulated operated approximately 10,062 miles of gas mains (gas distribution lines that serve as a common source of supply for more than one service line) and service lines to provide domestic regulated transmission and distribution services to approximately 511,000 customers as of December 31, 2005. See "Item 2. Properties" for a further discussion of the transmission and distribution systems owned by our utility operating companies.

Detail of Regulated's operations can be found in the following sections:

- Generation – Fuel Supply and Emission Allowances – Describes Regulated's generation capacity, sources of fuel, and its various cost recovery mechanisms;
- Transmission and Distribution – Describes Regulated's agreements with the regional utilities and regional transmission organization (RTO) that coordinate the planning and operation of generation and transmission facilities and the associated cost recovery mechanisms;
- Gas Supply – Describes Regulated's responsibility to purchase and deliver natural gas to native load (the total requirements of a wholesale utility's franchised retail market) customers and the mechanisms used to fulfill this responsibility; and
- Revenue Data and Customer Base – Describes the primary revenue sources for the various business operations of Regulated.

***Generation – Fuel Supply and Emission Allowances***

As of December 31, 2005, the total winter electric capacity (including our portion of the total capacity for the jointly–owned plants) of Regulated's generating plants was 7,543 megawatt (MW). Approximately 73 percent of this generation portfolio is coal–fired. See "Item 2. Properties" for a further discussion of the generating facilities.

Each year **PSI** purchases over 15 million tons of coal to generate electricity, primarily from mines located in Indiana, Kentucky and Illinois. The price of coal has increased significantly in 2005 and 2004 as compared to prior years. The primary driving forces behi. the increase in coal prices are (1) increases in demand for electricity, (2) high and volatile gas prices and limited gas supply, which has increased reliance on coal–fired generation, (3) environmental regulation, and (4) decreases in the number of suppliers of coal from prior years. To help mitigate the price fluctuation of coal, we have a general practice to procure a substantial portion of coal through fixed–price contracts of varying length. We hold fixed–price contracts that will source substantially all of our expected 2006 coal requirements. We evaluate the appropriate amount of contract coal and length of contracts based on market conditions, including pricing trends, volatility and supplier reliability. See "Contractual Cash Obligations" in "Item 7. MD&A – Liquidity and Capital Resources" for further detail on **PSI's** total commitment under fixed–price coal contracts.

Regulated has natural gas–fired peaking plants that have a capacity of 1,751 MW, including the 488 MW Wheatland facility acquired in May 2005. For more information on the Wheatland acquisition, see "Electric Industry – Indiana" in "Item 7. MD&A – Future Expectations/Trends." The fuel for these units is primarily obtained through the natural gas spot market as it is difficult to forecast the natural gas requirements for these plants. For further information on the risk of purchasing natural gas see "Item 7. MD&A – Market Risk Sensitive Instruments."

At times, Regulated purchases power to meet the energy needs of its customers. Factors that could cause Regulated to purchase power for its customers include generating plant outages, extreme weather conditions, summer reliability, growth, and price. We believe we can obtain enough purchased power to meet future needs. However, during periods of excessive demand, the price and availability of these purchases may be significantly impacted.

**ULH&P** purchases energy from **CG&E** pursuant to a contract effective January 1, 2002, which was approved by the FERC and the KPSC. This five–year agreement is a negotiated fixed–rate contract with **CG&E**.

The KPSC has approved a long–term electric supply plan for **ULH&P** that will replace the current contract with **CG&E**. Under this new plan, **CG&E** transferred ownership of approximately 1,100 MWs of electric generating capacity to **ULH&P** in January 2006. This capacity was used to service the aforementioned **ULH&P** power supply contract. The assets were acquired at net book value and will not affect electric rates for **ULH&P's** customers in 2006. See "Electric Industry – Kentucky" in "Item 7. MD&A – Future Expectations/Trends" for additional information.

**Cinergy** is studying the feasibility of constructing an integrated coal gasification combined cycle (IGCC) generating station to help meet increased demand over the next decade. **PSI** would be a majority owner of the facility and operate it. An IGCC plant turns coal to gas, removing most of the sulfur dioxide ($SO^2$) 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 carbon dioxide upstream of the combustion process at a lower cost than conventional plants. In August 2005, **PSI** and Vectren Energy Delivery of Indiana, Inc. 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.

Regulated monitors alternative sources of coal and natural gas to assure a continuing availability of economical fuel supplies. As such, it will maintain its practice of purchasing a portion of coal and natural gas requirements on the open market and will continue to investigate least–cost coal options to comply with new and existing environmental requirements. **Cinergy** and **PSI** believe that they can continue to obtain enough coal and natural gas to meet future needs. However, future environmental requirements may significantly impact the availability and price of these fuels.

**PSI** recovers retail and a portion of its wholesale fuel costs from customers on a dollar–for–dollar basis through a cost recovery mechanism (commonly referred to as a fuel adjustment clause). In addition to the fuel adjustment clause, **PSI** utilizes a purchased power tracking mechanism approved by the IURC for the recovery of costs related to certain specified purchases of power necessary to meet native load peak demand requirements to the extent such costs are not recovered through the existing fuel adjustment clause.

Regulated emits $SO^2$ and nitrogen oxides ($NO^X$) in the generation of electricity and maintains emission allowances to offset their emissions in order to comply with $SO^2$ and $NO^X$ emission reduction requirements. In 2005, the average market prices of $SO^2$ allowances rose more than 100 percent from 2004 and more than 400 percent from 2003. **PSI** utilizes a cost tracking mechanism as approved by the IURC allowing it to recover substantially all of its emission allowance costs from its customers. **Cinergy** is continually evaluating market conditions and managing our overall cost structure through the addition of pollution control equipment, where economically feasible, and the use of emission allowance markets to help manage our emissions costs.

***Transmission and Distribution***

**Cinergy** (through our utility operating companies) and other non–affiliated utilities in a nine–state region are parties to the East Central Area Reliability Coordination (ECAR) Agreement. Through the ECAR Agreement, ECAR supports the planning and operation of generation and transmission facilities, which provide for reliability of regional bulk power supply. Beginning January 1, 2006, Reliability*First* will assume the functions of ECAR. Reliability*First* is designed to create a single regional reliability council under the North American Electric Reliability Council structure to include member companies from the ECAR, Mid–America Interconnected Network, Inc., and Mid–Atlantic Area Council Regional Reliability Councils. Reliability*First*'s purpose is to create a uniform set of reliability standards for the combined regions, with a goal of preserving and enhancing electric service reliability and security for the interconnected electric systems within the region. Cinergy has joined Reliability*First* as a Transmission Company.

**Cinergy** (through our utility operating companies) is also a member of the Midwest Independent Transmission System Operator, Inc. (Midwest ISO), a RTO established in 1998 as a non–profit organization which maintains functional control over the combined transmission systems of its members. In 2005, the Midwest ISO began administering an energy market within its footprint.

The Midwest ISO is the provider for transmission service requested on the transmission facilities under its tariff. It is responsible for the reliable operation of those transmission facilities and the regional planning of new transmission facilities. The Midwest ISO administers energy markets utilizing Locational Marginal Pricing (LMP) (i.e., the energy price for the next MW may vary throughout the Midwest ISO market based on transmission congestion and energy losses) as the methodology for relieving congestion on the transmission facilities under its functional control. See "Midwest ISO" for further detail regarding the Midwest ISO energy markets.

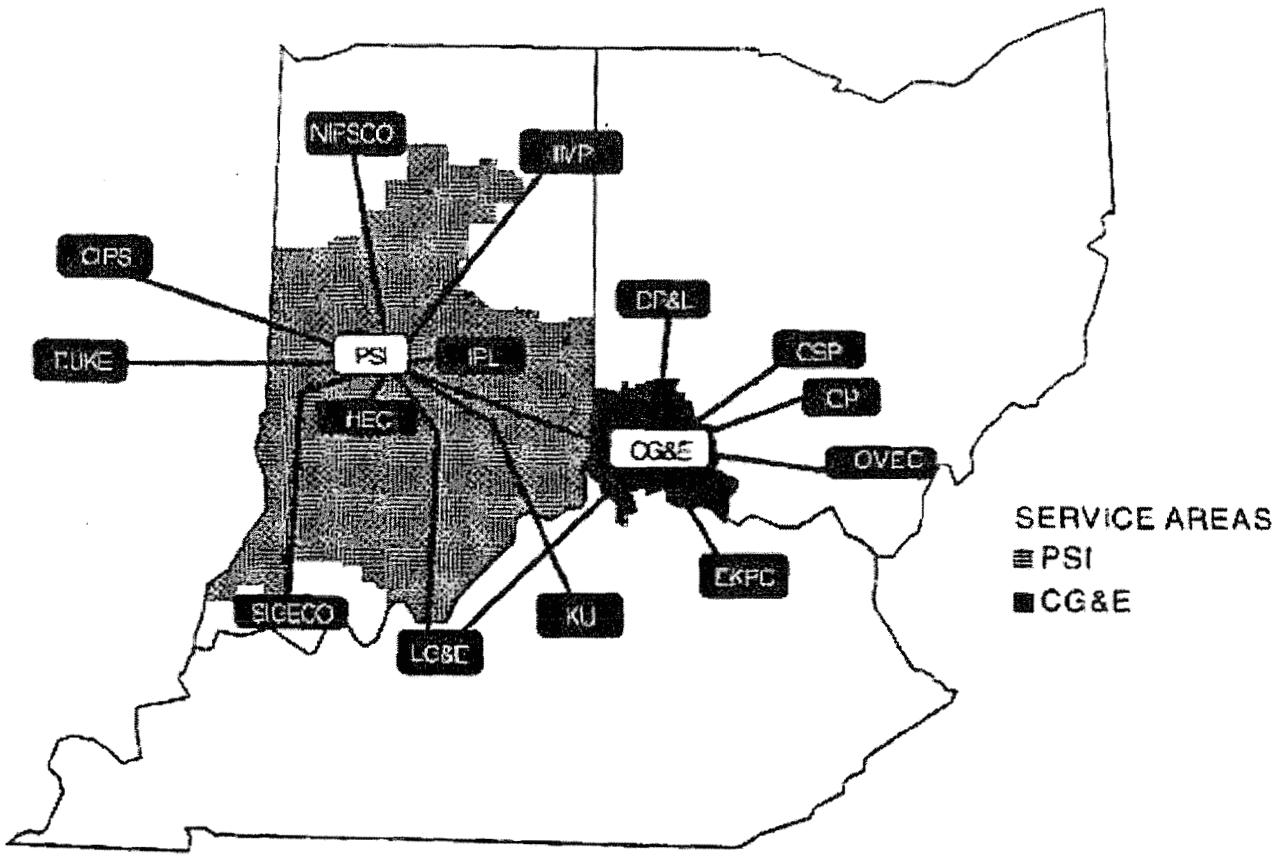
*Transmission and Distribution Cost Recovery*

A transmission cost recovery mechanism was established under **CG&E's** RSP to permit **CG&E** to recover Midwest ISO charges. **CG&E** filed a distribution base rate case to recover certain distribution costs, effective January 1, 2006 and we have deferred certain costs in 2004 and 2005 pursuant to its RSP. The parties to the proceeding have agreed upon and filed a settlement setting the recommended annual revenue increase at approximately $51 million. See "**CG&E** Electric Rate Stabilization Plan" for additional information.

**PSI** has received IURC approval for the recovery of Midwest ISO costs.

*Transmission System Interconnections*

The following map illustrates the interconnections between our electric systems and other electric systems.




| | |
|---|---|
| **CIPS** | Central Illinois Public Service Company, a subsidiary of Ameren Corporation |
| **CSP** | Columbus Southern Power Company, a subsidiary of American Electric Power Company, Inc. (AEP) |
| **DP&L** | Dayton Power and Light Company, a subsidiary of DPL, Inc. |
| **DUKE** | Duke Energy North America, LLC, a subsidiary of Duke Energy Corporation |
| **EKPC** | East Kentucky Power Cooperative, Inc. |
| **HEC** | Hoosier Energy Rural Electric Cooperative, Inc. |
| **IMP** | Indiana Michigan Power Company, a subsidiary of AEP |
| **IPL** | Indianapolis Power & Light Company, a subsidiary of The AES Corporation |
| **KU** | Kentucky Utilities Company, a subsidiary of LG&E Energy Corp. |
| **LG&E** | Louisville Gas and Electric Company, a subsidiary of LG&E Energy Corp |
| **NIPSCO** | Northern Indiana Public Service Company, a subsidiary of NiSource, Inc. |
| **OP** | Ohio Power Company, a subsidiary of AEP |
| **OVEC** | Ohio Valley Electric Corporation |
| **SIGECO** | Southern Indiana Gas and Electric Company, a subsidiary of Vectren Corporation |

*Gas Supply*

Regulated is responsible for the purchase and the subsequent delivery of natural gas to native load customers. Regulated's natural gas procurement strategy is to buy firm natural gas supplies (natural gas intended to be available at all times) and firm interstate pipeline transportation capacity during the winter season (November through March) and during the non–heating season (April through October) through a combination of firm supply and transportation capacity along with spot supply and interruptible transportation capacity. This strategy allows Regulated to assure reliable natural gas supply for its high priority (non–curtailable) firm customers during peak winter conditions and provides Regulated the flexibility to reduce its contract commitments if firm customers choose alternate gas suppliers under Regulated's customer choice/gas transportation programs. However, due to market conditions in the spring of 2005, a greater portion of firm supply was acquired for the summer. In 2005, firm supply purchase commitment agreements provided approximately 98 percent of the natural gas supply, with the remaining gas purchased on the spot market. These firm supply agreements feature two levels of gas supply, specifically (1) base load, which is a continuous supply to meet normal demand requirements, and (2) swing load, which is gas available on a daily basis to accommodate changes in demand due primarily to changing weather conditions.

Regulated manages natural gas procurement–price volatility mitigation programs for **CG&E** and **ULH&P**. These programs pre–arrange between 25–75 percent of winter heating season base load gas requirements and up to 50 percent of summer season base load requirements up to 3 years in advance of the delivery month. **CG&E** and **ULH&P** use primarily fixed–price forward contracts and contracts with a ceiling and floor on the price. As of December 31, 2005, **CG&E** and **ULH&P**, combined, had hedged approximately 55 percent of their winter 2005/2006 base load requirements. See the "Gas Industry" section of "Item 7. MD&A – Future Expectations/Trends" for further information.

Interstate pipelines either (1) transport gas purchased directly to the distribution systems or (2) inject gas purchased into pipeline storage facilities for future withdrawal and delivery. The majority of the gas supply comes from the Gulf of Mexico coastal areas of Texas and Louisiana.

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. Natural gas prices remained in the $12 per Mcf range for the remainder of 2005. Winter delivery prices for early 2006 remained in the $11 – $12 per Mcf range in the midwest or about 40 percent greater than last winter. Forward prices for the remainder of 2006 have now fallen below $10 per Mcf as more of the damaged Gulf Coast infrastructure comes online. 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 because 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.

***Revenue Data and Customer Base***

Regulated's revenue is derived from the sale of gas and power to its customers, which are primarily retail. The percent of retail operating revenues derived from full service electricity and gas sales and transportation for each of the three years ended December 31 were as follows:

| Registrant | Operating Revenues | | | | | |
|---|---|---|---|---|---|---|
| | 2005 | | 2004 | | 2003 | |
| | Electric | Gas | Electric | Gas | Electric | Gas |
| **Cinergy** | **77%** | **23%** | 76% | 24% | 76% | 24% |
| **CG&E** and subsidiaries | **44** | **56** | 45 | 55 | 46 | 54 |
| **PSI** | **100** | **—** | 100 | — | 100 | — |
| **ULH&P** | **62** | **38** | 65 | 35 | 67 | 33 |

Electric and gas sales are seasonal. Electricity usage in our service territory peaks during the summer and gas usage peaks during the winter. Air conditioning increases electricity demand and heating increases electricity and gas demand.

The service territory of **CG&E** and its utility subsidiaries, including **ULH&P**, is heavily populated and is characterized by a stable residential customer base and a diverse mix of industrial customers. The territory served by **PSI** is composed of residential, agricultural, and widely diversified industrial customers. No single retail customer provides more than 10 percent of total operating revenues (electric or gas) for Regulated.

**Commercial**

Commercial manages our wholesale generation and energy marketing and trading activities. Commercial's wholesale generation consists of **CG&E's** electric generation in Ohio due to Ohio's transition to deregulation of electric generation and a competitive retail service market. See "Electric Industry – Ohio" in "Item 7. MD&A – Future Expectations/Trends" for further detail of key elements of Ohio deregulation. Commercial also performs energy risk management activities, provides customized energy solutions and is responsible for our limited international operations. See "Item 7. MD&A – Market Risk Sensitive Instruments" for information on risks associated with these activities.

Detail of Commercial's operations can be found in the following sections:

- Generation – Fuel Supply and Emission Allowances – Describes Commercial's generation capacity, sources of fuel, and various cost recovery mechanisms;
- Portfolio Optimization – Describes Commercial's efforts to optimize its non–regulated generation portfolio;
- Trading Operations and Risk Management – Describes Commercial's energy marketing and trading activities in the United States and Canada;
- **CG&E** Electric Rate Stabilization Plan – Describes **CG&E's** RSP as approved by the PUCO in 2004;
- Energy Services – Describes Commercial's operations consulting services and its operation of a synthetic fuel production facility;
- International – Describes Commercial's operations outside of the United States;
- Competition – Describes the key competitors to Commercial's various business operations; and
- Revenue Data and Customer Base – Describes the primary revenue sources for the various business operations of Commercial.

***Generation – Fuel Supply and Emission Allowances***

As of December 31, 2005, the total winter electric capacity (including our portion of the total capacity for the jointly–owned plants) of Commercial's domestic generating plants was 6,276 MW. Approximately 67 percent of this generation portfolio is coal–fired. See "Item 2. Properties" for further discussion of the generating facilities.

Each year **CG&E** purchases over 10 million tons of coal to generate electricity, primarily from mines located in Indiana, West Virginia, Ohio, Kentucky, Pennsylvania, Illinois, Wyoming, and Colorado. In 2005 **CG&E** began purchasing low–sulfur coal produced in Wyoming's Powder River Basin to reduce fuel costs and further reduce sulfur dioxide emissions compared to other coal sources. The price of coal has increased significantly in 2005 and 2004 as compared to prior years. Contributing to the rise in the

price of coal are (1) increases in demand for electricity, (2) high and volatile gas prices and limited gas supply, which has increased reliance on coal–fired generation, (3) environmental regulation, and (4) decreases in the number of suppliers of coal from prior years. To help mitigate the price fluctuation of coal, we have a general practice to procure a substantial portion of coal through fixed–price contracts of varying length. We hold fixed–price contracts that will source substantially all of our expected 2006 coal requirements. We evaluate the appropriate amount of contract coal and length of contracts based on market conditions, including pricing trends, volatility and supplier reliability. See "Contractual Cash Obligations" in "Item 7. MD&A – Liquidity and Capital Resources" for further detail on **CG&E's** total commitment under fixed–price coal contracts.

Commercial has natural gas–fired peaking plants that have a capacity of 1,766 MW. The fuel for these units is primarily obtained through the natural gas spot market as it is difficult to forecast the natural gas requirements for these plants. For further information on the risk of purchasing natural gas, see "Item 7. MD&A – Market Risk Sensitive Instruments."

Commercial monitors alternative sources of coal and natural gas to assure a continuing availability of economical fuel supplies. As such, it will maintain its practice of purchasing a portion of coal and natural gas requirements on the open market and will continue to investigate least–cost coal options to comply with new and existing environmental requirements. **Cinergy** and **CG&E** believe that they can continue to obtain enough coal and natural gas to meet future needs. However, future environmental requirements may significantly impact the availability and price of these fuels.

At times, Commercial purchases power to meet the energy needs of its customers. Factors that could cause Commercial to purchase power for its customers include generating plant outages, extreme weather conditions, summer reliability, growth, and price. We believe we can obtain enough purchased power to meet future needs. However, during periods of excessive demand, the price and availability of these purchases may be significantly impacted.

Commercial emits $SO_2$ and $NO_X$ in the generation of electricity and maintains emission allowances to offset their emissions in order to comply with $SO_2$ and $NO_X$ emission reduction requirements. In 2005, the average market prices of $SO_2$ allowances rose more than 100 percent from 2004 and more than 400 percent from 2003. **Cinergy** is continually evaluating market conditions and managing our overall cost structure through the addition of pollution control equipment, where economically feasible, and the use of emission allowance markets to help manage our emissions costs.

Under **CG&E's** RSP, retail fuel and emission allowance costs are recovered through a cost recovery mechanism that recovers costs that exceed the amount originally included in the rates frozen in **CG&E's** earlier transition plan. **CG&E** will recover retail fuel and emission allowance costs consumed in serving retail load and collect a Provider of Last Resort (POLR) charge from non–residential customers from 2005 through 2008 and from residential customers from 2006 through 2008. See "**CG&E** Electric Rate Stabilization Plan" as previously discussed.

The KPSC has approved a long–term electric supply plan for **ULH&P** that will replace the current contract with **CG&E**. Under this new plan, **CG&E** transferred ownership of approximately 1,100 MWs of electric generating capacity to **ULH&P** in January 2006, which was previously part of **CG&E's** capacity used to service **ULH&P** under the previous power supply contract. The assets were acquired at net book value.

***Portfolio Optimization***

Commercial attempts to optimize the value of its non–regulated generation portfolio, which includes generation assets (power and capacity), fuel, and emission allowances. The portfolio is managed 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.

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. 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.

*Trading Operations and Risk Management*

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.

Our domestic operations market and trade over–the–counter (an informal market where the buying/selling of commodities occurs) contracts for the purchase and sale of electricity, natural gas, and other energy–related products, including coal and emission allowances. Our natural gas domestic operations provide services that manage storage, transportation, gathering, and processing activities. In addition, our domestic operations also market and trade natural gas and other energy–related products on the New York Mercantile Exchange.

Marketing & Trading's natural gas marketing and trading operations also extend to Canada where natural gas marketing and management services are provided to producers and industrial customers. Our Canadian operations also sell and purchase natural gas at wholesale and engage in the trading of derivative commodity instruments.

Marketing & Trading also enters into contracts to store natural gas and deliver in future periods with higher prices (typically winter). These contracts 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. These differing accounting treatments can lead to volatility in reported earnings.

See "Item 7. MD&A – Market Risk Sensitive Instruments" for information on risks associated with these activities.

*CG&E Electric Rate Stabilization Plan*

**CG&E** operates under a RSP which was approved by the PUCO in November 2004, and which expires December 31, 2008. The major features of the RSP are as follows:

- **POLR Charge: CG&E** collects a POLR charge from non–residential customers effective January 1, 2005, and from residential customers effective January 1, 2006. The POLR charge consists of the following discrete charges:
    - Annually Adjusted Component – intended to provide cost recovery primarily for environmental compliance expenditures. Approximately $16 million was collected in 2005 and approximately $54 million is anticipated for 2006 collections.
    - Infrastructure Maintenance Fund Charge – intended to compensate **CG&E** for committing its physical capacity. Approximately $20 million was collected in 2005 and approximately $33 million is anticipated for 2006.
    - System Reliability Tracker – intended to provide actual cost recovery for capacity purchases, purchased power, reserve capacity, and related market costs for purchases to meet capacity needs.
- **Generation Rates and Fuel Recovery:** A market rate has been established for generation service. A component of the market rate is a fuel cost recovery mechanism that is adjusted quarterly 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 to residential customers

beginning January 1, 2006. See "**CG&E** Electric Rate Filing" in "Item 7. MD&A – Future Expectations/Trends" for more information.

- **Transmission Cost Recovery:** A transmission cost recovery mechanism was established beginning January 1, 2005 for non–residential customers and 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**.

*Energy Services*

Commercial, through Cinergy Solutions Holding Company, Inc., is an on–site energy solutions and utility services provider. Primarily through joint ventures, we provide utility systems construction, operation and maintenance of utility facilities, as well as cogeneration. Cogeneration is the simultaneous production of two or more forms of usable energy from a single fuel source.

Commercial, through Cinergy Capital & Trading, Inc. (Capital & Trading), owns coal–based synthetic fuel production facilities which convert coal feedstock into synthetic fuel for sale to third parties. As of December 31, 2005, **Cinergy** has produced and sold approximately 12 million tons of synthetic fuel at these facilities. The synthetic fuel produced at these facilities qualifies for tax credits (through 2007) in accordance with the Internal Revenue Code Section 29/45K 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. For further information on the tax credit qualifications see "Synthetic Fuel Production" in "Future Expectations/Trends."

*International*

As of December 31, 2005, we had minority ownership interests in (1) a generation asset located in Kenya capable of producing approximately 18 MW of electricity and 460 MW equivalents of steam; and (2) approximately 1,200 miles of gas and electric transmission and distribution systems through jointly–owned investments in Greece and Zambia, through which we serve approximately 8,500 transmission and distribution customers. These assets serve retail and wholesale customers by providing utility services including generation of electricity and heat as well as the distribution of gas and electric commodities.

*Competition*

Commercial primarily competes for wholesale contracts for the purchase and sale of electricity and natural gas. Commercial's main competitors include public utilities, power and natural gas marketers and traders, and independent power producers.

*Revenue Data and Customer Base*

Commercial primarily recognizes revenues from generation provided to customers in **CG&E's** service territory who have not switched to an alternative generation supplier under Ohio's electric deregulation market. While generation rates remained frozen for residential customers in 2005, non–residential customers began paying generation rates and charges established in **CG&E's** RSP. Under the RSP, **CG&E's** non–residential retail customers that choose to receive their electric generation from another certified supplier may avoid **CG&E** generation and fuel charges, as well as a number of the discrete riders that comprise its POLR charge. The percentage of customers switching to other electric suppliers and the related volume by customer class was as follows:

| | MW at December 31(1) | | MWhs For the Years Ended December 31(2) | | Switching Percentage at December 31(3) | |
|---|---|---|---|---|---|---|
| Revenue Class | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Residential | **53** | 75 | **269,654** | 334,224 | **2.73%** | 4.07% |
| Commercial | **94** | 339 | **1,497,591** | 1,722,822 | **6.27%** | 19.17% |
| Industrial | **18** | 226 | **1,133,026** | 1,376,210 | **2.57%** | 17.89% |
| Other Public Authorities | **22** | 89 | **244,661** | 284,214 | **9.64%** | 19.09% |
| Total | **187** | 729 | **3,144,932** | 3,717,470 | | |

(1) Represents the summation of each switched customer's peak demand during the past year.

(2) Megawatt hours (MWhs) are total **CG&E** MWhs transported for all customers.

(3) The residential switching percentage is based on annual energy consumption and the non-residential switching percentages are based on average monthly peak demand. The decreases in switching percentages represent returning customers.

Commercial's operating revenue is also derived by selling excess generation to wholesale customers in the midwest region of the United States. In addition, Commercial markets and trades electricity and natural gas primarily to customers across the United States. The majority of these customers are public utilities, power and natural gas marketers and traders, and independent power producers.

Energy services operating revenues are derived primarily by providing steam, electricity, and operation and maintenance services to large industrial customers.

No single Commercial customer provides more than 10 percent of total operating revenues.

**Power Technology and Infrastructure**

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, including offering broadband over power line services.

**MIDWEST ISO**

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, approved 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. **CG&E** and **PSI** are recovering costs that they incur related to the Energy Markets Tariff through various cost recovery mechanisms. **ULH&P** is currently under a rate freeze and cannot recover incremental costs attributable to its participation in the Midwest ISO in 2006; however, **ULH&P** is under an order from the KPSC to file a rate case in 2006 and will request, among other things, recovery of Midwest ISO related costs beginning in January 2007. 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.

## EMPLOYEES

We have collective bargaining agreements with the International Brotherhood of Electrical Workers (IBEW), the United Steelworkers of America (USWA), the Utility Workers Union of America (UWUA), and various international union organizations.

The following table indicates the number of employees by classification at January 31, 2006:

| Classification | CG&E(4) | PSI | ULH&P | Cinergy(5) |
|---|---|---|---|---|
| IBEW(1) | 1,027 | 1,259 | 66 | 194 |
| USWA(2) | 293 | — | 80 | 65 |
| UWUA(3) | 388 | — | 58 | 323 |
| Various Union Organizations | — | — | — | 83 |
| Non–Bargaining | 193 | 348 | 17 | 2,881 |
| | 1,901 | 1,607 | 221 | 3,546 |

(1) IBEW #1347 contract will expire on April 1, 2006, IBEW #1393 contract expired on April 30, 2005 and was renegotiated and is now set to expire on April 30, 2010 and IBEW #352 contract expired on February 5, 2005 and was renegotiated and is now set to expire on February 5, 2008.

(2) USWA #12049 and #5541–06 contracts will expire on May 15, 2007.

(3) UWUA, IUU Local 600 Contract expired on March 31, 2005 and was replaced with a new contract set to expire on April 1, 2008.

(4) **CG&E** and subsidiaries excluding **ULH&P**.

(5) Includes 2,990 Services' employees who provide services to our operating utilities and other non–regulated companies. In conjunction with the pending merger, there is an anticipated reduction of approximately 1,500 employees of the combined company's approximate 29,350 employees, as of the May 2005 merger announcement, in various departments leading up to and following consummation of the merger.

## ENVIRONMENTAL MATTERS

**Cinergy** is currently affected by several different issues which involve compliance with federal and state regulations regarding the protection of the environment including, but not limited to, reductions in mercury, $NO^x$, and $SO^2$ emissions. **Cinergy** is able to recover certain costs of this environmental compliance through various trackers set up with **Cinergy's** respective state regulatory agencies. In 2005, the Environmental Protection Agency (EPA) issued the Clean Air Interstate Rule and the Clean Air Mercury Rule, which will require additional environmental compliance costs. See the "Environmental Issues" section in "Item 7. MD&A – Liquidity and Capital Resources" for a discussion of these environmental issues and the estimated capital expenditures.

## FUTURE EXPECTATIONS/TRENDS

See the information appearing under the same caption in "Item 7. MD&A – Future Expectations/Trends" for the following discussions:

- Regulatory Outlook and Significant Rate Developments;
- FERC;

    - Gas Industry; and

- Other Matters.

## ITEM 1A. RISK FACTORS

## RISK FACTORS

The risk factors described below should be carefully considered.

### Risks Relating to Our Business

***Our Regulated's revenues, earnings, and results are dependent on state legislation and regulation that affect electric generation, distribution, and related activities, which may limit our ability to recover costs.***

Our Regulated business unit is regulated on a cost–of–service/rate–of–return basis subject to the statutes and regulatory commission rules and procedures of Kentucky, Indiana, and Ohio. If our earnings exceed the returns established by our state regulatory commissions, our retail electric rates may be subject to review by the commissions and possible reduction, which may decrease our future earnings.

***Our sales may decrease if we are unable to gain adequate, reliable, and affordable access to transmission and distribution assets.***

We depend on transmission and distribution facilities owned and operated by utilities and other energy companies to deliver the electricity and natural gas we sell to the wholesale market, as well as the natural gas we purchase to supply to our gas customers. FERC's power transmission regulations require wholesale electric transmission services to be offered on an open–access, non–discriminatory basis; however, not all markets are as open and accessible as needed. If transmission is disrupted, or if transmission capacity is inadequate, our ability to sell and deliver products may be hindered. Such disruptions could also hinder our providing electricity or natural gas to our retail electric and gas customers and may materially adversely affect our business.

The different regional power markets have changing regulatory structures, which could affect our growth and performance in these regions. In addition, the independent system operators who oversee the transmission systems in regional power markets, such as California, have imposed in the past, and may impose in the future, price limitations and other mechanisms to address volatility in the power markets. These types of price limitations and other mechanisms may adversely impact the profitability of our wholesale power marketing and trading business.

***Competition in the unregulated markets in which we operate may adversely affect the growth and profitability of our business.***

We may not be able to respond in a timely or effective manner to the many changes designed to increase competition in the electric industry. To the extent competitive pressures increase, the economics of our business may come under long–term pressure.

In addition, regulatory changes have been proposed to increase access to electricity transmission grids by utility and non–utility purchasers and sellers of electricity. These changes could continue the disaggregation of many vertically integrated utilities into separate generation, transmission, distribution, and retail businesses. As a result, a

significant number of additional competitors could become active in the wholesale power generation segment of our industry.

We may also face competition from new competitors that have greater financial resources than we do, seeking attractive opportunities to acquire or develop energy assets or energy trading operations in the United States. These new competitors may include sophisticated financial institutions, some of which are already entering the energy trading and marketing sector, and international energy players, which may enter regulated or unregulated energy businesses. This competition may adversely affect our ability to make investments or acquisitions.

***We rely on access to short-term money markets and longer-term capital markets to finance our capital requirements and support our liquidity needs, and our access to those markets can be adversely affected by a number of conditions, many of which are beyond our control.***

Our business is financed to a large degree through debt and the maturity and repayment profile of debt used to finance investments often does not correlate to cash flows from our assets. Accordingly, we rely on access to both short-term money markets and longer-term capital markets as a source of liquidity for capital requirements not satisfied by the cash flow from our operations and to fund investments originally financed through debt instruments with disparate maturities. If we are not able to access capital at competitive rates, our ability to finance our operations and implement our strategy will be adversely affected.

Market disruptions may increase our cost of borrowing or adversely affect our ability to access one or more financial markets. Such disruptions could include: economic downturns; the bankruptcy of an unrelated energy company; capital market conditions generally; market prices for electricity, gas, and natural gas liquids; terrorist attacks or threatened attacks on our facilities or unrelated energy companies; or the overall health of the energy industry. Restrictions on our ability to access financial markets may also affect our ability to execute our business plan as scheduled. An inability to access capital may limit our ability to pursue improvements or acquisitions that we may otherwise rely on for future growth.

We maintain revolving credit facilities to provide back-up for commercial paper programs and/or letters of credit at various entities. These facilities typically include financial covenants which limit the amount of debt that can be outstanding as a percentage of the total capital for the specific entity. Failure to maintain these covenants at a particular entity could preclude that entity from issuing commercial paper or letters of credit or borrowing under the revolving credit facility and could require other of our affiliates to immediately pay down any outstanding drawn amounts under other revolving credit agreements.

***We will be exposed to market risk and may incur losses from the trading operations and/or activities we take to mitigate our commodity exposure.***

We have trading operations that primarily consist of contracts to buy and sell commodities, including contracts for electricity, natural gas, and other commodities that are settled by the delivery of the commodity or cash. Our trading portfolios also include financial derivatives, including swaps, futures, and options. If the values of these contracts or derivatives change in a direction or manner that we do not anticipate, we could realize material losses from our trading activities.

In order to manage our financial exposure related to commodity price fluctuations, primarily with respect to power and natural gas, coal, and emission allowances, our risk management operations routinely enter into contracts to hedge the value of our assets and operations, including fixed-price, forward, physical purchase and sales contracts, futures, financial swaps, and option contracts traded in over-the--counter markets or on exchanges.

Our risk management systems, however, may not always be implemented properly or may not always function as planned. In particular, if prices of commodities significantly deviate from historical prices or if the price volatility or distribution of those changes deviates from historical norms, our risk management systems may not protect us from significant losses. To the extent we have unhedged positions or our hedging strategies do not work as planned, fluctuating commodity prices could cause our sales, purchases, and net income to be volatile. In

addition, certain types of economic hedging activity may not qualify for hedge accounting under generally accepted accounting principles, resulting in increased volatility in net income.

***We are exposed to credit risk of counterparties with whom we do business.***

Adverse economic conditions affecting, or financial difficulties of, counterparties we do business with could impair the ability of these counterparties to pay for our services or fulfill their contractual obligations, or cause them to delay such payments or obligations. We depend on these counterparties to remit payments on a timely basis. Any delay or default in payment could adversely affect our cash flows, financial condition, or results of operations.

***Poor investment performance of pension plan holdings and other factors impacting pension plan costs could unfavorably impact our liquidity and results of operations.***

Our costs of providing non-contributory defined benefit pension plans are dependent upon a number of factors, such as the rates of return on plan assets, discount rates, the level of interest rates used to measure the required minimum funding levels of the plans, future government regulation and our required or voluntary contributions made to the plans. While we comply with the funding requirements under the Employee Retirement Income Security Act of 1974, as of September 30, 2005, the latest valuation date for our pension plan obligations exceeded the value of plan assets by approximately $582 million. See "Pension and Other Postretirement Benefits" in "Item 7. MD&A – Liquidity and Capital Resources" and Note 11 of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data" for additional information. Without sustained growth in the pension investments over time to increase the value of our plan assets and depending upon the other factors impacting our costs as listed above, we could be required to fund our plans with significant amounts of cash. Such cash funding obligations could have a material impact on our liquidity by reducing our cash flows and could negatively affect our results of operations.

***Under Cinergy's holding company structure, the payment of dividends to shareholders is subject to the ability of its subsidiaries to pay dividends to it.***

**Cinergy** is a holding company with no material assets other than the stock of its subsidiaries. Accordingly, all of its operations are conducted by its subsidiaries. **Cinergy's** ability to pay dividends on its common stock will depend on the payment to it of dividends by its operating subsidiaries. These subsidiaries' payments of dividends, in turn, depend on their results of operations, cash flows, and federal and state regulatory constraints. In addition, until consummation or termination of the merger with Duke, **Cinergy** is prohibited from paying dividends in excess of its historical levels without the prior consent of Duke.

***We could incur a significant tax liability and our results of operations and cash flows may be negatively affected if the Internal Revenue Service denies or otherwise makes unusable certain tax credits related to our coal and synthetic fuel business or if such credits are phased out based on crude oil prices.***

**Cinergy's** sale of synthetic fuel intended to qualify for tax credits in accordance with Section 29/45K of the Internal Revenue Code has generated $339 million in tax credits through December 31, 2005. The Internal Revenue Service (IRS) is currently auditing **Cinergy** for the 2002, 2003 and 2004 tax years. If the IRS were to successfully challenge **Cinergy's** Section 29/45K tax credits related to synthetic fuel, and such challenges are successful, this could result in the disallowance of up to all $339 million in previously claimed Section 29/45K tax credits and a loss of our ability to claim future Section 29/45K tax credits for synthetic fuel produced by such facilities.

Section 29/45K 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

estimates of crude oil prices and the recent volatility of such prices, we believe that for 2006 and 2007 the amount of the tax credits could be reduced.

***We are currently involved in litigation with the United States and several states and environmental groups regarding certain environmental matters.***

**Cinergy** is currently involved in litigation in which the Environmental Protection Agency (EPA) is alleging various violations of the Clean Air Act (CAA). Specifically, the lawsuit against **Cinergy** alleges that **Cinergy** violated the CAA by not obtaining permits for various projects at its owned and co-owned generating stations. Additionally, the **Cinergy** suit claims that **Cinergy** violated an Administrative Consent Order entered into in 1998 between the EPA and **Cinergy** relating to alleged violations of Ohio's state implementation plan provisions governing particulate matter at one of its generating stations. Three northeast states and two environmental groups have intervened in the **Cinergy** 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 a briefing schedule. As a result, the district court has removed the trial from the calendar and will reset a trial date, if necessary, after the Seventh Circuit rules. There are a number of other legal issues currently before the district court judge, and the case is currently in discovery. A second lawsuit being defended by one of **Cinergy's** co-owners involves similar allegations and is also pending.

***We are subject to numerous environmental laws and regulations that require significant capital expenditures, increase our cost of operations, and which may impact or limit our business plans, or expose us to environmental liabilities.***

We are subject to numerous environmental regulations affecting many aspects of our present and future operations, including air emissions (such as controlling greenhouse-gas emissions), water quality, wastewater discharges, solid waste and hazardous waste. These laws and regulations can result in increased capital, operating, and other costs, particularly with regard to enforcement efforts focused on power plant emissions obligations. These laws and regulations generally require us to obtain and comply with a wide variety of environmental licenses, permits, inspections and other approvals. Both public officials and private individuals may seek to enforce applicable environmental laws and regulations, and litigation may arise the outcome of which we cannot predict.

For example, the EPA recently issued the Clean Air Interstate Rule, formerly the Interstate Air Quality Rule, which requires reductions in $SO_2$ and $NO_X$ emissions in order to address alleged contributions to downwind non-attainment with the revised National Ambient Air Quality Standards and established a two-phase, regional cap and trade program for SO2 and $NO_X$ and issued the Clean Air Mercury Rule, which requires reductions in mercury emissions from coal-fired power plants through a similar two phase cap and trade program. Over the 2006-2010 time period, **Cinergy** expects to spend approximately $1.4 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. Although we believe that we are legally entitled to recover these costs, if we cannot recover these costs in a timely manner, or in an amount sufficient to cover our actual costs, our financial conditions and results of operations could be materially and adversely impacted. Revised or additional regulations, which result in increased compliance costs or additional operating restrictions, particularly if those costs are not fully recoverable from our customers, could have a material adverse effect on our results of operations.

***Deregulation or restructuring in the electric industry may result in increased competition and unrecovered costs that could adversely affect our financial condition, results of operations, or cash flows and our utilities' businesses.***

Increased competition resulting from deregulation or restructuring efforts, including from the recently enacted Energy Policy Act of 2005, could have a significant adverse financial impact on us and our utility subsidiaries and consequently on our results of operations and cash flows. Increased competition could also result in increased pressure to lower costs, including the cost of electricity. Retail competition and the unbundling of regulated energy and gas service could have a significant adverse financial impact on us and our subsidiaries due to an impairment of assets, a loss of retail customers, lower profit margins, or increased costs of capital. We cannot predict the extent and timing of entry by additional competitors into the electric markets. We cannot predict when we will be subject to changes in legislation or regulation, nor can we predict the impact of these changes on our financial condition, results of operations, or cash flows.

Ohio has enacted electric generation deregulation legislation. Our Ohio residential and non–residential customers are served under a recently approved RSP, that runs through December 31, 2008. At this time, it is difficult to predict how the regulatory environment will look after the RSP ends.

***Efforts associated with completing the merger with Duke are complex and may divert management's focus and resources from other strategic opportunities.***

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 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.

**Risks Related to the Industry**

***Our results of operations may be negatively affected by sustained downturns or sluggishness in the economy, including low levels in the market prices of commodities, all of which are beyond our control.***

Sustained downturns or sluggishness in the economy generally affect the markets in which we operate and negatively influence our energy operations. Declines in demand for electricity and gas as a result of economic downturns in our franchised electric and gas service territories will reduce overall electricity and gas sales and lessen our cash flows, especially as our industrial customers reduce production and, therefore, consumption of electricity and gas. Although Regulated's business is subject to regulated allowable rates of return and recovery of fuel and emission allowance costs, and our gas transmission business is subject to mandated tariff rates, overall declines in electricity sold or the volume of gas shipped as a result of economic downturn or recession could reduce revenues and cash flows, thus diminishing results of operations.

We also sell electricity into the wholesale market under both short–term and long–term contracts and enter into contracts to purchase and sell electricity, natural gas, and natural gas liquids as part of our energy marketing and trading operations. With respect to such transactions, we are not guaranteed any rate of return on our capital investments through mandated rates, and our revenues and results of operations are likely to depend, in large part, upon prevailing market prices for power, natural gas, coal, and emission allowances in our regional markets and other competitive markets. These market prices may fluctuate substantially over relatively short periods of time and could reduce our revenues and margins and thereby diminish our results of operations.

Lower demand for the electricity we sell and varying prices for electricity, natural gas, coal, and emission allowances result from multiple factors that affect the markets where we sell electricity including:

- weather conditions, including abnormally mild winter or summer weather that cause lower energy usage for heating or cooling purposes, respectively;
- supply of and demand for energy commodities;
- illiquid markets including reductions in trading volumes, which result in lower revenues and earnings;
- general economic conditions which impact energy consumption particularly in which sales to industrial or large commercial customers comprise a significant portion of total sales;
- transmission or transportation constraints or inefficiencies, which impact our merchant energy operations;
- availability of competitively-priced alternative energy sources, which are preferred by some customers over electricity produced from coal or gas plants, and of energy-efficient equipment which reduces energy demand;
- electric generation capacity surpluses which cause our merchant energy plants to generate and sell less electricity at lower prices and may cause some plants to become non-economical to operate;
- capacity and transmission service into, or out of, our markets;
- natural disasters, acts of terrorism, wars, embargoes, and other catastrophic events to the extent they affect our operations and markets; and
- federal and state energy and environmental regulation and legislation.

***Our business is subject to extensive regulation that will affect our operations and costs.***

We are subject to regulation by FERC, by federal, state, and local authorities under environmental laws and by state public utility commissions under laws regulating our businesses. Regulation affects almost every aspect of our businesses, including, among other things, our ability to: take fundamental business management actions; determine the terms and rates of our transmission and distribution businesses' services; make acquisitions; issue equity or debt securities; engage in transactions between our utilities and other subsidiaries and affiliates; and pay dividends. Changes to these regulations are ongoing, and we cannot predict the future course of changes in this regulatory environment or the ultimate effect that this changing regulatory environment will have on our business. However,

changes in regulation (including re–regulating previously deregulated markets) can cause delays in or affect business planning and transactions and can substantially increase our costs.

***Certain events in the energy markets beyond our control have increased the level of public and regulatory scrutiny in the energy industry and in the capital markets which could have a negative impact on our financial condition or results of operations or access to capital.***

Due to certain events in the energy markets, regulated energy companies have been under increased scrutiny by regulatory bodies, capital markets, and credit rating agencies. This increased scrutiny could lead to substantial changes in laws and regulations affecting us, including new accounting standards that could change the way we are required to record revenues, expenses, assets, and liabilities. These types of regulations could have a negative impact on our financial condition or results of operations or access to capital.

***Potential terrorist activities or military or other actions could adversely affect our business.***

The continued threat of terrorism and the impact of retaliatory military and other action by the United States and its allies may lead to increased political, economic, and financial market instability and volatility in prices for natural gas and oil which could affect the market for our gas operations and may materially adversely affect us in ways we cannot predict at this time. In addition, future acts of terrorism and any possible reprisals as a consequence of action by the United States and its allies could be directed against companies in our industry operating in the United States.

***Increased environmental regulation and liabilities could subject us to significant compliance and remediation costs that adversely affect our results of operations.***

Our operations are subject to extensive environmental regulation pursuant to a variety of United States, and other federal, provincial, state, and municipal laws and regulations. Such environmental regulation imposes, among other things, restrictions, liabilities, obligations, and potential enforcement in connection with the generation, handling, use, storage, transportation, treatment, and disposal of hazardous substances and waste, and in connection with spills, releases and emissions of various substances into the environment. Environmental legislation also requires that our facilities, sites, and other properties associated with our operations be operated, maintained, and reclaimed to the satisfaction of applicable regulatory authorities.

Compliance with environmental regulations can require significant expenditures, including expenditures for cleanup costs and damages arising out of contaminated properties, and failure to comply with environmental regulations may result in the imposition of fines and penalties. The steps we take to ensure our facilities are in compliance could be prohibitively expensive, and we may be required to shut down or alter the operation of our facilities, which may cause us to incur losses. Further, our regulatory rate structure and our contracts with clients may not necessarily allow us to recover capital costs we incur to comply with new environmental regulations. Also, we may not be able to obtain or maintain, from time to time, all required environmental regulatory approvals for our development projects. If there is a delay in obtaining any required environmental regulatory approvals, if we fail to obtain and comply with them, or if environmental regulations change and become more stringent, the operation of our facilities or the development of new facilities could be prevented, delayed, or become subject to additional costs. Should we fail to comply with all applicable environmental laws, we may be subject to penalties and fines imposed against us by regulatory authorities. Although it is not expected that the costs of complying with current environmental regulations will have a material adverse effect on our financial condition or results of operations, no assurance can be made that the costs of complying with environmental regulations in the future will not have such an effect.

In addition, we are generally responsible for on–site liabilities, and in some cases off–site liabilities, associated with the environmental condition of our power generation facilities and natural gas assets which we have acquired or developed, regardless of when the liabilities arose and whether they are known or unknown. In connection with some acquisitions and sales of assets, we may obtain, or be required to provide, indemnification against some environmental liabilities. If we incur a material liability, or the other party to a transaction fails to meet its indemnification obligations to us, we could suffer material losses.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

**None.**

## ITEM 2. PROPERTIES

### REGULATED

### Electric

*Domestic Power Generation*

Regulated's domestic power generating stations' total capacity, reflected in MW's, as of December 31, 2005, is shown in the table that follows. The electric generating plants are located in Indiana and Ohio and are wholly–owned or jointly–owned facilities.

| Regulated(1) | Stations | Coal MW | Natural Gas MW | Oil MW | Hydro MW | Total MW |
|---|---|---|---|---|---|---|
| **PSI** | 12 | 5,488 | 1,751 | 259 | 45 | 7,543 |

(1) This table includes only our portion of the total capacity for the jointly–owned plants and does not include certain generating capacity transferred from **CG&E** to **ULH&P** in January 2006 as discussed in "Electric Industry – Kentucky" in "Item 7. MD&A – Future Expectations/Trends." The transferred generating assets became Regulated assets upon transfer.

During 2005, Regulated's electric generating plants, including those that we own but do not operate, performed reliably, as evidenced by our annual capacity factor of 75 percent and a utilization factor of 86 percent (excluding natural gas and fuel oil peaking stations) and an equivalent availability factor of 88 percent. A capacity factor is a percentage that indicates how much of a power plant's capacity is used over time. A utilization factor is a percentage that indicates how much of a power plant's capacity is used while being available. An equivalent availability factor is a percentage that indicates how much of a unit is available to generate compared to its potential maximum generation.

Below is a geographical map showing the locations of Regulated's generation plants.


| Legend(1) | | | |
|---|---|---|---|
| Number | Generation Plant | Fuel Type | MW Capacity |
| 1 | Cayuga | Coal/Gas/Oil | 1,135 |
| 2 | Wabash River | Coal/Oil | 966 |
| 3 | Edwardsport | Coal/Oil | 160 |
| 4 | Gibson | Coal | 2,844 |
| 5 | Miami Wabash | Oil | 104 |
| 6 | Noblesville | Gas | 310 |
| 7 | Henry County | Gas | 129 |
| 8 | Connersville | Oil | 98 |
| 9 | Gallagher | Coal | 560 |
| 10 | Markland | Hydro | 45 |
| 11 | Madison | Gas | 704 |
| 12 | Wheatland | Gas | 488 |
| | | Total | 7,543 |

(1) This map does not include certain generating assets that were transferred from **CG&E** to **ULH&P** in January 2006 as discussed in "Electric Industry – Kentucky" in "Item 7. MD&A – Future Expectations/Trends."

*Transmission and Distribution*

Relevant information for our utility operating companies' electric transmission and distribution systems located in Ohio, Kentucky, and Indiana is as follows:

| Registrant | Electric Transmission Systems(1) (circuit miles) | Electric Distribution Systems(1) (circuit miles) | Substation Combined Capacity (kilovolt–amperes)(2) |
|---|---|---|---|
| **CG&E and subsidiaries** | | | |
| **CG&E** | 1,567 | 16,964 | 21,616,788 |
| **ULH&P** | 106 | 2,943 | 1,464,678 |
| Other subsidiaries | 40 | — | — |
| **Total CG&E** and subsidiaries | 1,713 | 19,907 | 23,081,466 |
| **PSI** | 5,369 | 29,694(3) | 31,014,814 |
| **Total** | 7,082 | 49,601 | 54,096,280 |

(1) Circuit Miles include only our proportionate share for the jointly–owned lines.

(2) Kilovolt–amperes (1,000 volt–amperes) are a broad measure of our substation transformer capacity.

(3) Prior to 2005, **PSI** did not include secondary lines as part of their Distribution System Circuit Miles. As of December 31, 2005, 8,317 circuit miles of secondary lines were included consistent with other registrants.

At the end of 2005, our utility operating companies' electric systems were interconnected with 14 other utilities. Our electric transmission and distribution systems are designed and constructed to further the goal of providing reliable service to our customers. Every effort is made to ensure that sufficient facilities are in service to meet this goal without installing facilities beyond what is required to operate reliably and within the designed parameters. Through our ongoing review of these systems, enhancements are developed and constructed to meet our planning, loading, and reliability guidelines. This process allows us to prudently invest in capacity additions only when and where they are required. The Midwest ISO holds functional control of Regulated's transmission systems.

**Gas**

As of December 31, 2005, the natural gas transmission and distribution systems of **Cinergy** and **CG&E** and its subsidiaries had approximately 10,062 miles of mains and service lines located in southwestern Ohio and northern Kentucky. **Cinergy** and **CG&E** and its subsidiaries also jointly own three underground caverns with a total storage capacity of approximately 23 million gallons of liquid propane (of which 18.7 million gallons belong to **CG&E**, including 7.5 million gallons belonging to **ULH&P**). As of December 31, 2005, **Cinergy** had 15.1 million gallons of liquid propane in storage (of which 12.4 million gallons belong to **CG&E**, including 5.4 million gallons belonging to **ULH&P**). This liquid propane is used in the three propane/air peak shaving plants located in Ohio and Kentucky. Propane/air peak shaving plants store propane and, when needed, vaporize the propane and mix with natural gas to supplement the natural gas supply during peak demand periods and emergencies.

## COMMERCIAL

### Electric

*Domestic Power Generation*

Commercial's domestic power generating stations' total electric capacity, reflected in MW, as of December 31, 2005, is shown in the table that follows. Commercial's electric generating plants are primarily located in Ohio and Kentucky and are wholly–owned or jointly–owned facilities.

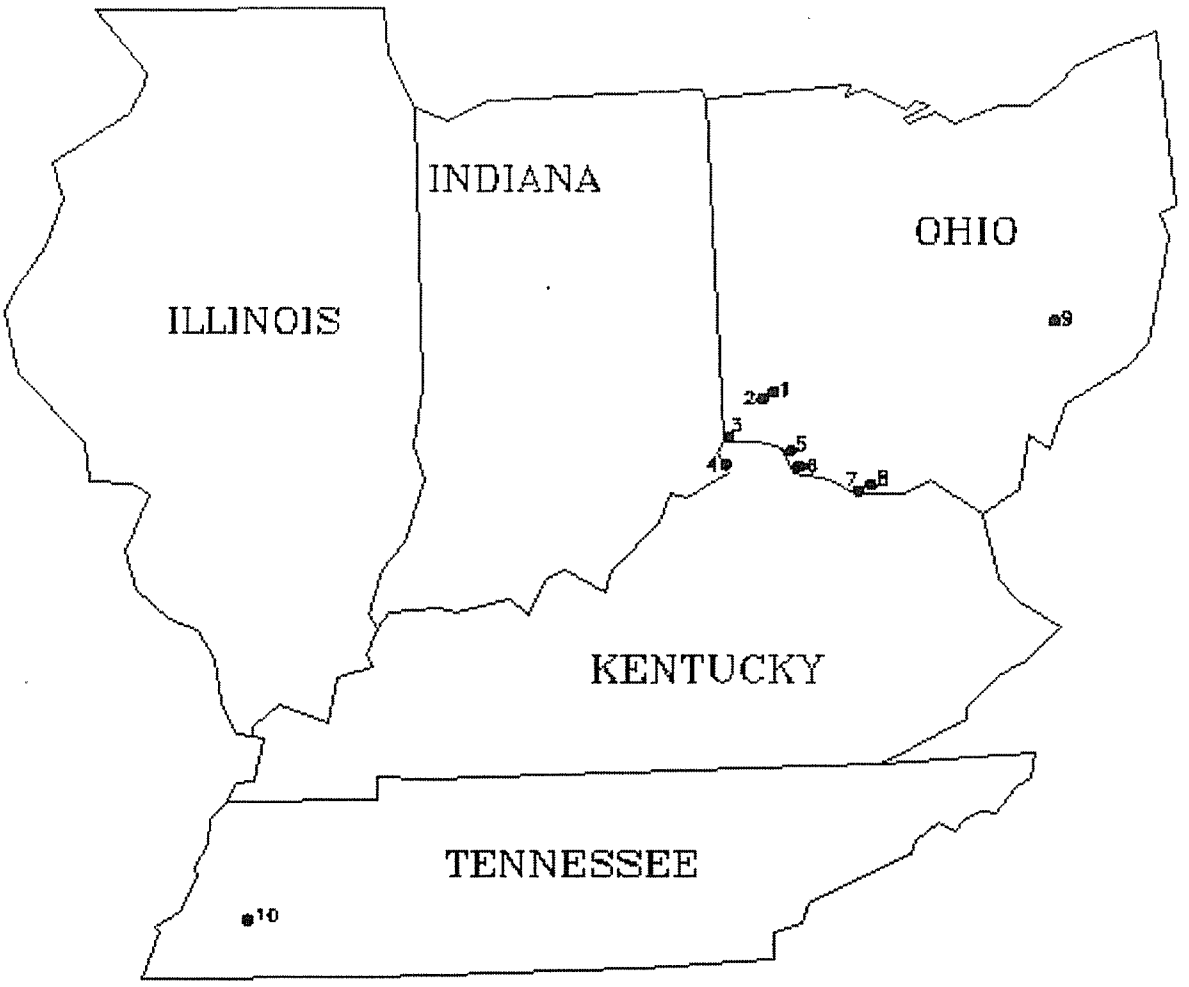
| Commercial(1) | Stations | Coal MW | Natural Gas MW | Oil MW | Total MW |
|---|---|---|---|---|---|
| **CG&E** | 9 | 4,186 | 736 | 324 | 5,246 |
| Investments(2) | 2 | — | 1,030 | — | 1,030 |
| **Total** | 11 | 4,186 | 1,766 | 324 | 6,276 |

(1) This table includes only our portion of the total capacity for the jointly–owned plants. The table also includes certain generating capacity transferred from **CG&E** to **ULH&P** in January 2006 as discussed in "Electric Industry – Kentucky" in "Item 7. MD&A – Future Expectations/Trends." The transferred generating assets became Regulated assets upon transfer.

(2) Represents natural gas peaking plants located in Tennessee and Mississippi, owned by Investments, that sell electricity on the wholesale market.

During 2005, Commercial's electric generating plants, including those that we own but do not operate, performed reliably, as evidenced by our annual capacity factor of 72 percent and a utilization factor of 86 percent (excluding natural gas and fuel oil peaking stations) and an equivalent availability factor of 85 percent. A capacity factor is a percentage that indicates how much of a power plant's capacity is used over time. A utilization factor is a percentage that indicates how much of a power plant's capacity is used while being available. An equivalent availability factor is a percentage that indicates how much of a unit is available to generate compared to its potential maximum generation.

Below is a geographical map showing the locations of Commercial's generation plants.




| Number | Generation Plant | Fuel Type | MW Capacity |
|---|---|---|---|
| | | Legend | |
| 1 | Dick's Creek | Gas | 172 |
| 2 | Woodsdale(2) | Gas | 564 |
| 3 | Miami Fort(2) | Coal/Oil | 962 |
| 4 | East Bend(2) | Coal | 414 |
| 5 | W. C. Beckjord | Coal/Oil | 1,107 |
| 6 | W.M. Zimmer | Coal | 604 |
| 7 | J.M. Stuart | Coal | 913 |
| 8 | Killen | Coal | 198 |
| 9 | Conesville | Coal | 312 |
| 10 | Brownsville | Gas | 480 |
| | Caledonia(1) | Gas | 550 |
| | | Total | 6,276 |

(1) Commercial's generation plant not included in the map is located in Caledonia, Mississippi.

(2) All of Woodsdale and East Bend and a portion of Miami Fort (163 MW) were transferred to Regulated in January 2006. See "Electric Industry – Kentucky" in "Item 7. MD&A – Future Expectations/Trends."

*Cogeneration*

As of December 31, 2005, **Cinergy** had ownership interests in and/or operated 28 domestic cogeneration facilities capable of producing 5,335 MW of electricity, 4,117 MW equivalents of steam and 297 MW equivalents of chilled water. Cogeneration is the simultaneous production of two or more forms of useable energy from a single fuel source.

*Synthetic Fuel*

Capital & Trading owns two coal–based synthetic fuel production facilities, which convert coal into synthetic fuel for sale to a third party. See "Other Matters – Synthetic Fuel Production" in "Item 7. MD&A – Future Expectations/Trends" for additional information regarding this business initiative.

**International**

As of December 31, 2005, we had minority ownership interests in (1) a generation asset located in Kenya capable of producing approximately 18 MW of electricity and 460 MW equivalents of steam; and (2) approximately 1,200 miles of gas and electric transmission and distribution systems through jointly–owned investments in Greece and Zambia, through which we serve approximately 8,500 transmission and distribution customers. These assets serve retail and wholesale customers by providing utility services including generation of electricity and heat as well as the distribution of gas and electric commodities.

**PEAK LOAD**

In July 2005, we experienced record peak loads of 12,001 MW, 5,607 MW, and 6,409 MW for **Cinergy**, **CG&E**, and **PSI**, respectively.

## ITEM 3. LEGAL PROCEEDINGS

### 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 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 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 May 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. Not withstanding 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 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 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 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. After we developed a protocol with several other parties regarding the use of control equipment, one of the parties sought a court preliminary injunction to enforce the protocol. The court initially granted the preliminary injunction, but on appeal the preliminary injunction was dissolved and the case was dismissed.

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 Station 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. 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** 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

**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. 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 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.

## MERGER LAWSUIT

In May 2005, 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 alleged that the defendants breached their duties of due care and loyalty to shareholders by agreeing to the merger agreement between Duke and **Cinergy** and was 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 2005, which was granted in November of 2005. An appeal was not filed by the plaintiffs and the case is closed.

## 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. In December 2005, **CG&E** settled these allegations for an aggregate of $53,000.

## 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.

## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders of **Cinergy**, The Cincinnati Gas & Electric Company, or PSI Energy, Inc. during the fourth quarter of 2005.

## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

**Cinergy Corp.'s** common stock is listed on the New York Stock Exchange. The high and low stock prices for each quarter for the past two years are indicated below:

| | High | Low |
|---|---|---|
| **2005** | | |
| **First Quarter** | **$ 41.70** | **$ 39.05** |
| **Second Quarter** | **45.30** | **38.75** |
| **Third Quarter** | **45.95** | **41.41** |
| **Fourth Quarter** | **44.60** | **38.19** |
| 2004 | | |
| First Quarter | $ 41.10 | $ 37.17 |
| Second Quarter | 41.04 | 34.92 |
| Third Quarter | 40.75 | 36.95 |
| Fourth Quarter | 42.63 | 38.08 |

**Cinergy Corp.** holds all outstanding common stock of The Cincinnati Gas & Electric Company (**CG&E**) and PSI Energy, Inc. (**PSI**), and **CG&E** holds all of the common stock of The Union Light, Heat and Power Company (**ULH&P**). Therefore, no public trading market exists for the common stock of **CG&E**, **PSI**, and **ULH&P**.

As of January 31, 2006, **Cinergy Corp.** had 42,705 shareholders of record.

**Cinergy Corp.** declared dividends on its common stock of $.48 and $.47 per share for each quarter of 2005 and 2004, respectively. The quarterly dividends paid to **Cinergy Corp.** by **CG&E** and **PSI**, and to **CG&E** by **ULH&P** for the past two years were as follows:

| Registrant | Quarter | 2005 | 2004 |
|---|---|---|---|
| | | (in thousands) | |
| **CG&E** | First | **$ 38,296** | $ 54,926 |
| | Second | **65,765** | 55,612 |
| | Third | **65,397** | 57,971 |
| | Fourth | **80,628** | 67,249 |
| **PSI** | First | **$ 51,853** | $ 28,957 |
| | Second | **29,415** | 28,913 |
| | Third | **29,977** | 26,839 |
| | Fourth | **15,000** | 17,879 |
| **ULH&P** | First | **$ —** | $ — |
| | Second | **—** | — |

| | | |
|---|---|---|
| Third | — | — |
| Fourth | — | 14,600 |

On January 16, 2006, the Board of Directors of **Cinergy Corp.** declared dividends on its common stock of $.48 per share, payable February 15, 2006, to shareholders of record at the close of business on February 1, 2006.

See "Dividend Restrictions" in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources" for a brief description of the registrants' common stock dividend restrictions.

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 |
|---|---|---|---|---|
| October 1 – October 31 | — | $ — | N/A | N/A |
| November 1 – November 30 | 6,782 | $ 39.75 | N/A | N/A |
| December 1 – December 31 | — | $ — | N/A | N/A |

## ITEM 6. SELECTED FINANCIAL DATA

| | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|
| | | (in millions, except per share amounts) | | | |
| **Cinergy(1)** | | | | | |
| **Results of Operations:** | | | | | |
| Operating revenues | **$ 5,410** | $ 4,628 | $ 4,364 | $ 4,001 | $ 3,883 |
| Income before discontinued operations and cumulative effect of changes in accounting principles | **490** | 411 | 438 | 401 | 455 |
| Discontinued operations, net of tax(2) | **3** | (10) | 6 | (36) | (13) |
| Cumulative effect of changes in accounting principles, net of tax(3) | **(3)** | — | 26 | (4) | — |
| Net income | **490** | 401 | 470 | 361 | 442 |
| **Per Share Data:** | | | | | |
| Earnings per common share (EPS) – basic: | | | | | |
| Income before discontinued operations and cumulative effect of changes in accounting principles | **2.47** | 2.27 | 2.47 | 2.40 | 2.86 |
| Discontinued operations, net of tax(2) | **0.01** | (0.05) | 0.04 | (0.22) | (0.08) |
| Cumulative effect of changes in accounting principles, net of tax(3) | **(0.01)** | — | 0.15 | (0.02) | — |
| Net income | **2.47** | 2.22 | 2.66 | 2.16 | 2.78 |
| EPS – diluted: | | | | | |
| Income before discontinued operations and cumulative effect of changes in accounting principles | **2.46** | 2.23 | 2.45 | 2.37 | 2.8 |
| Discontinued operations, net of tax(2) | **0.01** | (0.05) | 0.03 | (0.22) | (0.08 |
| Cumulative effect of changes in accounting principles, net of tax(3) | **(0.01)** | — | 0.15 | (0.02) | — |
| Net income | **2.46** | 2.18 | 2.63 | 2.13 | 2.75 |
| Cash dividends declared per share | **1.92** | 1.88 | 1.84 | 1.80 | 1.80 |
| **Balance Sheet Data (at end of period):** | | | | | |
| Total assets from continuing operations | **17,120** | 14,818 | 13,950 | 13,518 | 12,422 |
| Total assets from discontinued operations | **34** | 164 | 169 | 314 | 370 |
| | **17,154** | 14,982 | 14,119 | 13,832 | 12,792 |
| Long–term debt (including amounts due within one year) | **4,746** | 4,448 | 4,969 | 4,188 | 3,656 |
| **CG&E** | | | | | |
| **Results of Operations:** | | | | | |
| Operating revenues | **$ 3,061** | $ 2,511 | $ 2,382 | $ 2,137 | $ 2,247 |
| Income before cumulative effect of changes in accounting principles | **301** | 257 | 300 | 264 | 327 |
| Cumulative effect of changes in accounting principles, net of tax(4) | **(3)** | — | 31 | — | — |
| Net income | **298** | 257 | 331 | 264 | 327 |
| **Balance Sheet Data (at end of period):** | | | | | |
| Total assets | **7,234** | 6,232 | 5,809 | 5,751 | 5,559 |
| Long–term debt (including amounts due within one year) | **1,595** | 1,594 | 1,569 | 1,690 | 1,205 |
| **PSI** | | | | | |
| **Results of Operations:** | | | | | |
| Operating revenues | **$ 1,975** | $ 1,754 | $ 1,603 | $ 1,611 | $ 1,574 |
| Income before cumulative effect of a change in accounting principle | **198** | 165 | 134 | 214 | 162 |
| Cumulative effect of a change in accounting principle, net of tax(5) | **—** | — | (1) | — | — |
| Net income | **198** | 165 | 133 | 214 | 162 |
| **Balance Sheet Data (at end of period):** | | | | | |
| Total assets | **6,242** | 5,450 | 5,140 | 4,539 | 4,864 |
| Long–term debt (including amounts due within one year) | **2,194** | 1,874 | 1,720 | 1,372 | 1,348 |

(1) The results of **Cinergy** also include amounts related to non–registrants.
(2) See Note 16 of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data" for further explanation.
(3) In 2005, **Cinergy** recognized a gain/(loss) on cumulative effect of a change in accounting principal of $(3) million (net of tax) as a result of the recognition of conditional asset retirement obligations. In 2003, **Cinergy** recognized a gain/(loss) on cumulative effect of changes in accounting principles of $39 million (net of tax) and $(13) million (net of tax) as a result of the reversal of accrued cost of removal for non–regulated generating assets and the change in accounting of certain energy related contracts from fair value to accrual. In 2002, **Cinergy** recognized a cumulative effect of a change in accounting principle of $(4) million (net of tax) as a result of an impairment charge for goodwill related to certain of our international assets.
(4) In 2005, **CG&E** recognized a gain/(loss) on cumulative effect of a change in accounting principle of $(3) million (net of tax) as a result of the recognition of conditional asset retirement obligations. In 2003, **CG&E** recognized a gain/(loss) on cumulative effect of changes in accounting principles of $39 million (net of tax) and $(8) million (net of tax) as a result of the reversal of accrued cost of removal for non–regulated generating assets and the change in accounting of certain energy related contracts from fair value to accrual.
(5) In 2003, **PSI** recognized a loss on cumulative effect of a change in accounting principle of $(1) million (net of tax) as a result of a change in accounting of certain energy related contracts from fair value to accrual.

# ITEM 7. 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. 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.

## 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.

### Financial Highlights

Net income for **Cinergy** for the years ended December 31, 2005, and 2004 was as follows:

| | Cinergy | | | |
|---|---|---|---|---|
| | 2005 | 2004 | Change | % Change |
| | (in millions) | | | |
| Net income | $ 490 | $ 401 | $ 89 | 22% |

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

- Increased gross margins resulting from **PSI's** May 2004 base retail electric rate increase and the implementation of **CG&E's** rate stabilization plan (RSP) in January 2005;

- Increased non–retail gross margins related to our generation portfolio, including the sale of emission allowances;
- Increased gross margins due to warmer weather, primarily in the third quarter of 2005, as compared to 2004; and
- Increased *Miscellaneous Income (Expense) – Net* primarily due to impairment and disposal charges recognized in 2004 on certain investments in the Power Technology and Infrastructure Services Business Unit (Power Technology and Infrastructure).

These increases were partially offset by:

- Increased fuel, emission allowance, and purchased power costs attributable to **CG&E's** fixed price residential customers;
- Timing differences in revenue recognition between certain components of our generation portfolio;
- Decreases in Commercial gas gross margins, primarily due to trading results in the second quarter of 2005;

- Increased *Operation and maintenance* expense primarily due to regulatory asset amortization, synthetic fuel production costs, and expenses associated with the pending Duke Energy Corporation (Duke)–**Cinergy** merger; and

- Increased *Depreciation* expense due to increased depreciation rates and the addition of depreciable plant.

For further information, see "2005 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 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 "Item 1. Business – 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 regulated emissions that is estimated to cost approximately $1.8 billion over 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) high and volatile gas prices and limited gas supply, (3) environmental regulation, and (4) 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 and January 1, 2006 for residential customers. We continue to recover these costs from **PSI** retail customers through previously established rate recovery mechanisms. **ULH&P's** rates are frozen through January 1, 2007, the date at which new rates are expected to be implemented. 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 for **Cinergy's** utility companies. The impact of these price increases on earnings is discussed in more detail in "2005 Results of Operations" and "2004 Results of Operations."

***Synthetic Fuel***

**Cinergy** produces synthetic fuel that qualifies for tax credits (through 2007) in accordance with Section 29/45K 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) is currently auditing **Cinergy** for the 2002, 2003, and 2004 tax years and could challenge **Cinergy's** credits. If the IRS were to successfully challenge our credits, this could result in the disallowance of up to all previously claimed and future Section 29/45K 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 29/45K.

Section 29/45K 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 that for 2006 and 2007, the amount of the tax credits could be reduced. If oil prices are high enough, we will 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 twelve months ended December 31, 2005 was approximately $58 million. The net book value of our plants at December 31, 2005 was approximately $47 million.

## 2005 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 the Commercial Business Unit (Commercial) for the years ended December 31, 2005, and 2004 were as follows:

| | Cinergy | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Regulated | | | | Commercial | | | |
| | 2005 | 2004 | Change | % Change | 2005 | 2004 | Change | % Change |
| | (in millions) | | | | | | | |
| Electric gross margin(1) | **$ 1,811** | $ 1,662 | $ 149 | 9% | **$ 725** | $ 616 | $ 109 | 18% |
| Gas gross margin(2) | **263** | 263 | — | — | **40** | 92 | (52) | (57) |

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

(2) Gas gross margin is calculated as *Gas operating revenues* less *Gas purchased* expense from the 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 years ended December 31, 2005, and 2004 were as follows:

| | Cinergy | | | |
|---|---|---|---|---|
| | 2005 | 2004 | Change | % Change |
| Cooling degree days(1) | **1,285** | 888 | 397 | 45% |
| Heating degree days(2)(3) | **3,846** | 3,740 | 106 | 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.

### Regulated

#### *Gross Margins*

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

- A $71 million increase resulting from a higher price received per megawatt hour (MWh), primarily due to **PSI's** May 2004 base retail electric rate increase;
- A $45 million increase resulting from warmer weather, primarily in the third quarter of 2005, as compared to 2004; and
- A $30 million increase due to growth in non–weather related demand.

These increases were partially offset by a decline of $18 million reflecting rate reductions associated with a property tax adjustment for **PSI**.

**Commercial**

*Gross Margins*

The 18 percent increase in Commercial's electric gross margins was primarily due to:

- A $46 million increase in margins from power marketing and trading contracts, primarily due to an increase in margins within the midwest market.
- Higher retail margins of $37 million reflecting:
    - A $77 million increase in rate tariff adjustments resulting from implementation of **CG&E's** RSP in January 2005 (a portion of the total **CG&E** RSP rate tariff adjustments is reflected in Regulated gross margins);
    - A $12 million increase resulting from growth in non–weather related demand, due in part to the return of certain **CG&E** retail customers to full electric service; and
    - A $9 million increase resulting from warmer weather, primarily in the third quarter of 2005, as compared to 2004.

  Partially offsetting these increases was a $53 million increase in fuel, emission allowance, and purchased power costs attributable to **CG&E's** fixed price residential customers.

- A $26 million increase in non–retail margins reflecting:
    - A $121 million increase resulting from 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.
    - A $45 million decrease due to timing differences in revenue recognition between certain components of our generation portfolio. Our gross margins reflect $54 million of losses in 2005 and $9 million of losses in 2004 (representing a $45 million change period to period) as a result of forward purchases of coal and forward sales of power and the use of mark–to–market (MTM) accounting. A substantial portion of these losses is expected to reverse in the first quarter of 2006.
    - A $33 million decrease due to higher fuel prices.

The 57 percent decrease in Commercial's gas gross margins was primarily due to the following factors:

- A $41 million decline in financial trading margins, primarily from trading results in the second quarter of 2005; and
- A $23 million decrease due to timing differences in revenue recognition between physical storage activities and the associated derivative contracts that hedge the physical storage. Our year–to–date gross margins reflect $8 million of losses in 2005 and $15 million of gains in 2004 (representing a $23 million change period to period) as a result of derivative contracts and the use of MTM accounting.

Partially offsetting these decreases was a $15 million increase in physical trading margins, primarily from trading results in the third quarter of 2005.

***Other Operating Revenues and Costs of Fuel Resold***

The 56 percent increase in *Other Operating Revenues* was primarily due to the following factors:

- A $129 million increase in Commercial's revenues from coal origination resulting from increases in coal prices and tons of coal sold; and
- A $64 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.

*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 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 | **$ 1,349** | $ 1,231 | $ 118 | 10% |
| Depreciation | **510** | 454 | 56 | 12 |
| Taxes other than income taxes | **272** | 254 | 18 | 7 |

***Operation and Maintenance***

The 10 percent increase in *Operation and maintenance* expense was primarily due to the following factors:

- Increased regulatory asset amortization of $45 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 $31 million in costs at our synthetic fuel facilities, primarily related to production costs at a new facility purchased in the second quarter of 2005;
- Increased costs of $19 million, primarily 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;
- Expenses of $12 million related to outside services costs for the pending Duke–**Cinergy** merger; and
- Increased labor costs, primarily due to severance payments of $14 million and merger related employee retention incentives of $5 million.

These increases were partially offset by decreased outside service and labor costs totaling $13 million related to our continuous improvement initiative in 2004 and decreased employee incentive costs of $6 million.

***Depreciation***

The 12 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 seven percent increase in *Taxes other than income taxes* was primarily due to a $10 million increase in property taxes, $5 million increase in other state taxes, and a $4 million increase in gross receipts tax.

**Equity in Earnings of Unconsolidated Subsidiaries**

The 30 percent decrease in *Equity in Earnings of Unconsolidated Subsidiaries* is primarily due to a gain recognized in 2004 relating to the sale of most of the assets by a company in which Power Technology and Infrastructure held an investment interest.

**Miscellaneous Income (Expense) – Net**

The increase in *Miscellaneous Income (Expense) – Net* was primarily due to $56 million in impairment and disposal charges recognized in 2004 on certain investments in Power Technology and Infrastructure.

**Income Taxes**

The effective income tax rate decreased for 2005, as compared to 2004. The decrease was primarily a result of an increase in tax credits associated with the production and sale of synthetic fuel. **Cinergy's** 2005 effective tax rate is approximately 16 percent.

**Discontinued Operations**

During 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. **Cinergy** also began taking steps to sell its wholly owned North American energy management and energy performance contracting business. Pursuant to Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long–lived Assets* (Statement 144), these investments have been classified as discontinued operations in our financial statements. See Note 16 of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data" for additional information.

## 2005 RESULTS OF OPERATIONS – CG&E

### Summary of Results

Net income for **CG&E** for the years ended December 31, 2005, and 2004 was as follows:

| | CG&E and subsidiaries | | | |
|---|---|---|---|---|
| | 2005 | 2004 | Change | % Change |
| | (in millions) | | | |
| Net income | **$ 298** | $ 257 | $ 41 | 16% |

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

- Increased non-retail gross margins related to our generation portfolio, including the sale of emission allowances;
- Increased rate tariff adjustments resulting from implementation of the RSP in January 2005; and
- Increased gross margins due to warmer weather, primarily in the third quarter of 2005, as compared to 2004.

These increases were partially offset by:

- Increased fuel, emission allowance, and purchased power costs attributable to fixed price residential customers;
- Timing differences in revenue recognition between certain components of our generation portfolio; and
- Increased *Operation and maintenance* expense primarily due to regulatory asset amortization, incentive and severance labor costs, and costs associated with the sales of accounts receivable.

### Gross Margins

Gross margins for **CG&E** for the years ended December 31, 2005, and 2004 were as follows:

| | CG&E and subsidiaries | | | |
|---|---|---|---|---|
| | 2005 | 2004 | Change | % Change |
| | (in millions) | | | |
| Electric gross margin(1) | **$ 1,342** | $ 1,168 | $ 174 | 15% |
| Gas gross margin(2) | **266** | 263 | 3 | 1 |

(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 years ended December 31, 2005, and 2004 were as follows:

| | CG&E and subsidiaries | | | |
|---|---|---|---|---|
| | 2005 | 2004 | Change | % Change |
| Cooling degree days(1) | **1,327** | 888 | 439 | 49% |
| Heating degree days(2)(3) | **3,678** | 3,624 | 54 | 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.

***Electric Gross Margins***

The 15 percent increase in **CG&E's** electric gross margins was primarily due to:

- Higher retail margins of $92 million reflecting:
  - A $79 million increase in rate tariff adjustments resulting from implementation of the RSP in January 2005;
  - A $30 million increase resulting from warmer weather, primarily in the third quarter of 2005, as compared to 2004; and
  - A $24 million increase resulting from growth in non–weather related demand, due in part to the return of certain retail customers to full electric service.

  Partially offsetting these increases was a $53 million increase in fuel, emission allowance, and purchased power costs attributable to fixed price residential customers.

- A $45 million increase in margins from power marketing and trading contracts, primarily due to an increase in margins within the midwest market.
- A $37 million increase in non–retail margins reflecting:
  - A $121 million increase resulting from 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.
  - A $45 million decrease due to timing differences in revenue recognition between certain components of our generation portfolio. Our gross margins reflect $54 million of losses in 2005 and $9 million of losses in 2004 (representing a $45 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 losses is expected to reverse in the first quarter of 2006.

- A $33 million decrease due to higher fuel prices.

**Other Operating Revenues and Costs of Fuel Resold**

The increase in *Other Operating Revenues* was due to a $108 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 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 | **$ 695** | $ 594 | $ 101 | 17% |
| Depreciation | **182** | 179 | 3 | 2 |
| Taxes other than income taxes | **214** | 198 | 16 | 8 |

***Operation and Maintenance***

The 17 percent increase in *Operation and maintenance* expense was primarily due to the following factors:

- Increased regulatory asset amortization of $45 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 labor expenses of $18 million, primarily resulting from employee incentive costs and severance payments;
- Increased costs of $14 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; and
- Expenses of $6 million related to outside service costs for the pending Duke-**Cinergy** merger.

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 eight percent increase in *Taxes other than income taxes* was primarily due to a $7 million increase in property taxes and a $6 million increase in gross receipts tax.

**Interest Expense**

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

## 2005 RESULTS OF OPERATIONS – PSI

### Summary of Results

Net income for **PSI** for the years ended December 31, 2005, and 2004 was as follows:

| | PSI | | | |
|---|---|---|---|---|
| | 2005 | 2004 | Change | % Change |
| | (in millions) | | | |
| Net income | **$ 198** | $ 165 | $ 33 | 20% |

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

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

### Electric Gross Margins

Gross margins for **PSI** for the years ended December 31, 2005, and 2004 were as follows:

| | PSI | | | |
|---|---|---|---|---|
| | 2005 | 2004 | Change | % Change |
| | (in millions) | | | |
| Electric gross margin(1) | **$ 1,209** | $ 1,103 | $ 106 | 10% |

(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 years ended December 31, 2005, and 2004 were as follows:

| | PSI | | | |
|---|---|---|---|---|
| | 2005 | 2004 | Change | % Change |
| Cooling degree days(1) | **1,242** | 888 | 354 | 40% |
| Heating degree days(2)(3) | **4,013** | 3,856 | 157 | 4 |

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

- A $71 million increase resulting from a higher price received per MWh, primarily due to **PSI's** May 2004 base retail electric rate increase;
- A $24 million increase resulting from warmer weather, primarily in the third quarter of 2005, as compared to 2004; and
- An $18 million increase due to growth in non–weather related demand.

These increases were partially offset by a decline of $18 million reflecting rate reductions associated with a property tax adjustment.

The following explanations correspond with the line items on the 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 | **$ 480** | $ 475 | $ 5 | 1% |
| Depreciation | **266** | 222 | 44 | 20 |
| Taxes other than income taxes | **50** | 47 | 3 | 6 |

***Operation and Maintenance***

The one percent increase in *Operation and maintenance* expense was primarily due to various increases in operating costs and increased distribution system maintenance costs. Operating costs increased due to increased costs associated with the sales of accounts receivables to an unconsolidated affiliate and increased outside service costs. These increases were offset by a decrease in labor expense, primarily resulting from employee incentive costs, which were partially offset by merger and severance costs.

***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 – Net**

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

**Interest Expense**

The 20 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 RESULTS OF OPERATIONS – ULH&P

### Summary of Results

The Results of Operations discussion for **ULH&P** is presented only for the year ended December 31, 2005, in accordance with General Instruction I(2)(a).

Electric and gas gross margins and net income for **ULH&P** for the years ended December 31, 2005, and 2004 were as follows:

| | ULH&P | | | |
|---|---|---|---|---|
| | 2005 | 2004 | Change | % Change |
| | (in millions) | | | |
| Electric gross margin(1) | $ **72** | $ 68 | $ 4 | 6% |
| Gas gross margin(2) | **48** | 45 | 3 | 7 |
| Net income | **15** | 19 | (4) | (21) |

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

(2) Gas gross margin is calculated as *Gas operating revenues* less *Gas purchased* expense from the 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. The seven percent increase in gas gross margins was primarily due to a base rate increase implemented in October 2005. Also contributing to gas gross margins was 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.

The 21 percent decrease in net income was partially due to higher *Operation and maintenance* costs associated with various increases in operating expenses including the transmission of electricity 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 increases in electric and gas gross margins as previously discussed.

## 2004 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 years ended December 31, 2004, and 2003 were as follows:

| | Cinergy | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Regulated | | | | Commercial | | | |
| | 2004 | 2003 | Change | % Change | 2004 | 2003 | Change | % Change |
| | (in millions) | | | | | | | |
| Electric gross margin(1) | $ **1,662** | $ 1,503 | $ 159 | 11% | $ **616** | $ 667 | $ (51) | (8)% |
| Gas gross margin(2) | **263** | 244 | 19 | 8 | **92** | 88 | 4 | 5 |

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

(2) Gas gross margin is calculated as *Gas operating revenues* less *Gas purchased* expense from the 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 years ended December 31, 2004, and 2003 were as follows:

| | Cinergy | | | |
|---|---|---|---|---|
| | 2004 | 2003 | Change | % Change |
| Cooling degree days(1) | **888** | 880 | 8 | 1% |
| Heating degree days(2)(3) | **3,740** | 3,990 | (250) | (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.

The change in cooling degree days and heating degree days did not have a material effect on **Cinergy's** gross margins for the year ended December 31, 2004, as compared to 2003.

### Regulated

*Gross Margins*

The 11 percent increase in Regulated's electric gross margins was primarily due to the following factors:

- An $80 million increase resulting from a higher price received per MWh due to **PSI's** base retail electric rate increase in May 2004; and
- A $32 million increase due to growth in non–weather related demand.

The eight percent increase in Regulated's gas gross margins was primarily due to a $16 million increase in tariff adjustments mainly associated with the gas main replacement program. Partially offsetting this increase was a $7 million decrease reflecting a decline in non–weather related demand.

**Commercial**

*Gross Margins*

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

- A $51 million increase in **CG&E's** average price of fuel without a matching increase in the price of power charged to customers (the majority of which were under fixed price contracts); and
- A $62 million increase in emission allowance costs, primarily due to increases in $SO^2$ emission allowance market prices, without a matching increase in the price of power charged to customers. The number of $SO^2$ emission allowances used also increased in 2004.

Partially offsetting these decreases were:

- A $24 million increase in gross margins on power marketing, trading, and origination contracts attributable to higher margins on physical and financial trading, primarily related to regional spreads between the mideast and midwest markets; and
- A $15 million increase due to growth in non–weather related demand.

***Other Operating Revenues and Costs of Fuel Resold***

The 45 percent increase in *Other Operating Revenues* was primarily due to the following factors:

- A $67 million increase in Commercial's revenues from coal origination resulting from increases in coal prices and the number of coal origination contracts; and
- A $28 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 2004, which is consistent with the increases in the associated revenues as previously discussed.

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

**Other Operating Expenses**

| Cinergy | | | |
|---|---|---|---|
| 2004 | 2003 | Change | % Change |

| | (in millions) | | | |
|---|---|---|---|---|
| Operation and maintenance | **$ 1,231** | $ 1,080 | $ 151 | 14 % |
| Depreciation | **454** | 393 | 61 | 16 |
| Taxes other than income taxes | **254** | 250 | 4 | 2 |

***Operation and Maintenance***

The 14 percent increase in *Operation and maintenance* expense was primarily due to the following factors:

- Costs primarily associated with employee labor and benefits increased $50 million. Labor and benefit costs increased approximately six percent;
- Maintenance expenses, primarily production related, were higher by $26 million;
- Costs of $20 million incurred in 2004 related to a continuous improvement initiative;
- Higher transmission costs of $15 million. This increase was due, in part, to refunds received in 2003, which offset a portion of the costs for that year; and

- A $14 million increase in operation expenses for non–regulated service subsidiaries that started operations, or became fully consolidated, after the second quarter of 2003.

These increases were partially offset by:

- The recognition of $14 million of costs associated with voluntary early retirement programs and employee severance programs in 2003; and
- Costs of $12 million incurred in 2003 associated with the bankruptcy of Enron Corp.

*Depreciation*

The 16 percent increase in *Depreciation* expense was primarily due to the following factors:

- A $36 million increase due to the addition of depreciable plant, primarily for pollution control equipment, and the accelerated gas main replacement program; and
- A $27 million increase resulting from (a) higher depreciation rates, as a result of changes in useful lives of production assets and an increased rate for cost of removal and (b) recovery of deferred depreciation costs, both of which were approved in **PSI's** latest retail rate case.

These increases were partially offset by $15 million due to longer estimated useful lives of **CG&E's** generation assets resulting from a depreciation study completed during the third quarter of 2003.

**Equity in Earnings of Unconsolidated Subsidiaries**

The increase in *Equity in Earnings of Unconsolidated Subsidiaries* was primarily due to a gain of $21 million relating to the sale of most of the assets by a company in which Power Technology and Infrastructure holds an investment. See Note 17(b) of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data" for further information.

**Miscellaneous Income (Expense) – Net**

The decrease in *Miscellaneous Income (Expense) – Net* was primarily due to the recognition of $56 million in impairment and disposal charges in 2004 primarily associated with certain investments in the Power Technology and Infrastructure portfolio. The values of these investments reflect our estimates and judgments about the future performance of these investments, for which actual results may differ. A substantial portion of these charges relate to a company, in which **Cinergy** holds a non–controlling interest that sold its major assets in 2004. This company is involved in the development and sale of outage management software.

This decrease was partially offset by interest income of $9 million on the notes receivable of two subsidiaries consolidated in the third quarter of 2003.

**Interest Expense**

The two percent increase in *Interest Expense* was primarily due to the following factors:

- A $12 million increase due to **Cinergy's** recognition of a note payable to a trust; and
- A $9 million increase related to additional debt recorded in accordance with the consolidation of two new entities.

The note payable and additional debt were both recorded in July 2003 resulting from the adoption of Financial Accounting Standards Board (FASB) Interpretation No. 46, *Consolidation of Variable Interest Entities* (Interpretation 46).

These increases were partially offset by:

- A decline in average long–term debt; and
- Charges recorded during 2003 associated with **CG&E's** refinancing of certain debt.

**Preferred Dividend Requirement of Subsidiary Trust**

The decrease in *Preferred Dividend Requirement of Subsidiary Trust* was a result of the implementation of Interpretation 46. Effective July 1, 2003, the preferred trust securities and the related dividends are no longer reported in **Cinergy's** financial statements. However, interest expense is still being incurred on a note payable to this trust as previously discussed.

**Income Taxes**

**Cinergy's** 2004 effective tax rate was approximately 21 percent, a decrease of four percent from 2003, resulting from a greater amount of tax credits associated with the production and sale of synthetic fuel and the successful resolution of certain tax matters.

**Discontinued Operations**

During 2003, **Cinergy** completed the disposal of its gas distribution operation in South Africa, sold its remaining wind assets in the United States, and substantially sold or liquidated the assets of its energy trading operation in the Czech Republic. The 2004 and 2003 *Discontinued Operations* have been restated for 2005 discontinued operations, as previously discussed in "MD&A – 2005 Results of Operations – **Cinergy**". Pursuant to Statement 144, these investments have been classified as discontinued operations in our financial statements. See Note 16 of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data" for additional information.

**Cumulative Effect of Changes in Accounting Principles**

In 2003, **Cinergy** recognized a *Cumulative effect of changes in accounting principles, net of tax* gain of $26 million. The cumulative effect of changes in accounting principles was a result of the adoption of SFAS No. 143, *Accounting for Asset Retirement Obligations* (Statement 143) and the rescission of Emerging Issues Task Force Issue 98–10, *Accounting for Contracts Involved in Energy Trading and Risk Management Activities* (EITF 98–10). See Note 1(s)(*iv*) of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data" for further information.

## 2004 RESULTS OF OPERATIONS – CG&E

### Summary of Results

Net income for **CG&E** for the years ended December 31, 2004, and 2003 were as follows:

| | CG&E and subsidiaries | | | |
|---|---|---|---|---|
| | 2004 | 2003 | Change | % Change |
| | (in millions) | | | |
| Net income | $ 257 | $ 331 | $ (74) | (22)% |

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

- Higher operating costs due, in part, to increases in costs for employee labor and benefits;
- Lower margins from the sale of electricity primarily due to higher fuel and emission allowance costs; and
- A net gain recognized in 2003 resulting from the implementation of certain accounting changes.

These decreases were partially offset by:

- Growth in non-weather related demand for electricity; and
- An increase in gross margins on power marketing, trading, and origination contracts.

### Gross Margins

Gross margins for **CG&E** for the years ended December 31, 2004, and 2003 were as follows:

| | CG&E and subsidiaries | | | |
|---|---|---|---|---|
| | 2004 | 2003 | Change | % Change |
| | (in millions) | | | |
| Electric gross margin(1) | $ 1,168 | $ 1,195 | $ (27) | (2)% |
| Gas gross margin(2) | 263 | 245 | 18 | 7 |

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

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

Income.

Cooling degree days and heating degree days in **CG&E's** service territory for the years ended December 31, 2004, and 2003 were as follows:

| | CG&E and subsidiaries | | | |
|---|---|---|---|---|
| | **2004** | **2003** | **Change** | **% Change** |
| Cooling degree days(1) | **888** | 812 | 76 | 9 % |
| Heating degree days(2) (3) | **3,624** | 3,817 | (193 ) | (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 **CG&E's** gross margins for the period.

*Electric Gross Margins*

The two percent decrease in **CG&E's** electric gross margins was primarily due to the following factors:

- A $51 million increase in the average price of fuel without a matching increase in the price of power charged to customers (the majority of which were under fixed price contracts); and
- A $32 million increase in emission allowance costs, primarily due to an increase in $SO_2$ emission allowance market prices, without a matching increase in the price of power charged to customers.

These decreases were partially offset by:

- A $31 million increase in margins from retail customers due to growth in non–weather related demand; and
- A $29 million increase in gross margins on power marketing, trading, and origination contracts attributable to higher margins on physical and financial trading, primarily related to regional spreads between the mideast and midwest markets.

*Gas Gross Margins*

The seven percent increase in **CG&E's** gas gross margins was primarily due to a $16 million increase in tariff adjustments mainly associated with the gas main replacement program. Partially offsetting this increase was a $7 million decrease reflecting 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 $67 million increase in revenues from coal origination resulting from increases in coal prices and the number of coal origination contracts.

*Costs of fuel resold* represents the costs of coal origination activities. These costs have increased in 2004, which is consistent with the increase in the associated revenues as previously discussed.

The following explanations correspond with the line items on the 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 | | | |
|---|---|---|---|
| 2004 | 2003 | Change | % Change |
| (in millions) | | | |

| | | | | |
|---|---|---|---|---|
| Operation and maintenance | $ **594** | $ 500 | $ 94 | 19 % |
| Depreciation | **179** | 187 | (8 ) | (4 ) |
| Taxes other than income taxes | **198** | 200 | (2 ) | (1 ) |

***Operation and Maintenance***

The 19 percent increase in *Operation and maintenance* expense was primarily due to the following factors:

- Costs primarily associated with employee labor and benefits increased $28 million;
- Maintenance expenses, primarily production and distribution related, were higher by $21 million;
- A $9 million of costs incurred in 2004 related to a continuous improvement initiative; and
- Higher transmission costs of $9 million. This increase was due, in part, to refunds received in 2003, which offset a portion of the costs for that year.

Partially offsetting these increases was the recognition of $4 million of costs associated with voluntary early retirement programs and employee severance programs in 2003.

*Depreciation*

The four percent decrease in *Depreciation* expense was primarily due to longer estimated useful lives of **CG&E's** generation assets resulting from a depreciation study completed during the third quarter of 2003, which resulted in a decrease of $15 million. This decrease was partially offset by an $8 million increase due to the addition of depreciable plant primarily for pollution control equipment and the accelerated gas main replacement program.

**Miscellaneous Income – Net**

The 47 percent decrease in *Miscellaneous Income – Net* was primarily due to the following factors:

- A final reconciliation recorded in 2003 between **CG&E** and **PSI** due to a previous demutualization of a medical insurance carrier used by both companies; and
- A decline in the allowance for equity funds used during construction resulting from certain assets being placed into service and a decrease in the equity rate applied.

**Interest Expense**

The 21 percent decrease in *Interest Expense* was primarily due to a decline in average long–term debt and charges recorded during 2003 associated with the refinancing of certain debt.

**Cumulative Effect of Changes in Accounting Principles**

In 2003, **CG&E** recognized a *Cumulative effect of changes in accounting principles, net of tax* gain of approximately $31 million as a result of the adoption of Statement 143 and the rescission of EITF 98–10. See Note 1(s)(*iv*) of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data" for further information.

## 2004 RESULTS OF OPERATIONS – PSI

### Summary of Results

Net income for **PSI** for the years ended December 31, 2004, and 2003 were as follows:

| | PSI | | | |
|---|---|---|---|---|
| | 2004 | 2003 | Change | % Change |
| | (in millions) | | | |
| Net income | **$ 165** | $ 133 | $ 32 | 24 % |

The increase in net income was primarily due to the impact of the **PSI** base retail electric rate increase in May 2004 and growth in non-weather related demand.

These increases were partially offset by higher operating costs due, in part, to increases in costs for employee labor and benefits.

### Electric Gross Margins

Gross margins for **PSI** for the years ended December 31, 2004, and 2003 were as follows:

| | PSI | | | |
|---|---|---|---|---|
| | 2004 | 2003 | Change | % Change |
| | (in millions) | | | |
| Electric gross margin(1) | **$ 1,103** | $ 973 | $ 130 | 13 % |

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

Cooling degree days and heating degree days in **PSI's** service territory for the years ended December 31, 2004, and 2003 were as follows:

| | PSI | | | |
|---|---|---|---|---|
| | 2004 | 2003 | Change | % Change |
| Cooling degree days(1) | **888** | 947 | (59) | (6)% |
| Heating degree days(2) (3) | **3,856** | 4,162 | (306) | (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 degree days did not have a material effect on electric gross margins for the period. The 13 percent increase in **PSI's** electric gross margins was primarily due to the following factors:

- An $80 million increase resulting from a higher price received per MWh due to **PSI's** base retail electric rate increase in May 2004; and
- A $16 million increase due to growth in non–weather related demand.

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

**Other Operating Expenses**

| | PSI | | | |
|---|---|---|---|---|
| | 2004 | 2003 | Change | % Change |
| | (in millions) | | | |
| Operation and maintenance | $ 475 | $ 449 | $ 26 | 6 % |
| Depreciation | 222 | 164 | 58 | 35 |
| Taxes other than income taxes | 47 | 46 | 1 | 2 |

***Operation and Maintenance***

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

- Costs primarily associated with employee labor and benefits increased $14 million;
- Costs of $8 million incurred in 2004 related to a continuous improvement initiative;
- An increase in production related maintenance expense of $7 million; and
- Higher transmission costs of $6 million. This increase was due, in part, to refunds received in 2003, which offset a portion of the costs for that year.

Partially offsetting these increases was the recognition of $4 million of costs associated with voluntary early retirement programs and employee severance programs in 2003.

***Depreciation***

The 35 percent increase in *Depreciation* expense was primarily due to the following factors:

- A $27 million increase due to the addition of depreciable plant primarily for pollution control equipment; and
- A $27 million increase resulting from (a) higher depreciation rates, as a result of changes in useful lives of production assets and an increased rate for cost of removal and (b) recovery of deferred depreciation costs, both of which were approved in **PSI's** latest retail rate case.

**Interest Expense**

The seven percent increase in *Interest Expense* was primarily due to an increase in the effective interest rate on short–term debt and an increase in the average amount of short–term debt outstanding.

## LIQUIDITY AND CAPITAL RESOURCES

### Historical Cash Flow Analysis From Continuing Operations

*Operating Activities from Continuing Operations*

For the years ended December 31, 2005, 2004, and 2003, our cash flows from operating activities from continuing operations were as follows:

**Net Cash Provided by Operating Activities from Continuing Operations**

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| | | (in thousands) | |
| **Cinergy(1)** | **$ 667,905** | $ 822,607 | $ 930,560 |
| **CG&E** and subsidiaries | **719,054** | 445,621 | 557,761 |
| **PSI** | **105,488** | 483,463 | 246,735 |
| **ULH&P** | **44,257** | 45,381 | 33,061 |

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

The tariff–based gross margins of our utility operating companies continue to be the principal source of cash from operating activities. The diversified retail customer mix of residential, commercial, and industrial classes and a commodity mix of gas and electric services provide a reasonably predictable gross cash flow.

For the year ended December 31, 2005, **Cinergy's** and **PSI's** decrease in net cash provided by operating activities was primarily due to unfavorable working capital fluctuations, including the build up of fuel and emission allowances inventory. **Cinergy's** and **PSI's** decrease was also attributable to increased expenditures associated with fuel and purchased power that have not yet been expensed, until recovered from ratepayers. **CG&E's** increase in net cash provided by operating activities was due to favorable working capital fluctuations, including increased net cash received as collateral associated with power transactions. **ULH&P's** net cash provided by operating activities was comparable to 2004.

For the year ended December 31, 2004, **Cinergy's** and **CG&E's** decrease in net cash provided by operating activities was primarily due to unfavorable working capital fluctuations, including the build up of fuel and emission allowances inventory. **PSI's** increase was due to an increase in earnings (after adjusting for non–cash items) and a difference in the timing of payables and income tax payments. **ULH&P's** increase in net cash provided by operating activities was attributable to favorable working capital fluctuations.

*Financing Activities from Continuing Operations*

For the years ended December 31, 2005, 2004, and 2003, our cash flows from financing activities from continuing operations were as follows:

**Net Cash Provided by (Used in) Financing Activities from Continuing Operations**

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| | | (in thousands) | |
| **Cinergy(1)** | **$ 179,206** | $ (229,599) | $ (232,942) |
| **CG&E** and subsidiaries | **(316,795)** | (172,782) | (263,296) |
| **PSI** | **422,634** | (164,141) | 90,070 |
| **ULH&P** | **8,566** | (9,226) | 4,852 |

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

For the year ended December 31, 2005, **Cinergy's** increase in net cash provided by financing activities was primarily attributable to the increased issuance of long-term debt and common stock and the decrease in redemptions of long-term debt in 2005. **CG&E's** increase in net cash used in financing activities was primarily due to the repayment of short-term debt. **PSI's** increase in net cash provided by financing activities was attributable to

the issuance of long–term debt and capital contributions received from **Cinergy Corp.** **ULH&P's** decrease in net cash used in financing activities was due to an increase in short–term debt.

For the year ended December 31, 2004, **CG&E's** decrease in net cash used in financing activities was primarily due to a decrease in redemptions of long–term debt. **PSI's** increase in net cash used in financing activities was attributable to the repayment of short–term debt in 2004 and capital contributions from **Cinergy Corp.** that were made in 2003. **ULH&P's** increase in net cash used in financing activities was due to an increase in dividends on common stock. **Cinergy's** net cash used in financing activities in 2004 was comparable to 2003.

***Investing Activities from Continuing Operations***

For the years ended December 31, 2005, 2004, and 2003, our cash flows used in investing activities from continuing operations were as follows:

**Net Cash Used in Investing Activities from Continuing Operations**

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| | | (in thousands) | |
| **Cinergy(1)** | **$ (863,581)** | $ (597,513) | $ (730,139) |
| **CG&E** and subsidiaries | **(396,739)** | (284,527) | (323,959) |
| **PSI** | **(507,056)** | (315,093) | (332,247) |
| **ULH&P** | **(47,144)** | (33,857) | (39,940) |

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

For the year ended December 31, 2005, **Cinergy's, CG&E's,** and **PSI's** increase in net cash used in investing activities was primarily due to increases in capital expenditures for ongoing environmental compliance programs and normal construction activity. **Cinergy's** and **PSI's** increase was also attributable to the acquisition of the Wheatland generating facility in May 2005. **ULH&P's** increase in net cash used in investing activities was primarily due to increased capital expenditures related to normal construction activity.

For the year ended December 31, 2004, **Cinergy's** decrease in net cash used in investing activities was primarily due to decreases in capital expenditures related to energy–related investments. **CG&E's** decrease in net cash used in investing activities was primarily due to a decrease in capital expenditures for ongoing environmental compliance programs and normal construction activity. **PSI's** and **ULH&P's** net cash used in investing activities in 2004 was comparable to 2003.

**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 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 Clean Air Act (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 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), 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. 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 as well as the determination not to regulate mercury under Section 112 of the CAA. In December 2005 and again in January 2006, the EPA reconsidered portions of the CAIR, but did not propose any regulatory changes. At this time we cannot predict the outcome of these matters.

Over the 2006–2010 time period, we expect to spend approximately $1.4 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 53 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)(*ii*) for more details. **CG&E** receives partial recovery of depreciation and financing costs related to environmental compliance projects for 2005–2008 through its RSP. See (b)(*iii*) 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 challeng 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.

*Energy Policy Act of 2005*

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:

- Repealed the Public Utility Holding Company Act of 1935 (PUHCA 1935) and enacted the Public Utility Holding Company Act of 2005 (PUHCA 2005) effective six months after the bill's enactment (i.e., February 8, 2006);
- Amended certain provisions of the Federal Power Act, including new provisions related to consumer protection and enforcement and an expansion of the Federal Energy Regulatory Commission's (FERC) authority to impose civil and criminal penalties for, among other things, reliability infractions and power trading irregularities;
- Revised 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;
- Provided FERC with expanded authority in the electric industry to review mergers, acquisitions and asset dispositions, effective six months after the bill's enactment;
- Provided 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;

- Included tax incentives for the development of wind and other renewable technologies;

- Included tax incentives for integrated coal gasification combined cycle (IGCC) facilities; and
- Accelerated the tax depreciation rates for pollution control equipment on power plants built after 1975.

Under terms of the Energy Policy Act of 2005, **Cinergy's** pending merger with Duke is grandfathered under existing FERC authority. In addition, the bill authorized 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 by Congress in 2006. 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. As noted, the Energy Policy Act of 2005, among other provisions, repealed the PUHCA 1935 and replaced it with the PUHCA 2005, effective February 8, 2006. See "FERC Public Utility Holding Company Act of 2005" in "MD&A Future Expectations/Trends" for additional information on the PUHCA 2005. At this time, it is too early to predict the overall impact the Energy Policy Act of 2005 will have on our financial position or results of operations.

*Lawsuits*

We are currently involved in the following lawsuits which are discussed in more detail in "Item 3. Legal Proceedings." An unfavorable outcome of any of these lawsuits could have a material impact on our liquidity and capital resources.

- Clean Air Act Lawsuit
- Carbon Dioxide Lawsuit
- Selective Catalytic Reduction Units at Gibson Generating Station
- Zimmer Generating Station Lawsuit
- Manufactured Gas Plant Sites
- Asbestos Claims Litigation

***Capital and Investment Expenditures***

Actual construction and other committed expenditures for 2005 and forecasted construction and other committed expenditures for 2006 and for the five-year period 2006–2010 (in nominal dollars) are presented in the table below:

**Capital and Investment Expenditures**

| | Actual | Forecasted | |
|---|---|---|---|
| | 2005 | 2006 | 2006–2010 |
| | | (in millions) | |
| **Cinergy**(1) | **$ 1,158** | $ 1,377 | $ 5,539 |
| **CG&E** and subsidiaries | **434** | 660 | 2,482 |
| **PSI** | **634** | 657 | 2,872 |
| **ULH&P** | **47** | 67 | 292 |

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

In 2005, we spent $462 million for $NO^x$ and other environmental compliance projects. Forecasted expenditures for environmental compliance projects (in nominal dollars) are approximately $679 million for 2006 and $1.5 billion for the 2006–2010 period. The majority of this forecast includes our estimate of the total cost to comply with regulations requiring reductions in mercury, $NO^x$, and $SO^2$ emissions, assuming a cap and trade approach to mercury emissions. Approximately 60 percent of these estimated environmental costs would be incurred at **PSI's** regulated coal–fired plants. See "Environmental Issues" for further discussion.

*Contractual Cash Obligations*

The following table presents **Cinergy's**, **CG&E's**, **PSI's**, and **ULH&P's** significant contractual cash obligations:

| Contractual Cash Obligations(1) | Payments Due | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | 2010 | Thereafter | Total |
| | | | | (in millions) | | | |
| **Cinergy**(2) | | | | | | | |
| Capital leases | $ 8 | $ 9 | $ 11 | $ 11 | $ 9 | $ 26 | $ 74 |
| Operating leases | 44 | 36 | 26 | 18 | 14 | 25 | 163 |
| Long-term debt(3) | 353 | 728 | 550 | 272 | 18 | 2,872 | 4,793 |
| Fuel purchase contracts(4) | 753 | 695 | 286 | 40 | — | — | 1,774 |
| Other commodity purchase contracts(5) | 13 | 8 | 5 | 3 | 2 | 4 | 35 |
| **Total Cinergy** | $ 1,171 | $ 1,476 | $ 878 | $ 344 | $ 43 | $ 2,927 | $ 6,839 |
| **CG&E** and subsidiaries | | | | | | | |
| Capital leases | $ 5 | $ 5 | $ 6 | $ 7 | $ 6 | $ 19 | $ 48 |
| Operating leases | 9 | 7 | 6 | 4 | 3 | 4 | 33 |
| Long-term debt(3) | — | 100 | 120 | 20 | — | 1,390 | 1,630 |
| Fuel purchase contracts(4) | 368 | 359 | 183 | 40 | — | — | 950 |
| Other commodity purchase contracts(5) | 1 | — | 1 | — | — | — | 2 |
| **Total CG&E** and subsidiaries | $ 383 | $ 471 | $ 316 | $ 71 | $ 9 | $ 1,413 | $ 2,663 |
| **PSI** | | | | | | | |
| Capital leases | $ 3 | $ 3 | $ 5 | $ 4 | $ 3 | $ 8 | $ 26 |
| Operating leases | 11 | 10 | 9 | 7 | 6 | 10 | 53 |
| Long-term debt(3) | 325 | 268 | 43 | 223 | 2 | 1,342 | 2,203 |
| Fuel purchase contracts(4) | 385 | 336 | 103 | — | — | — | 824 |
| **Total PSI** | $ 724 | $ 617 | $ 160 | $ 234 | $ 11 | $ 1,360 | $ 3,106 |
| **ULH&P** | | | | | | | |
| Capital leases | $ 1 | $ 1 | $ 2 | $ 2 | $ 1 | $ 5 | $ 12 |
| Long-term debt(3) | — | — | 20 | 20 | — | 55 | 95 |
| Fuel purchase contracts(4) | 62 | 61 | 12 | — | — | — | 135 |
| **Total ULH&P** | $ 63 | $ 62 | $ 34 | $ 22 | $ 1 | $ 60 | $ 242 |

(1) Excludes notes payable and other short-term obligations.

(2) Includes amounts related to non-registrants.

(3) Amounts do not include interest payments. See the Consolidated Statements of Capitalization in "Item 8. Financial Statements and Supplementary Data" for disclosure of interest rates for interest payments.

(4) We have significantly more coal under contract; however, these contracts contain price re-opener provisions effectively making them variable contracts after certain dates. Contract coal after the price re-opener date is therefore excluded from this table.

(5) Includes long-term contracts accounted for on an accrual basis. See the Fair Value of Contracts maturity table in "Market Risk Sensitive Instruments" for disclosure of contracts that are accounted for at fair value.

*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). On January 1, 2003, **Cinergy** adopted a funding plan to reduce, or eliminate, the unfunded "Funding Liability" initially measured as of that date. This unfunded obligation is the difference between the "Funding Liability" determined actuarially on an ERISA basis and the market value of plan assets and is less than the unfunded pension obligation calculated for accounting purposes and disclosed in Note 11 of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data." The unfunded obligation is recalculated as of January 1 of each year to identify adjustments required to meet the funding plan.

**Cinergy's** minimum required contribution in calendar year 2005 was zero, as compared to $16 million in calendar year 2004. Actual contributions during calendar year 2005 and 2004 totaled $102 million and $117 million, reflecting additional discretionary contributions of $102 million and $101 million, respectively, under the aforementioned funding plan. Due to the significant 2005 and 2004 calendar year contributions, **Cinergy's** minimum required contribution in calendar year 2006 is expected to be zero. Should **Cinergy** continue funding under the funding plan, discretionary contributions are expected to be approximately $120 million in 2006. **Cinergy** may consider making discretionary contributions in 2007 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.

In April 2004, the Pension Funding Equity Act of 2004 (PFEA) was issued. PFEA specified temporary funding regulations for plan years 2004 and 2005. Absent an extension of PFEA for plan years beginning January 1, 2006, **Cinergy's** near-term contributions will increase significantly. In addition, legislative proposals that would permanently revise current pension funding regulations have been developed by the Bush Administration, the House of Representatives, and the Senate. While the exact form, timing and impact of any final legislation is not currently known, preliminary indications are that any final legislation based on the three proposals will substantially increase near-term contributions. A failure to extend PFEA or the enactment of any proposed permanent funding legislation will require **Cinergy** to revise its aforementioned funding strategy. **Cinergy** will be closely monitoring developments regarding these legislative items and adjustments to its funding strategy will be made when appropriate.

**Cinergy** sponsors non-qualified pension plans that cover officers, certain key employees, and non-employee directors. **Cinergy's** payments for these non-qualified pension plans are expected to be approximately $10 million in 2006.

We provide certain health care and life insurance benefits to retired United States employees and their eligible dependents. **Cinergy's** payments for these postretirement benefits in 2006 are expected to be approximately $25 million. See Note 11 of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data" for additional information about our pension and other postretirement benefit plans.

*Other Investing Activities*

Our ability to invest in growth initiatives was previously limited by certain legal and regulatory requirements, including the PUHCA 1935. The PUHCA 1935 limited the types of non-utility businesses in which **Cinergy** and other registered holding companies under the PUHCA 1935 could invest as well as the amount of capital that could be invested in permissible non-utility businesses. Pursuant to the Energy Policy Act of 2005, the PUHCA 1935 was repealed effective February 8, 2006 and was replaced with the PUHCA 2005 and other provisions of the Energy Policy Act of 2005 under the jurisdiction of the FERC. Upon the repeal of the PUHCA 1935, the investment restrictions were terminated. For a discussion of the PUHCA 1935 repeal, see "Energy Policy Act of 2005" in "Liquidity and Capital Resources" and "FERC Public Utility Holding Company Act of 2005" in "Future Expectations/Trends."

*Guarantees*

As of December 31, 2005, **Cinergy Corp.** had guaranteed approximately $1.4 billion of obligations recognized on the balance sheets of its consolidated subsidiaries. This amount does not reflect guarantees related to unconsolidated subsidiaries which are disclosed separately pursuant to 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. See Note 13(c)*(iv)* of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data" for further discussion of guarantees.

Our ability to provide guarantees was previously limited by the PUHCA 1935. Pursuant to the Energy Policy Act of 2005, the PUHCA 1935 was repealed effective February 8, 2006 and was replaced with the PUHCA 2005 and other provisions of the Energy Policy Act of 2005, under the jurisdiction of the FERC. Upon the repeal of the PUHCA 1935, the guarantee restrictions were terminated. For a discussion of the PUHCA 1935 repeal, see "Energy Policy Act of 2005" in "Liquidity and Capital Resources" and "FERC Public Utility Holding Company Act of 2005" in "Future Expectations/Trends."

*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 December 31, 2005 trading portfolio, if such an event were to occur, **Cinergy** would be required, based on contractual provisions, to post up to $530 million in additional collateral related to its gas and power trading operations, of which $106 million is related to **CG&E**.

As a consequence of rising commodity prices, as of December 31, 2005, **Cinergy** has posted $168 million in total cash collateral, of which $54 million is related to **CG&E**, and received total cash collateral of $143 million, of which $80 million is related to **CG&E**. Also, **Cinergy** has posted non-cash collateral in the form of letters of credit totaling $358 million, of which $353 million is related to **CG&E**, and received letters of credit totaling $503 million, of which $186 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). See Note 5(c) of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data" for additional information.

*Notes Payable and Other Short–term Obligations*

As a result of the February 8, 2006 repeal of the PUHCA 1935, pursuant to the Energy Policy Act of 2005 (discussed previously in "Energy Policy Act of 2005"), we are no longer required to obtain regulatory authorization from the Securities and Exchange Commission (SEC) in order for **Cinergy Corp.**, **PSI**, and **ULH&P** to issue short–term debt. However, in accordance with provisions of the Federal Power Act and the PUHCA 2005 rules issued by the FERC in December 2005, pursuant to the Energy Policy Act of 2005, **PSI** and **ULH&P** must seek such authorization exclusively from the FERC but are permitted, as a transitional matter through December 31, 2007, to continue to issue short–term debt under an SEC order in effect prior to the repeal of the PUHCA 1935. The Public Utilities Commission of Ohio (PUCO) has regulatory jurisdiction over the issuance of short–term debt by **CG&E**. With the repeal of the PUHCA 1935, no federal or state commission regulates the issuance of short–term debt by **Cinergy Corp**.

At December 31, 2005, the SEC's short–term debt authority for **PSI** and **ULH&P**, under the PUHCA 1935, and **CG&E's** short–term debt authority under the PUCO was as follows:

| | Short–term Regulatory Authority December 31, 2005 (in millions) | |
|---|---|---|
| | Authority | Outstanding |
| **CG&E** and subsidiaries | $ 750 | $ 114 |
| **PSI** | 600 | 250 |
| **ULH&P** | 150 | 30 |

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 borrowing consists 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 December 31, 2005 | | | | |
|---|---|---|---|---|---|
| | Established Lines | Outstanding | Unused | Standby Liquidity(1) | Available Revolving Lines of Credit |
| | | | (in millions) | | |
| **Cinergy** | | | | | |
| **Cinergy Corp.** | | | | | |
| Revolving line(2) | $ 2,000 | $ — | $ 2,000 | $ 873 | $ 1,127 |
| Uncommitted lines | 40 | — | 40 | | |
| Commercial paper(3) | | 515 | | | |
| Utility operating companies | | | | | |
| Uncommitted lines | 75 | — | 75 | | |
| Pollution control notes | | 298 | | | |
| Non-regulated subsidiaries | | | | | |
| Revolving lines(4) | 162 | 77 | 85 | — | 85 |
| Short-term debt | | 9 | | | |
| Pollution control notes | | 25 | | | |
| **Cinergy Total** | | $ 924 | | | $ 1,212 |
| **CG&E** and subsidiaries | | | | | |
| Uncommitted lines | $ 15 | $ — | $ 15 | | |
| Pollution control notes | | 112 | | | |
| Money pool | | 114 | | | |
| **CG&E Total** | | $ 226 | | | |
| **PSI** | | | | | |
| Uncommitted lines | $ 60 | $ — | $ 60 | | |
| Pollution control notes | | 186 | | | |
| Money pool | | 250 | | | |
| **PSI Total** | | $ 436 | | | |
| **ULH&P** | | | | | |
| Money pool | | $ 30 | | | |
| **ULH&P Total** | | $ 30 | | | |

(1) Standby liquidity is reserved against the revolving line of credit to support the commercial paper program and outstanding letters of credit (currently $515 million and $358 million, respectively).

(2) 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 $100 million sublimit for **ULH&P** (which was increased from $65 million in conjunction with its transaction with **CG&E** in which **ULH&P** acquired interests in three of **CG&E's** electric generating stations. See "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 line 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, legal, or material adverse change representations and warranties that were in the credit agreements it replaced.

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** $100 million sublimit under the $2 billion five–year credit facility, **ULH&P** has covenanted to maintain:

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

A breach of these covenants could result in the termination of the credit facility and the acceleration of the related indebtedness. In addition to breaches of covenants, certain other events that could result in the termination of the 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. In no event shall a default on the part of **CG&E**, **PSI**, or **ULH&P** result solely from a default on the part of any other borrower, including **Cinergy**. As of December 31, 2005, **Cinergy**, **CG&E**, **PSI,** and **ULH&P** are in compliance with all of their debt covenants.

*Variable Rate Pollution Control Notes*

**CG&E** and **PSI** have issued certain variable rate pollution control notes (tax-exempt notes obtained to finance equipment or land development for pollution control purposes). Because the holders of these notes have the right to have their notes redeemed on a daily, weekly, or monthly basis, they are reflected in *Notes payable and other short-term obligations* on the Balance Sheets of **Cinergy**, **CG&E**, and **PSI**. At December 31, 2005, **Cinergy**, **CG&E** and **PSI** had $323 million, $112 million and $186 million, respectively, outstanding in variable rate pollution control notes, classified as short-term debt. **ULH&P** had no outstanding short--term pollution control notes. Any short-term

pollution control note borrowings outstanding do not reduce the unused and available short–term debt regulatory authority of **CG&E**, **PSI**, and **ULH&P**. See Note 7 of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary data".

*Commercial Paper*

**Cinergy Corp.'s** commercial paper program is supported by **Cinergy Corp.'s** $2 billion revolving credit facility. 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 December 31, 2005, **Cinergy Corp.** had $515 million in commercial paper outstanding.

*Money Pool*

**Cinergy Corp.**, Services, and our utility operating companies participate in a money pool arrangement to better manage cash and working capital requirements. Under this arrangement, those companies with surplus short–term funds provide short–term loans to affiliates (other than **Cinergy Corp.**) participating under this arrangement. This surplus cash may be from internal or external sources. The amounts outstanding under this money pool arrangement are shown as a component of *Notes receivable from affiliated companies* and/or *Notes payable to affiliated companies* on the Balance Sheets of **CG&E**, **PSI**, and **ULH&P**. Any money pool borrowings outstanding reduce the unused and available short–term debt regulatory authority of **CG&E**, **PSI**, and **ULH&P**.

***Operating Leases***

We have entered into operating lease agreements for various facilities and properties such as computer, communication and transportation equipment, and office space. See Note 8(a) of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data" for additional information regarding operating leases.

***Capital Leases***

Our utility operating companies are able to enter into capital leases subject to the authorization limitations of the applicable state utility commissions. New financing authority is subject to the approval of the respective commissions. **PSI** and **CG&E** have each filed an application with their respective utility commission requesting authority to enter into an additional $100 million of capital leases. An order from the PUCO is expected some time in February 2006, while an order from the Indiana Utility Regulatory Commission (IURC) is not expected until the second quarter of 2006. The following table presents further information related to the capital lease authorizations of **CG&E**, **PSI**, and **ULH&P** at December 31, 2005.

**Capital Lease Authority**
**December 31, 2005**
**(in millions)**

| | Authority | Outstanding | Remaining | Expiration Date |
|---|---|---|---|---|
| **CG&E** and subsidiaries | $ 85 | $ 23 | $ 62 | 12/31/2005 |
| **PSI** | 100 | 9 | 91 | 12/31/2005 |
| **ULH&P** | 25 | 6 | 19 | 12/31/2006 |

See Note 8(b) of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data" for additional information regarding capital leases.

*Long–term Debt*

We are required to secure authority to issue long–term debt from the state utility commissions of Ohio, Kentucky, and Indiana. The respective state utility commissions regulate the issuance of long–term debt by our utility operating companies.

**PSI** and **CG&E** have each filed an application with their respective utility commission requesting authority to issue up to $500 million of first mortgage bonds and senior and junior unsecured, up to $200 million of preferred securities, and up to $250 million of tax–exempt pollution control debt. We received an order from the PUCO approving our request in February 2006, while an order from the IURC is not expected until the second quarter of 2006.

A summary of our long–term debt authorizations at December 31, 2005, was as follows:

| | Authorized | Used | Available |
|---|---|---|---|
| | | (in millions) | |
| **Cinergy Corp.** | | | |
| Total capitalization(1) | $ 4,000 | $ 2,022 | $ 1,978 |
| **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 | $ 350 | $ 150 |
| State Public Utility Commission – Tax–Exempt(4) | 250 | 150 | 100 |
| **ULH&P** | | | |
| State Public Utility Commission(5) | $ 75 | $ — | $ 75 |

(1) **Cinergy's** ability to issue long–term debt was previously limited by the PUHCA 1935. Pursuant to the Energy Policy Act of 2005, the PUHCA 1935 was repealed effective February 8, 2006 and was replaced with the PUHCA 2005 and other provisions of the Energy Policy Act of 2005 under the jurisdiction of the FERC. Upon the repeal of the PUHCA 1935, the long–term debt restrictions were terminated. For a discussion of the PUHCA 1935 repeal, see "Energy Policy Act of 2005" in "Liquidity and Capital Resources" and "FERC Public Utility Holding Company Act of 2005" in "Future Expectations/Trends."

(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 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 was predicated, in part, upon the completion of its transaction with **CG&E** in which **ULH&P** acquired interests in three of **CG&E's** electric generating stations. See "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 approximately $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, of which $450 million remains available for issuance. We have filed a post effective amendment to deregister **ULH&P's** securities.

*Off–Balance Sheet Arrangements*

**Cinergy** uses off–balance sheet arrangements from time to time to facilitate financing of various projects. Off–balance sheet arrangements are often created for a single specified purpose, for example, to facilitate securitization, leasing, hedging, or other transactions or arrangements. The following describes our major off–balance sheet arrangements excluding the investments **Cinergy** holds in various unconsolidated subsidiaries which are accounted for under the equity method. See Note 1(d)(*ii*) of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data" for additional information on the accounting for equity method investments.

*(i) Guarantees*

**Cinergy** has entered into various contracts that are classified as guarantees under Interpretation 45. For further information, see Note 13(c)(*iv*) of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data".

*(ii) Retained Interest in Assets Transferred to an Unconsolidated Entity*

**CG&E**, **PSI**, and **ULH&P** have an agreement to sell certain of their accounts receivable and related collections. **Cinergy Corp.** formed Cinergy Receivables to purchase, on a revolving basis, nearly all of the retail accounts receivable and related collections of **CG&E**, **PSI**, and **ULH&P**. **Cinergy Corp.** does not consolidate Cinergy Receivables since it meets the requirements to be accounted for as a qualifying SPE. **CG&E**, **PSI**, and **ULH&P** each retain an interest in the receivables transferred to Cinergy Receivables. The transfer of receivables are accounted for as sales, pursuant to SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. For a more detailed discussion of our sales of accounts receivable, see Note 5(c) of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data".

*(iii) Derivative Instruments that are Classified as Equity*

In 2001, **Cinergy Corp.** issued approximately $316 million notional amounts 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** Balance Sheets as Common Stock Equity. For further information see Note 5(b) of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data".

*(iv) Variable Interest Entities (VIE)*

**Cinergy** holds interests in VIEs, consolidated and unconsolidated, as defined by Interpretation 46. For further information, see Note 5(d) of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data".

*Securities Ratings*

As of January 31, 2006, the major credit rating agencies rated our securities as follows:

| | Fitch(1) | Moody's(2) | S&P(3) |
|---|---|---|---|
| **Cinergy Corp.** | | | |
| 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 Aaal, 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 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 "Item 1. Business – Pending Merger" for a further discussion of the transaction.

In December 2005, Fitch elected to change the ratings methodology used to evaluate **Cinergy Corp.** as well as other companies. The result of this change in methodology was a one level decrease in the ratings of **Cinergy Corp.** This methodology change was not characterized by Fitch as a downgrade and was not caused by any change in the credit fundamentals of **Cinergy**.

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*

With the repeal of the PUHCA 1935, **Cinergy** is no longer subject to the SEC PUHCA 1935 capitalization limitations. See "Energy Policy Act of 2005" as previously discussed and "FERC Public Utility Holding Company Act of 2005" in "MD&A – Future Expectations/Trends."

**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. **Cinergy Corp.** issued approximately 3.0 million shares in 2005 and approximately 3.9 million shares in 2004 to satisfy its obligations under these plans.

In December 2004, **Cinergy Corp.** issued 6.1 million shares of common stock under its January 2003 $750 million registration statement with the SEC. The net proceeds of $247 million were used to reduce short–term indebtedness.

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. See Note 5(b) of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data" for further discussion of the securities.

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.

In January 2006, **CG&E** contributed approximately $140 million in capital to **ULH&P** in conjunction with the transfer of certain generating assets to **ULH&P**. See Note 22 of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data" for additional information.

**Cinergy Corp.** owns all of the common stock of **CG&E** and **PSI**. All of **ULH&P's** common stock is held by **CG&E**.

***Dividend Restrictions***

**Cinergy Corp.'s** ability to pay dividends to holders of its common stock is principally dependent on the ability of **CG&E** and **PSI** to pay **Cinergy Corp.** dividends on their common stock. **Cinergy Corp.**, **CG&E**, and **PSI** cannot pay dividends on their common stock if their respective preferred stock dividends or preferred trust dividends are in arrears. The amount of common stock dividends that each company can pay is also limited by certain capitalization and earnings requirements under **CG&E's** and **PSI's** credit instruments. Currently, these requirements do not impact the ability of either company to pay dividends on its common stock. In addition, until consummation or termination of the merger with Duke, **Cinergy** is prohibited from paying dividends in excess of its historical levels without prior consent of Duke.

***Other***

Where subject to rate regulations, our utility operating companies have the ability to timely recover certain cash outlays through various regulatory mechanisms.

As opportunities arise, we will continue to monetize certain non–core investments, which would include our international assets and other technology investments.

## 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 and Significant Rate Developments*

Currently, regulatory and legislative initiatives shaping the transition to a competitive retail market are the responsibilities of the individual states. Many states, including Ohio, have enacted electric utility deregulation legislation. In general, these initiatives have sought to separate the electric utility service into its basic components (generation, transmission, and distribution) and offer each component separately for sale. This separation is referred to as unbundling of the integrated services. Under the customer choice initiative in Ohio, we continue to transmit and distribute electricity; however, the customer can purchase electricity from any certified supplier. The following sections further discuss the current status of deregulation legislation and other significant regulatory developments in the states of Ohio, Indiana, and Kentucky, which encompass our utility service territories.

*Ohio*

Transfer of Duke Generating Assets

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, with respect to one plant located in Indiana the IURC. The FERC approved this transaction in December 2005. **CG&E** and the Duke affiliate that owns the interest in the Indiana plant filed an application with the IURC requesting approval for the transfer (as well as the declination by the IURC of jurisdiction over **CG&E** following the transfer) in October 2005. A final order approving the transfer and the IURC's declination of jurisdiction over **CG&E** was received in February 2006. Duke and **Cinergy** intend to effectuate the transfer as an equity infusion into **CG&E** at book value. In conjunction with the transfer, Duke Capital LLC, a subsidiary of Duke, and **CG&E** intend to enter into a financial arrangement covering a multi–year period, to eliminate any potential cash shortfalls that may result from **CG&E** owning and operating the five stations. At this time, we cannot predict the outcome of this matter.

CG&E Electric Rate Filing

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

In March 2005, the Ohio Consumers' Counsel appealed the Commission's approval of the RSP to the Supreme Court of Ohio. We expect the court to decide the case in 2006. **CG&E** cannot predict the outcome of this matter.

**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.

The RSP provides for rate recovery through December 31, 2008. Although it is difficult to predict, it is likely that any one of three scenarios could exist after the rate stabilization period ends in 2008:

- The legislation could be repealed or revised to establish a return to regulation of electric generation;
- Deregulation and a competitive retail electric service market with market–based rates for all customer classes; or

- A hybrid of regulation and deregulation.

Although we cannot predict the regulatory outcome, we believe any of these scenarios could have a material impact on our financial position and results of operations. However, we believe that a return to regulation of electric generation would provide the least volatility in ongoing results, although likely accompanied by less opportunity for growth in earnings. See "**CG&E** Electric Rate Stabilization Plan" in "Item 1 – Business" for further discussion on RSP.

In December 2004, **CG&E** filed an application with the PUCO requesting recovery of future costs of additional generating facilities in Ohio, for either construction of new electric generating facilities or the purchase of existing assets currently owned by others. **CG&E** would seek recovery of these costs over the lives of the assets. These investments are needed to meet ongoing load growth by customers receiving generation service from **CG&E** and would enable the company to reliably meet its obligation as the provider of last resort for customers returning to **CG&E** from alternate suppliers. To maintain flexibility in providing electric service at the lowest cost, **CG&E** is also seeking the authority to purchase existing capacity and power from other suppliers and to earn a return commensurate with the risk from these agreements.

*Indiana*

We are not aware of any current plans for electric deregulation in Indiana.

Wheatland Generating Facility Acquisition

In August 2005, **PSI** acquired 100 percent of the 488 megawatts (MW) Wheatland Generating Facility from Allegheny Energy, Inc. 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. The facility's 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 an IGCC generating station to help meet increased demand over the next decade. **PSI** would be a majority owner of the facility and operate it. 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 carbon dioxide upstream of the combustion process at a lower cost than conventional plants. In August 2005, **PSI** and Vectren Energy Delivery of Indiana, Inc. 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 as discussed in Note 13(a)(*i*) of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data", 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.

*Kentucky*

We are not aware of any current plans for electric deregulation in Kentucky.

In January 2006, **ULH&P** completed the transfer from **CG&E** 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. The transaction was effective as of January 1, 2006 at net book value. The final required regulatory approval was received in November 2005 from the SEC under the PUHCA of 1935. The KPSC and the FERC had earlier issued orders approving aspects of the transaction. The transaction will not affect current retail electric rates for **ULH&P's** customers. Updated rates are expected to be implemented January 1, 2007 pursuant to a rate case to be filed in 2006 that incorporates the value of these assets into **ULH&P's** rate base.

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

| | (in millions) |
|---|---|
| Assets Received | |
| Generating Assets | $ 376 |
| Inventory | 24 |
| **Total Assets Received** | $ 400 |
| Liabilities Assumed | |
| Debt | $ 77 |
| Accounts payable to affiliated companies | 90 |
| Deferred tax liabilities | 91 |
| Other | 2 |
| **Total Liabilities Assumed** | $ 260 |
| **Contributed Capital from CG&E** | $ 140 |

As part of this transaction, **CG&E** and **ULH&P** terminated the long–term wholesale power contract under which **CG&E** had previously supplied power to **ULH&P**. Further, **CG&E** also proposed to supply and **ULH&P** agreed to purchase back–up power from **CG&E** for planned and unplanned outages of the three generating plants through December 31, 2009 pursuant to a draft contract. The parties never executed this draft contract and **ULH&P** currently purchases backup power, when needed, through the Midwest ISO energy markets. Given changes in circumstances, including the implementation of the Midwest ISO Energy Markets Tariff, **CG&E** and **ULH&P** are planning to propose an alternative arrangement for supplying back–up power to **ULH&P**. At this time, whether and the conditions under which the KPSC may allow **ULH&P** to recover any increased costs for an alternative arrangement for the supply of back–up power are unknown and **CG&E** and **ULH&P** cannot determine the magnitude of any potential increased costs for back–up power.

**ULH&P** retail generation rates, including fuel cost recovery, are frozen until January 1, 2007. During 2006, fluctuation in fuel costs will cause volatility in **ULH&P's** earnings.

*FERC*

The FERC has issued several notices of proposed rulemakings and inquiry on a variety of matters to implement provisions of the Energy Bill, among other things. In certain of the rulemaking proceedings, FERC has issued final rules. At this time, we cannot predict the outcome of these matters and whether they will have a material effect on our financial position or results of operations.

*FERC Public Utility Holding Company Act of 2005*

The Energy Policy Act of 2005, among other provisions, repealed the PUHCA 1935 and replaced it with the PUHCA 2005, effective February 8, 2006. The net effect of these legislative changes was to abolish the regulatory regime imposed under the PUHCA 1935, while at the same time enhancing FERC's authority over mergers, acquisitions and dispositions, together with, pursuant to the provisions of the PUHCA 2005, FERC's authority over books and records of holding companies, in order to assist the FERC and state utility regulators in protecting customers of regulated utilities. Among other provisions, the PUHCA 2005 grants FERC increased access to books

and records of holding companies and their affiliates and provides that, upon the request of a holding company system or state commission, the FERC will review and authorize the allocation of costs for non–power goods and services by centralized service companies to affiliates within holding company systems. In December 2005, the FERC adopted final rules further implementing the provisions of the PUHCA 2005. Among other things, these rules imposed certain limited filing and reporting obligations on holding companies such as **Cinergy**. See "Energy Policy Act of 2005" in "Liquidity and Capital Resources" for additional information on the Energy Policy Act of 2005.

*FERC's Market Screen Orders*

In April 2004, the FERC issued an order establishing a new, interim set of market power screens for use in evaluating sales of wholesale power at market–based rates. In July 2004, the FERC issued an order generally affirming that order. In April 2004, the FERC also commenced a rulemaking to evaluate whether its overall test for market–based rates should be continued, and to determine a permanent market power test to replace the interim test. That rulemaking process remains pending. Under FERC's currently effective generation market power screen, in a November 2005 order approving market–based rate tariffs for **PSI**, **ULH&P**, and Cinergy Marketing and Trading, LP (Marketing & Trading), FERC found that its generation market power standard was satisfied for approval of market–based rate authority. Should it ever be determined that **Cinergy** has market power in generation, and we are unable to successfully challenge this conclusion, it could result in the loss of market–based rate authority in certain regions of the wholesale market. Assuming such loss of market–based rate authority, **Cinergy** would be required to charge certain wholesale customers cost–based rates for wholesale sales of electricity. In February 2005, the FERC issued final rules that could require FERC review of previously granted authorization to sell at existing market–based rates. At this time, we cannot predict the outcome of these matters and whether they will have a material effect on our financial position or results of operations.

*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 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 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 December 31, 2005, we have capitalized $61 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 will result in refunds being provided to customers beginning in March 2006.

*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. Natural gas prices remained in the $12 per Mcf range for the remainder of 2005. Winter delivery prices for early 2006 remained in the $11 – $12 per Mcf range in the midwest or about 40 percent greater than last winter. Forward prices for the remainder of 2006 have now fallen below $10 per Mcf as more of the damaged Gulf Coast infrastructure comes online. 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 because 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 SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (Statement 133).

**Inflation**

We believe that the recent inflation rates do not materially impact our financial condition. However, under existing regulatory practice for all of **PSI**, **ULH&P**, and the non–generating portion of **CG&E**, only the historical cost of plant is recoverable from customers. As a result, cash flows designed to provide recovery of historical plant costs may not be adequate to replace plant in future years.

**Other Matters**

*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 IRC if certain requirements are satisfied. **Cinergy's** sale of synthetic fuel has generated $339 million in tax credits through December 31, 2005. The 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 $339 million in previously claimed Section 29/45K tax credits for synthetic fuel produced by the applicable **Cinergy** facilities and a loss of our ability to claim future Section 29/45K 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 29/45K.

Section 29/45K 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 that for 2006 and 2007, the amount of the tax credits could be reduced. If oil prices are high enough, we will 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 twelve months ended December 31, 2005 was approximately $58 million. The net book value of our plants at December 31, 2005 was approximately $47 million.

*Consolidation of Cinergy's Power and Gas Marketing and Trading Businesses*

**Cinergy** intends to consolidate **CG&E's** power marketing and trading business into Marketing & Trading, its affiliate that primarily conducts gas marketing and trading. Counterparties will have a single set of contacts for credit, contracting, scheduling and settlements, as well as the ability to offset positions between natural gas and power. The consolidation should be largely complete by the end of the third quarter of 2006. In 2005, power marketing and trading comprised approximately 15 percent of **CG&E's** net income.

*Workforce Issues*

Between 2006 and 2013, 43 percent of our workforce will be eligible for retirement. The loss of these employees could have a negative impact on **Cinergy's** overall operations. **Cinergy** is preparing for this loss by (a) understanding our current employee profile (demographics), (b) identifying critical positions (considered core to our business and that have licensing or lengthy apprenticeship requirements associated with them), and (c) preparing an action plan. The action plan involves long–term staffing plans including such things as detailed recruitment plans, the utilization of co–ops and interns, identification of key employees, and strong succession planning. We will also use senior and phased retirement programs that allow new employees to train and consult with experienced

highly–skilled employees post– and pre–retirement. In addition, we are exploring ways of accelerating and enhancing our training programs through collaboration with area educational institutions and other third party providers.

In conjunction with the pending merger, there is an anticipated reduction of approximately 1,500 employees of the combined company, from the May 2005 merger announcement, in various departments following consummation of

the merger. In February 2006, **Cinergy** adopted a severance benefits plan that will be binding on Duke Energy Holding Corp. after the consummation of **Cinergy's** merger with Duke. The purpose of the plan is to provide certain benefits to qualifying employees of **Cinergy** whose employment is terminated in connection with the merger. This plan included a Voluntary Severance Program to targeted groups of employees with an election window from February 1 – 21, 2006 and is contingent on the successful consummatic of the merger. At this time, we cannot predict the number of employees that will be voluntarily severed.

## 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.

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. See "Consolidation of **Cinergy's** Power and Gas Marketing and Trading Business" in "Future Expectations/Trends – Other Matters."

Our domestic operations market and trade over–the–counter (an informal market where the buying/selling of commodities occurs) contracts for the purchase and sale of electricity (primarily in the midwest region of the United States), natural gas, and other energy–related products, including coal and emission allowances. Our natural gas domestic operations provide services that manage storage, transportation, gathering and processing activities. In addition, our domestic operations also market and trade natural gas and other energy–related products on the New York Mercantile Exchange.

Marketing & Trading's natural gas marketing and trading operations also extend to Canada where natural gas marketing and management services are provided to producers and industrial customers. Our Canadian operations also market and trade over–the–counter contracts as well as energy–related products on the New York Mercantile Exchange.

Many of these energy commodity contracts commit us to purchase or sell electricity, natural gas, and other energy–related products at fixed prices in the future. The majority of the contracts in the natural gas and other energy–related product portfolios are financially settled contracts (i.e., there is no physical delivery related with these items). In addition, Commercial also markets and trades over–the–counter option contracts. The use of these types of commodity instruments is designed to allow Commercial to:

- manage and economically hedge contractual commitments;
- reduce exposure relative to the volatility of cash market prices;
- take advantage of selected arbitrage opportunities; and
- originate customized transactions with municipalities and end–use customers.

Commercial structures and modifies its net position to capture the following:

- expected changes in future demand;
- seasonal market pricing characteristics;
- overall market sentiment; and

- price relationships between different time periods and trading regions.

At times, a net open position is created or is allowed to continue when Commercial believes future changes in prices and market conditions may possibly result in profitable positions. Position imbalances can also occur due to the basic lack of liquidity in the wholesale power market. The existence of net open positions can potentially result in an adverse impact on our financial condition or results of operations. This potential adverse impact could be realized if the market price of electric power does not react in the manner or direction expected. **Cinergy's** Risk Management Control Policy contains limits associated with the overall size of net open positions for each trading operation.

*Trading Portfolio Risks*

Commercial measures the market risk inherent in the trading portfolio employing value at risk (VaR) analysis and other methodologies, which utilize forward price curves in electric power and natural gas markets to quantify estimates of the magnitude and probability of future value changes related to open contract positions. VaR is a statistical measure used to quantify the potential change in fair value of the trading portfolio over a particular period of time, with a specified likelihood of occurrence, due to market movement. Commercial, through some of our non–regulated subsidiaries, markets physical natural gas and electricity and trades derivative commodity instruments which are usually settled in cash including: forwards, futures, swaps, and options.

Any proprietary trading transaction, whether settled physically or financially, is included in the VaR calculation.

Our VaR is reported based on a 95 percent confidence interval, utilizing a one–day holding period. This means that on a given day (one–day holding period) there is a 95 percent chance (confidence level) that our trading portfolio will not lose more than the stated amount. We calculate VaR using a Monte Carlo simulation methodology using implied forward–looking volatilities and historical correlations.

The VaR for **Cinergy's** and **CG&E's** trading portfolio is presented in the table below:

**VaR Associated with Energy Trading Contracts**

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | Trading VaR | Percentage of Operating Income | Trading VaR | Percentage of Operating Income |
| | (dollars in millions) | | | |
| **Cinergy** | | | | |
| 95% confidence level, one–day holding period, one–tailed December 31 | **$ 2.7** | **0.3 %** | $ 1.9 | 0.3 % |
| Average for the twelve months ended December 31 | **3.4** | **0.4** | 2.4 | 0.3 |
| High for the twelve months ended December 31 | **6.6** | **0.8** | 5.8 | 0.8 |
| Low for the twelve months ended December 31 | **1.0** | **0.1** | 0.7 | 0.1 |
| **CG&E** | | | | |
| 95% confidence level, one–day holding period, one–tailed December 31 | **$ 1.1** | **0.2 %** | $ 1.2 | 0.2 % |
| Average for the twelve months ended December 31 | **1.8** | **0.3** | 1.4 | 0.3 |
| High for the twelve months ended December 31 | **3.4** | **0.6** | 4.6 | 0.9 |
| Low for the twelve months ended December 31 | **0.7** | **0.1** | 0.3 | 0.1 |

*Changes in Fair Value*

The changes in fair value of the energy risk management assets and liabilities for **Cinergy** and **CG&E** for the years ended December 31, 2005 and 2004 are presented in the table below. **PSI** has not originated new power marketing and trading contracts since April of 2002 and therefore we have not presented **PSI** separately in the fair value tables below.

| | Change in Fair Value | | | |
|---|---|---|---|---|
| | 2005 | | 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 |
| Changes in fair value attributable to changes in valuation techniques and assumptions(2) | (3) | (3) | (5) | (4) |
| Other changes in fair value(3) | 20 | — | 185 | 70 |
| Option premiums paid/(received) | 16 | 15 | 5 | 6 |
| Contracts settled | (126) | (60) | (144) | (56) |
| Contract acquisition(4) | (40) | — | — | — |
| Fair value of contracts outstanding at end of period | $ (51) | $ (12) | $ 82 | $ 36 |

(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.

(4) Represents a gas sales contract acquired at fair market value.

The following are the balances at December 31, 2005 and 2004 of our energy risk management assets and liabilities:

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | Cinergy(1) | CG&E | Cinergy(1) | CG&E |
| | (in millions) | | | |
| Energy risk management assets – current | $ 991 | $ 544 | $ 381 | $ 149 |
| Energy risk management assets – non-current | 307 | 180 | 139 | 47 |
| Energy risk management liabilities – current | (1,011) | (552) | (311) | (120) |
| Energy risk management liabilities – non-current | (338) | (184) | (127) | (40) |
| | $ (51) | $ (12) | $ 82 | $ 36 |

(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 December 31, 2005 for **Cinergy** and **CG&E**:

| | Fair Value of Contracts at December 31, 2005 | | | | |
|---|---|---|---|---|---|
| | Maturing | | | | Total |
| Source of Fair Value(1) | 2006 | 2007–2008 | 2009–2010 | Thereafter | Fair Value |
| | | | (in millions) | | |
| **Cinergy(2)** | | | | | |
| Prices actively quoted | $ 42 | $ 4 | $ 8 | $ — | $ 54 |
| Prices based on models and other valuation methods | (60) | (33) | (10) | (2) | (105) |
| Total | $ (18) | $ (29) | $ (2) | $ (2) | $ (51) |
| **CG&E** | | | | | |
| Prices actively quoted | $ 22 | $ 14 | $ 5 | $ — | $ 41 |
| Prices based on models and other valuation methods | (31) | (14) | (8) | — | (53) |
| Total | $ (9) | $ — | $ (3) | $ — | $ (12) |

(1) While liquidity varies by trading regions, prices actively quoted includes periods and locations for which quotes are regularly received from at least one source. This includes both exchange traded positions as well as over–the–counter positions quoted by brokers. 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.

***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 SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities* (Statement 149), most forward power transactions and certain coal 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 mark–to–market gains or losses from changes in the value of the contracts accounted for using fair value. A hypothetical $1.00 per MWh change consistently applied to all forward power prices would have resulted in a change in fair value of these contracts of approximately $4.8 million as of December 31, 2005. 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 $2.7 million as of December 31, 2005.

**Cinergy** is exposed to risk from changes in the market prices of fuel (primarily coal) and emission allowances to the extent the risk is not mitigated by regulatory recovery mechanisms in Ohio and Indiana. To the extent we must purchase fuel or emission allowances in a rising price environment, increased cost of electricity production could result without a corresponding increase in revenue. **Cinergy** manages this risk through the use of long–term fixed price fuel contracts and acquisitions of emission allowances. These risks at **CG&E** were partially mitigated in 2005 and are significantly mitigated from 2006 through 2008 by a retail fuel cost recovery mechanism established in Ohio as part of the RSP for non–residential customers beginning January 1, 2005 and for residential customers beginning January 1, 2006. This mechanism recovers costs for fuel and emission allowances that exceed the amount originally included in the rates frozen in the **CG&E** transition plan through December 31, 2008. **PSI** continues to be protected against market price changes of fuel and emission allowances costs incurred for its retail customers by the use of cost tracking and recovery mechanisms in the state of Indiana. In conjunction with the transfer of assets from **CG&E** to **ULH&P**, the transaction will not affect electric rates for **ULH&P** in 2006. Updated rates are expected to be implemented January 1, 2007 pursuant to a rate case to be filed in 2006 that incorporates these assets. Fluctuations in coal and emission allowance prices could impact **ULH&P's** 2006 risks. See "Future Expectations/Trends – Kentucky" for additional information.

*Credit Risk*

Credit risk is the exposure to economic loss that would occur as a result of nonperformance by counterparties, pursuant to the terms of their contractual obligations. Specific components of credit risk include counterparty default risk, collateral risk, concentration risk, and settlement risk.

*Trade Receivables and Physical Power Portfolio*

Our concentration of credit risk with respect to trade accounts receivable from electric and gas retail customers is limited. The large number of customers and diversified customer base of residential, commercial, and industrial customers significantly reduces our credit risk. Contracts within the physical portfolio of power marketing and trading operations are primarily with traditional electric cooperatives and municipalities and other investor–owned utilities. At December 31, 2005, we believe the likelihood of significant losses associated with credit risk in our trade accounts receivable or physical power portfolio is remote.

*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 well as the expected maturities of those exposures as of December 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. As previously discussed, **PSI's** remaining contracts are not material; therefore, we have not presented **PSI** separately in the credit risk tables below.

**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) | $ 1,203 | $ 252 | $ 951 | 75% | — | $ — |
| Internally Rated–Investment Grade(3) | 355 | 105 | 250 | 20 | — | — |
| Non–Investment Grade | 109 | 76 | 33 | 2 | — | — |
| Internally Rated–Non–Investment Grade | 78 | 37 | 41 | 3 | — | — |
| Total | $ 1,745 | $ 470 | $ 1,275 | 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) | $ 361 | $ 132 | $ 229 | 67% | — | $ — |
| Internally Rated–Investment Grade(2) | 117 | 44 | 73 | 22 | 1 | 62 |
| Non–Investment Grade | 45 | 27 | 18 | 5 | — | — |
| Internally Rated–Non–Investment Grade | 36 | 16 | 20 | 6 | — | — |
| Total | $ 559 | $ 219 | $ 340 | 100% | 1 | $ 62 |

(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.

*Financial Derivatives*

Potential exposure to credit risk also exists from our use of financial derivatives such as interest rate swaps and treasury locks. Because these financial instruments are transacted with highly rated financial institutions, we do not anticipate nonperformance by any of the counterparties.

***Risk Management***

We manage, on a portfolio basis, the market risks in our energy marketing and trading transactions subject to parameters established by our Risk Policy Committee. Our market and credit risks are monitored by the Global Risk Management function to ensure compliance with stated risk management policies and procedures. The Global Risk Management function operates independently from the business units, which originate and actively manage the market risk exposures. Policies and procedures are periodically reviewed to assess their responsiveness to changing market and business conditions. Credit risk mitigation practices include requiring parent company guarantees, various forms of collateral, and the use of mutual netting/closeout agreements.

**Exchange Rate Sensitivity**

**Cinergy** has exposure to fluctuations in exchange rates between the United States dollar and the currencies of foreign countries where we have investments. When it is appropriate we will hedge our exposure to cash flow transactions.

**Interest Rate Sensitivity**

Our net exposure to changes in interest rates primarily consists of short–term debt instruments (including net money pool borrowings) and variable–rate pollution control debt. The following table reflects the different instruments used and the method of benchmarking interest rates, as of December 31, 2005:

| | Interest Benchmark | | 2005 (in millions) |
|---|---|---|---|
| Short–term Bank Loans/Commercial Paper/Money Pool | • Short–term Money Market | **Cinergy** | $ 601 |
| | • Commercial Paper Composite Rate(1) | **CG&E** and subsidiaries | 114 |
| | | **PSI** | 250 |
| | • LIBOR(2) | **ULH&P** | 30 |
| Pollution Control Debt | • Daily Market | **Cinergy** | 841 |
| | • Weekly Market | **CG&E** and subsidiaries | 290 |
| | • Auction Rate | **PSI** | 526 |

(1) 30–day Federal Reserve "AA" Industrial Commercial Paper Composite Rate

(2) London Inter–Bank Offered Rate

The weighted–average interest rates on the previously discussed instruments at December 31, were as follows:

| | 2005 |
|---|---|
| Short–term Bank Loans/Commercial Paper | **4.6%** |
| Money Pool | **4.4%** |
| Pollution Control Debt | **3.4%** |

At December 31, 2005, forward yield curves project an increase in applicable short–term interest rates over the next five years.

The following table presents principal cash repayments, by maturity date and other selected information, for each registrant's long–term debt, other debt, and capital lease obligations as of December 31, 2005:

| Liabilities | Expected Maturity Date 2006 | 2007 | 2008 | 2009 | 2010 | Thereafter | Total | Value |
|---|---|---|---|---|---|---|---|---|
| | | | | (in millions) | | | | |
| **Cinergy** | | | | | | | | |
| Long–term Debt(1)(2) | $ 325 | $ 368 | $ 513 | $ 243 | $ 2 | $ 2,740 | $ 4,191 | $ 4,241 |
| Weighted–average interest rate(3) | 6.7% | 7.6% | 6.4% | 7.4% | 6.0% | 5.4% | 5.9% | |
| Other(4) | $ 27 | $ 361 | $ 37 | $ 28 | $ 17 | $ 132 | $ 602 | $ 637 |
| Weighted–average interest rate(3) | 7.3% | 6.9% | 7.0% | 6.8% | 6.3% | 7.1% | 7.0% | |
| Capital Leases | | | | | | | | |
| Fixed–rate leases | $ 8 | $ 9 | $ 11 | $ 11 | $ 9 | $ 26 | $ 74 | $ 74 |
| Interest rate(3) | 5.3% | 5.3% | 5.2% | 5.1% | 5.0% | 5.1% | 5.5% | |
| **CG&E** and subsidiaries | | | | | | | | |
| Long–term Debt(2) | $ — | $ 100 | $ 120 | $ 20 | $ — | $ 1,390 | $ 1,630 | $ 1,645 |
| Weighted–average interest rate(3) | —% | 6.9% | 6.4% | 7.9% | —% | 5.5% | 5.7% | |
| Capital Leases | | | | | | | | |
| Fixed–rate leases | $ 5 | $ 5 | $ 6 | $ 7 | $ 6 | $ 19 | $ 48 | $ 48 |
| Interest rate(3) | 5.2% | 5.2% | 5.2% | 5.1% | 5.0% | 5.2% | 5.5% | |
| **PSI** | | | | | | | | |
| Long–term Debt(2) | $ 325 | $ 268 | $ 43 | $ 223 | $ 2 | $ 1,342 | $ 2,203 | $ 2,224 |
| Weighted–average interest rate(3) | 6.7% | 7.8% | 6.4% | 7.3% | 6.0% | 5.3% | 6.0% | |
| Capital Leases | | | | | | | | |
| Fixed–rate leases | $ 3 | $ 3 | $ 5 | $ 4 | $ 3 | $ 8 | $ 26 | $ 26 |
| Interest rate(3) | 5.3% | 5.3% | 5.2% | 5.1% | 4.9% | 4.9% | 5.6% | |
| **ULH&P** | | | | | | | | |
| Long–term Debt | $ — | $ — | $ 20 | $ 20 | $ — | $ 55 | $ 95 | $ 97 |
| Weighted–average interest rate(3) | —% | —% | 6.5% | 7.9% | —% | 5.7% | 6.3% | |
| Capital Leases | | | | | | | | |
| Fixed–rate leases | $ 1 | $ 1 | $ 2 | $ 2 | $ 1 | $ 5 | $ 12 | $ 12 |
| Interest rate(3) | 5.5% | 5.5% | 5.4% | 5.3% | 5.2% | 6.1% | 6.1% | |

(1) Includes amounts related to non–registrants.

(2) Long–term Debt includes amounts reflected as *Long–term debt due within one year.*

(3) The weighted–average interest rate is calculated as follows: (1) for Long–term Debt and Other, the weighted–average interest rate is based on the interest rates at December 31, 2005 of the debt that is maturing in the year reported and includes the effects of an interest rate swap that fixes the interest payments differently from the stated rate; and (2) for Capital Leases, the weighted–average interest rate is based on the average interest rate of the lease payments made during the year reported.

(4) Promissory notes and long–term notes payable related to investments under Cinergy Global Resources, Inc., Cinergy Investments, Inc., and debt related to CC Funding Trust. See Note 5(b) of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data" for a discussion of the debt associated with the CC Funding Trust.

Our current policy in managing exposure to fluctuations in interest rates is to maintain approximately 30 percent of the total amount of outstanding debt in variable interest rate debt instruments. In maintaining this level of exposure, we use interest rate swaps. Under

the swaps, we agree with other parties to exchange, at specified intervals, the difference between fixed–rate and variable–rate interest amounts calculated on an agreed upon notional amount. In the future, we will continually monitor market conditions to evaluate whether to modify our level of exposure to fluctuations in interest rates.

**CG&E** has an outstanding interest rate swap agreement that decreased the percentage of variable–rate debt. See Note 9(a) of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data" for additional information on financial derivatives.

## ACCOUNTING MATTERS

### Critical Accounting Estimates

Preparation of financial statements and related disclosures in compliance with general accepted accounting principles (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.

These critical accounting estimates should be read in conjunction with the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data". We have other accounting policies that we consider to be significant; however, these policies do not meet the definition of critical accounting estimates, because they generally do not require us to make estimates or judgments that are particularly difficult or subjective.

#### *Fair Value Accounting for Energy Marketing and Trading*

We use fair value accounting for energy trading contracts, which is required, with certain exceptions, by Statement 133. Short–term contracts used in our trading activities are generally priced using exchange–based or over–the–counter price quotes. Long–term contracts typically must be valued using less actively quoted prices or valuation models. Use of model pricing requires estimating surrounding factors such as volatility and price curves beyond what is actively quoted in the market. In addition, some contracts do not have fixed notional amounts and therefore must be valued using estimates of volumes to be consumed by the counterparty. See "Changes in Fair Value" in "Market Risk Sensitive Instruments" for additional information.

We measure these risks by using complex analytical tools, both external and proprietary. These models are dynamic and are continuously updated with the most recent data to improve assessments of potential future outcomes. We measure risks for contracts that do not contain fixed notional amounts by obtaining historical data and projecting expected consumption. These models incorporate expectations surrounding the impacts that weather may play in future consumption. The results of these measures assist us in managing such risks within our portfolio. We also have a Global Risk Management function within **Cinergy** that is independent of the marketing and trading function and is under the oversight of a Risk Policy Committee comprised primarily of senior company executives. This group provides an independent evaluation of both forward price curves and the valuation of energy contracts. See "Trading Portfolio Risks" in "Market Risk Sensitive Instruments" for additional information.

There is inherent risk in valuation modeling given the complexity and volatility of energy markets. Fair value accounting has risk, including its application to short–term contracts, as gains and losses recorded through its use are not yet realized. Therefore, it is possible that results in future periods may be materially different as contracts are ultimately settled. We monitor potential losses using VaR analysis. As previously discussed, our one–day VaR at December 31, 2005, assuming a 95 percent confidence level, was approximately $2.7 million, which means there is a 95 percent statistical chance (based on market implied volatilities) that any adverse moves in the value of our portfolio over one day will be less than the reported amount. In addition, our five–day VaR at December 31, 2005, assuming the same 95 percent confidence level, was approximately $6.1 million.

For financial reporting purposes, assets and liabilities associated with energy trading transactions accounted for using fair value are reflected on the Balance Sheets as *Energy risk management assets current* and *non–current* and *Energy risk management liabilities current* and *non–current*, classified as current or non–current pursuant to each contract's length. Net gains and losses resulting from revaluation of contracts during the period are recognized currently in the Statements of Income.

***Regulatory Accounting***

**CG&E**, **PSI**, and **ULH&P** are regulated utility companies. Except with respect to the electric generation–related assets and liabilitie of **CG&E**, the companies apply the provisions of SFAS No. 71, *Accounting for the Effects of*

*Certain Types of Regulation* (Statement 71). In accordance with Statement 71, regulatory actions may result in accounting treatment different from that of non-rate regulated companies. The deferral of costs (as regulatory assets) or amounts provided in current rates to cover costs to be incurred in the future (as regulatory liabilities) may be appropriate when the future recovery or refunding of such costs is probable. In assessing probability, we consider such factors as regulatory precedent and the current regulatory environment. To the extent recovery of costs is no longer deemed probable, related regulatory assets would be required to be recognized in current period earnings. Our calculations under the fuel adjustment and emission allowance cost recovery mechanisms at **PSI** (and **CG&E** for non-residential retail customers beginning in 2005 and residential retail customers in 2006) involve the use of estimates. Fuel costs (including purchased power when economically displacing fuel) and emission allowance costs must be allocated between **PSI's** retail customers and wholesale customers, with the lowest costs allocated to retail customers. This process is complex and involves the use of estimates that when finalized in future periods may result in adjustments to amounts deferred and collected from customers.

At December 31, 2005, regulatory assets totaled $556 million for **CG&E** (including $8 million for **ULH&P**) and $514 million for **PSI**. Current rates include the recovery of $554 million for **CG&E** (including $6 million for **ULH&P**) and $465 million for **PSI**. In addition to the regulatory assets, **CG&E** and **PSI** have regulatory liabilities totaling $152 million (including $29 million for **ULH&P**) and $394 million at December 31, 2005, respectively. See Note 1(e) of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data" for additional detail regarding regulatory assets and regulatory liabilities.

***Income Taxes***

Management judgment is required in developing our provision for income taxes, including the determination of deferred tax assets, deferred tax liabilities, and any valuation allowances recorded against the deferred tax assets. We evaluate quarterly the realizability of our deferred tax assets by assessing our valuation allowance and adjusting the amount of such allowance, if necessary. The factors used to assess the likelihood of realization are our forecast of future taxable income and the availability of tax planning strategies that can be implemented to realize deferred tax assets. These tax planning strategies include the utilization of Section 29/45K tax credits associated with our production of synthetic fuel.

***Contingencies***

When it is probable that an environmental, tax, or other legal liability has been incurred, a loss is recognized when the amount of the loss can be reasonably estimated. Estimates of the probability and the amount of loss are often made based on currently available facts, present laws and regulations, and consultation with third party experts. Accounting for contingencies requires significant judgment by management regarding the estimated probabilities and ranges of exposure to potential liability. Management's assessment of **Cinergy's** exposure to contingencies could change to the extent there are additional future developments, administrative actions, or as more information becomes available. If actual obligations incurred are different from our estimates, the recognition of the actual amounts may have a material impact on **Cinergy's** financial position and results of operations.

***Impairment of Long-lived Assets***

Current accounting standards require long-lived assets be measured for impairment whenever indicators of impairment exist. If deemed impaired under the standards, assets are written down to fair value with a charge to current period earnings. As a producer of electricity, **Cinergy**, **CG&E**, and **PSI** are owners of generating plants, which are largely coal-fired. At December 31, 2005, the carrying value of these generating plants is $5 billion for **Cinergy**, $2 billion for **CG&E** and $3 billion for **PSI**. As a result of the various emissions and by-products of coal consumption, the companies are subject to extensive environmental regulations and are currently subject to a number of environmental contingencies. See Note 13(a) of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data" for additional information. While we cannot predict the potential effect the resolution of these matters will have on the recoverability of our coal-fired generating assets, we believe that the carrying values of these assets are recoverable. When impairment indicators exist, management must make its best estimate of the price of wholesale electricity in the region, anticipated demand, and the cost of coal, natural gas, and emissions compliance. At **PSI**, we also consider the expected ability to recover through the regulatory process any additional investments in environmental compliance expenditures.

For the natural gas–fired peaking plants that **Cinergy** owns that are not subject to cost–of–service–based ratemaking, the recoverability will be dependent on many factors, but primarily the price of power compared to the cost of natural gas, often referred to as the spark spread, over the life of the plants. Given that power and gas prices are generally not observable beyond three to five years, management must make estimates of future commodity prices for a significant portion of the life of the plants, which is lengthy given that these plants are reasonably new. **Cinergy** uses macro–economic fundamental modeling to estimate these future values. While we currently believe these assets are recoverable on a nominal basis, changes in the estimates and assumptions used (primarily power and gas prices along with their related volatilities) in evaluating these assets over their useful life could result in a material impairment in the future. At December 31, 2005, the carrying value of these gas–fired peaking plants is approximately $400 million. GAAP does not require us to estimate the fair value of these assets because they are recoverable on a nominal basis. However, we believe the fair value of these plants to be substantially below their carrying value.

We will continue to evaluate these assets for impairment when events or circumstances indicate the carrying value may not be recoverable.

***Impairment of Unconsolidated Investments***

We evaluate the recoverability of investments in unconsolidated subsidiaries when events or changes in circumstances indicate the carrying amount of the asset is other than temporarily impaired. An investment is considered impaired if the fair value of the investment is less than its carrying value. We only recognize an impairment loss when an impairment is considered to be other than temporary. We consider an impairment to be other than temporary when a forecasted recovery up to the investment's carrying value is not expected for a reasonable period of time. We evaluate several factors, including but not limited to our intent and ability to hold the investment, the severity of the impairment, the duration of the impairment and the entity's historical and projected financial performance, when determining whether or not impairment is other than temporary.

Fair value is determined by quoted market prices, when available, however in most instances we rely on valuations based on discounted cash flows and market multiples. There are many significant assumptions involved in performing such valuations, including but not limited to forecasted financial performance, discount rates, earnings multiples and terminal value considerations. Variations in any one or a combination of these assumptions could result in different conclusions regarding impairment.

Once an investment is considered other than temporarily impaired and an impairment loss is recognized, the carrying value of the investment is not adjusted for any subsequent recoveries in fair value. As of December 31, 2005, we do not have any material unrealized losses that are deemed to be temporary in nature. See Note 17(a) of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data" for the amount of impairment charges incurred during the year.

**Accounting Changes**

***Asset Retirement Obligations***

In March 2005, the FASB issued FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations – an interpretation of FASB Statement 143* (Interpretation 47). 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.

We adopted Interpretation 47 on December 31, 2005 and recorded multiple asset retirement obligations as a result. These asset retirement obligations primarily related to obligations associated with retiring gas mains, recorded by

**Cinergy**, **CG&E**, and **ULH&P**, and future asbestos abatement at certain generating stations, recorded by **Cinergy**, **CG&E**, and **PSI**.

**Cinergy** and **CG&E** recognized a loss of approximately $3 million (net of tax) for the cumulative effect of this change in accounting principle. The cumulative effect resulted from asset retirement obligations primarily associated with our non-regulated generating assets. See (s)(*iv*) for a summary of cumulative effect adjustments. The effect of adoption for **Cinergy**, **CG&E**, **PSI**, and **ULH&P** included balance sheet reclassifications of approximately $35 million, $27 million, $8 million, and $5 million, respectively, from *Regulatory liabilities*. See discussion of *Regulatory liabilities* previously disclosed in (e). The increases in asset retirement obligations from adopting Interpretation 47 were $51 million, $39 million, $12 million and $6 million for **Cinergy**, **CG&E**, **PSI**, and **ULH&P**, respectively.

Pro-forma results as if Interpretation 47 was applied retroactively for the years ended December 31, 2005, 2004, and 2003 are not materially different from reported results. The December 31, 2004 and December 31, 2003 pro-forma liabilities for asset retirement obligations recorded as a result of the adoption of Interpretation 47 are not materially different than the December 31, 2005 balances.

***Share-Based Payment***

In December 2004, the FASB issued a replacement of SFAS No. 123, *Accounting for Stock-Based Compensation* (Statement 123), SFAS 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. 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 are 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 an immaterial loss 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 grants of future 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 SFAS No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure – an amendment of FASB Statement No. 123*, 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 3(c).

***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. The repatriation of foreign earnings pursuant to this provision did not have a material impact on our financial position or results of operations.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Reference is made to the "Market Risk Sensitive Instruments" section of "Item 7. MD&A."

## INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES



The information required to be submitted in schedules other than those indicated previously, have been included in the Balance Sheets, the Statements of Income, related schedules, the notes thereto, or omitted as not required by the Rules of Regulation S–X.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of Cinergy Corp.

Cincinnati, Ohio

We have audited the accompanying consolidated balance sheets and statements of capitalization of Cinergy Corp. and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, changes in common stock equity, and cash flows for each of the three years in the period ended December 31, 2005. Our audits also included the financial statement schedule included in Item 15 of this Annual Report. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Cinergy Corp. and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 1 to the financial statements, in 2005, Cinergy Corp. adopted Financial Accounting Standards Board Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations." In 2003, Cinergy Corp. adopted Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations;" Financial Accounting Standards Board Interpretation No. 46, "Consolidation of Variable Interest Entities;" and the fair value recognition provisions of SFAS No. 123 "Accounting for Stock–Based Compensation."

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 17, 2006 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP
Deloitte & Touche LLP
Cincinnati, Ohio
February 17, 2006

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of The Cincinnati Gas & Electric Company

Cincinnati, Ohio

We have audited the accompanying consolidated balance sheets and statements of capitalization of The Cincinnati Gas & Electric Company and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, changes in common stock equity, and cash flows for each of the three years in the period ended December 31, 2005. Our audits also included the financial statement schedule included in Item 15 of this Annual Report. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of The Cincinnati Gas & Electric Company and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 1 to the financial statements, in 2005, The Cincinnati Gas & Electric Company adopted Financial Accounting Standards Board Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations." In 2003, The Cincinnati Gas & Electric Company adopted Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations."

/s/ Deloitte & Touche LLP
Deloitte & Touche LLP
Cincinnati, Ohio
February 17, 2006

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of PSI Energy, Inc.

Plainfield, IN

We have audited the accompanying consolidated balance sheets and statements of capitalization of PSI Energy, Inc. and subsidiary as of December 31, 2005 and 2004, and the related consolidated statements of income, changes in common stock equity, and cash flows for each of the three years in the period ended December 31, 2005. Our audits also included the financial statement schedule included in Item 15 of this Annual Report. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of PSI Energy, Inc. and subsidiary as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 1 to the financial statements, in 2005, PSI Energy, Inc. adopted Financial Accounting Standards Board Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations." In 2003, PSI Energy, Inc. adopted Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations."

/s/ Deloitte & Touche LLP
Deloitte & Touche LLP
Cincinnati, Ohio
February 17, 2006

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of The Union Light, Heat and Power Company

Cincinnati, Ohio

We have audited the accompanying balance sheets and statements of capitalization of The Union Light, Heat and Power Company as of December 31, 2005 and 2004, and the related statements of income, changes in common stock equity, and cash flows for each of the three years in the period ended December 31, 2005. Our audits also included the financial statement schedule included in Item 15 of this Annual Report. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Union Light, Heat and Power Company as of December 31, 2005 and 2004, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 1 to the financial statements, in 2005, The Union Light, Heat and Power Company adopted Financial Accounting Standards Board Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations." In 2003, The Union Light, Heat and Power Company adopted Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations."

/s/ Deloitte & Touche LLP
Deloitte & Touche LLP
Cincinnati, Ohio
February 17, 2006

CINERGY CORP.

CONSOLIDATED STATEMENTS OF INCOME

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| | (in thousands, except per share amounts) | | |
| **Operating Revenues** (Note 1(f)) | | | |
| Electric | $ **4,070,972** | $ 3,510,525 | $ 3,297,180 |
| Gas | **816,781** | 783,316 | 835,507 |
| Other (Note 1(f)(*iii*)) | **522,095** | 333,988 | 230,926 |
| **Total Operating Revenues** | **5,409,848** | 4,627,829 | 4,363,613 |
| **Operating Expenses** | | | |
| Fuel, emission allowances, and purchased power | **1,535,088** | 1,233,311 | 1,127,078 |
| Gas purchased | **513,690** | 428,087 | 503,834 |
| Costs of fuel resold | **443,132** | 280,891 | 196,974 |
| Operation and maintenance | **1,348,554** | 1,230,618 | 1,080,283 |
| Depreciation | **510,438** | 453,765 | 392,672 |
| Taxes other than income taxes | **272,009** | 253,934 | 249,746 |
| **Total Operating Expenses** | **4,622,911** | 3,880,606 | 3,550,587 |
| **Operating Income** | **786,937** | 747,223 | 813,026 |
| **Equity in Earnings of Unconsolidated Subsidiaries** | **33,777** | 48,249 | 15,201 |
| **Miscellaneous Income (Expense) – Net** | **51,001** | (3,577) | 38,811 |
| **Interest Expense** | **283,353** | 275,000 | 270,213 |
| **Preferred Dividend Requirement of Subsidiary Trust** (Note 5(b)) | **—** | — | 11,940 |
| **Preferred Dividend Requirements of Subsidiaries** | **2,643** | 3,432 | 3,433 |
| **Income Before Taxes** | **585,719** | 513,463 | 581,452 |
| **Income Taxes** (Note 12) | **95,597** | 103,064 | 144,483 |
| **Income Before Discontinued Operations and Cumulative Effect of Changes in Accounting Principles** | **490,122** | 410,399 | 436,969 |
| Discontinued operations, net of tax (Note 16) | **2,575** | (9,531) | 6,341 |
| Cumulative effect of changes in accounting principles, net of tax (Note 1(s)(*iv*)) | **(3,044)** | — | 26,462 |
| **Net Income** | $ **489,653** | $ 400,868 | $ 469,772 |
| **Average Common Shares Outstanding – Basic** | **198,199** | 180,965 | 176,535 |
| **Earnings Per Common Share – Basic** (Note 19) | | | |
| Income before discontinued operations and cumulative effect of changes in accounting principles | $ **2.47** | $ 2.27 | $ 2.47 |
| Discontinued operations, net of tax (Note 16) | **0.01** | (0.05) | 0.04 |
| Cumulative effect of changes in accounting principles, net of tax (Note 1(s)(*iv*)) | **(0.01)** | — | 0.15 |
| Net Income | $ **2.47** | $ 2.22 | $ 2.66 |
| **Average Common Shares Outstanding – Diluted** | **199,172** | 183,531 | 178,473 |
| **Earnings Per Common Share – Diluted** (Note 19) | | | |
| Income before discontinued operations and cumulative effect of changes in accounting principles | $ **2.46** | $ 2.23 | $ 2.45 |
| Discontinued operations, net of tax (Note 16) | **0.01** | (0.05) | 0.03 |
| Cumulative effect of changes in accounting principles, net of tax (Note 1(s)(*iv*)) | **(0.01)** | — | 0.15 |
| Net Income | $ **2.46** | $ 2.18 | $ 2.63 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Cash Dividends Declared Per Common Share** | **$** | **1.92** | $ | 1.88 | $ | 1.84 |

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

CINERGY CORP.

CONSOLIDATED BALANCE SHEETS

ASSETS

| | December 31 | |
|---|---|---|
| | 2005 | 2004 |
| | (dollars in thousands) | |
| **Current Assets** | | |
| Cash and cash equivalents | **$ 146,056** | $ 162,526 |
| Notes receivable, current | **287,502** | 214,513 |
| Accounts receivable less accumulated provision for doubtful accounts of $4,767 at December 31, 2005, and $5,059 at December 31, 2004 (Note 5(c)) | **1,371,909** | 1,036,119 |
| Fuel, emission allowances, and supplies (Note 1(*i*)) | **589,152** | 442,951 |
| Energy risk management current assets (Note 1(m)(*i*)) | **991,252** | 381,146 |
| Prepayments and other | **408,975** | 173,203 |
| **Total Current Assets** | **3,794,846** | 2,410,458 |
| **Property, Plant, and Equipment – at Cost** | | |
| Utility plant in service (Note 21 and 22) | **10,714,000** | 10,076,468 |
| Construction work in progress | **501,294** | 333,687 |
| **Total Utility Plant** | **11,215,294** | 10,410,155 |
| Non–regulated property, plant, and equipment (Note 22) | **4,775,570** | 4,549,128 |
| Accumulated depreciation (Note 1(j)(*i*)) | **5,477,782** | 5,147,556 |
| **Net Property, Plant, and Equipment** | **10,513,082** | 9,811,727 |
| **Other Assets** | | |
| Regulatory assets (Note 1(e)) | **1,069,854** | 1,030,333 |
| Investments in unconsolidated subsidiaries | **479,466** | 513,675 |
| Energy risk management non–current assets (Note 1(m)(*i*)) | **306,959** | 138,787 |
| Notes receivable, non–current | **171,325** | 193,857 |
| Other investments | **128,150** | 125,367 |
| Goodwill and other intangible assets | **169,081** | 118,619 |
| Restricted funds held in trust | **301,800** | 358,006 |
| Other | **185,062** | 117,870 |
| **Total Other Assets** | **2,811,697** | 2,596,514 |
| **Assets of Discontinued Operations** (Note 16) | **34,215** | 163,618 |
| **Total Assets** | **$ 17,153,840** | $ 14,982,317 |

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

CINERGY CORP.
CONSOLIDATED BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS' EQUITY

| | December 31 | |
|---|---|---|
| | 2005 | 2004 |
| | (dollars in thousands) | |
| **Current Liabilities** | | |
| Accounts payable | $ 1,879,567 | $ 1,344,780 |
| Accrued taxes | 219,469 | 217,106 |
| Accrued interest | 64,725 | 54,473 |
| Notes payable and other short-term obligations (Note 7) | 923,600 | 948,327 |
| Long-term debt due within one year | 352,589 | 219,967 |
| Energy risk management current liabilities (Note 1(m)(*i*)) | 1,010,585 | 310,741 |
| Other | 193,323 | 168,734 |
| **Total Current Liabilities** | 4,643,858 | 3,264,128 |
| **Non-Current Liabilities** | | |
| Long-term debt (Note 6) | 4,393,442 | 4,227,475 |
| Deferred income taxes (Note 12) | 1,523,070 | 1,587,557 |
| Unamortized investment tax credits | 90,852 | 99,723 |
| Accrued pension and other postretirement benefit costs (Note 11) | 729,221 | 688,277 |
| Regulatory liabilities (Note 1(e)) | 546,047 | 557,419 |
| Energy risk management non-current liabilities (Note 1(m)(*i*)) | 338,514 | 127,340 |
| Other | 250,822 | 219,439 |
| **Total Non-Current Liabilities** | 7,871,968 | 7,507,230 |
| **Liabilities of Discontinued Operations** (Note 16) | 28,876 | 32,219 |
| **Commitments and Contingencies** (Note 13) | | |
| **Total Liabilities** | 12,544,702 | 10,803,577 |
| **Cumulative Preferred Stock of Subsidiaries** | | |
| Not subject to mandatory redemption | 31,743 | 62,818 |
| **Common Stock Equity** (Note 3) | | |
| Common stock – $.01 par value; authorized shares – 600,000,000; issued shares – 199,707,338 at December 31, 2005, and 187,653,506 at December 31, 2004; outstanding shares – 199,565,684 at December 31, 2005, and 187,524,229 at December 31, 2004 | 1,997 | 1,877 |
| Paid-in capital | 2,982,625 | 2,559,715 |
| Retained earnings | 1,721,716 | 1,613,340 |
| Treasury shares at cost – 141,654 shares at December 31, 2005, and 129,277 shares at December 31, 2004 | (4,823) | (4,336) |
| Accumulated other comprehensive loss (Note 20) | (124,120) | (54,674) |
| **Total Common Stock Equity** | 4,577,395 | 4,115,922 |
| **Total Liabilities and Shareholders' Equity** | $ 17,153,840 | $ 14,982,317 |

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

## CINERGY CORP.

## 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) | | | | | |
| **2003** | | | | | | |
| Beginning balance (168,663,115 shares) | $ 1,687 | $ 1,918,136 | $ 1,403,453 | $ — | $ (29,800) | $ 3,293,476 |
| Comprehensive income: | | | | | | |
| Net income | | | 469,772 | | | 469,772 |
| Other comprehensive income (loss), net of tax effect of $11,700 (Note 20) | | | | | | |
| Foreign currency translation adjustment, net of reclassification adjustments (Note 1(t)) | | | | | 10,528 | 10,528 |
| Minimum pension liability adjustment | | | | | (33,846) | (33,846) |
| Unrealized gain on investment trusts | | | | | 6,757 | 6,757 |
| Cash flow hedges | | | | | 1,526 | 1,526 |
| Total comprehensive income | | | | | | 454,737 |
| Issuance of common stock – net (9,775,254 shares) | 97 | 269,977 | | | | 270,074 |
| Treasury shares purchased (101,515 shares – net) | | | | (3,255) | | (3,255) |
| Dividends on common stock ($1.84 per share) | | | (322,371) | | | (322,371) |
| Other | | 7,872 | 149 | | | 8,021 |
| Ending balance (178,336,854 shares) | $ 1,784 | $ 2,195,985 | $ 1,551,003 | $ (3,255) | $ (44,835) | $ 3,700,682 |
| **2004** | | | | | | |
| Comprehensive income: | | | | | | |
| Net income | | | 400,868 | | | 400,86 |
| Other comprehensive income (loss), net of tax effect of $8,259 (Note 20) | | | | | | |
| Foreign currency translation adjustment, net of reclassification adjustments (Note 1(t)) | | | | | 14,953 | 14,953 |
| Minimum pension liability adjustment | | | | | (31,752) | (31,752) |
| Unrealized gain on investment trusts | | | | | 2,418 | 2,418 |
| Cash flow hedges | | | | | 4,542 | 4,542 |
| Total comprehensive income | | | | | | 391,029 |
| Issuance of common stock – net (9,215,137 shares) | 93 | 350,433 | | | | 350,526 |
| Treasury shares purchased (27,762 shares – net) | | | | (1,081) | | (1,081) |
| Dividends on common stock ($1.88 per share) | | | (338,630) | | | (338,630) |
| Other | | 13,297 | 99 | | | 13,396 |
| Ending balance (187,524,229 shares) | $ 1,877 | $ 2,559,715 | $ 1,613,340 | $ (4,336) | $ (54,674) | $ 4,115,922 |
| **2005** | | | | | | |
| **Comprehensive income:** | | | | | | |
| **Net income** | | | **489,653** | | | **489,653** |
| **Other comprehensive income (loss), net of tax effect of $30,941** (Note 20) | | | | | | |
| **Foreign currency translation adjustment, net of reclassification adjustment** (Note 1(t)) | | | | | **(38,400)** | **(38,400)** |
| **Minimum pension liability adjustment** | | | | | **(42,238)** | **(42,238)** |
| **Unrealized gain on investment trusts** | | | | | **257** | **257** |
| **Cash flow hedges** | | | | | **10,935** | **10,93** |
| **Total comprehensive income** | | | | | | **420,20** |
| **Issuance of common stock – net (12,053,832 shares)** | **120** | **415,511** | | | | **415,631** |
| **Treasury shares purchased (12,377 shares – net)** | | | | **(487)** | | **(487)** |
| **Dividends on common stock ($1.92 per** | | | **(378,256)** | | | **(378,256)** |

| | | | | | | |
|---|---|---|---|---|---|---|
| share) | | | | | | |
| Other | | 7,399 | (3,021) | | | 4,378 |
| Ending balance (199,565,684 shares) | $ 1,997 | $ 2,982,625 | $ 1,721,716 | $ (4,823) | $ (124,120) | $ 4,577,395 |

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

CINERGY CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| | (dollars in thousands) | | |
| **Cash Flows from Continuing Operations** | | | |
| **Operating Activities** | | | |
| Net income | $ **489,653** | $ 400,868 | $ 469,772 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation | **510,438** | 453,765 | 392,672 |
| (Income) Loss of discontinued operations, net of tax | **(2,575)** | 9,531 | (6,341) |
| (Income) Loss on impairment or disposal of subsidiaries and investments, net | **9,542** | 48,144 | (93) |
| Cumulative effect of changes in accounting principles, net of tax | **3,044** | — | (26,462) |
| Change in net position of energy risk management activities | **93,194** | (40,443) | (11,723) |
| Deferred income taxes and investment tax credits – net | **(41,088)** | (3,783) | 85,144 |
| Equity in earnings of unconsolidated subsidiaries | **(33,777)** | (48,249) | (15,201) |
| Return on equity investments | **42,956** | — | — |
| Allowance for equity funds used during construction | **(8,315)** | (2,269) | (7,532) |
| Regulatory asset/liability deferrals | **(256,510)** | (46,746) | (81,791) |
| Regulatory asset amortization | **180,820** | 92,422 | 89,931 |
| Accrued pension and other postretirement benefit costs | **46,114** | 11,275 | 48,371 |
| Cost of removal | **(20,249)** | (17,763) | (16,598) |
| Changes in current assets and current liabilities: | | | |
| Accounts and notes receivable | **(410,658)** | (22,524) | 110,189 |
| Fuel, emission allowances, and supplies | **(145,941)** | (86,651) | 1,695 |
| Prepayments | **(220,206)** | (88,484) | 9,026 |
| Accounts payable | **535,304** | 111,478 | (58,001 |
| Accrued taxes and interest | **11,659** | (17,581) | (35,424) |
| Other assets | **(87,583)** | (1,826) | 6,142 |
| Other liabilities | **(27,917)** | 71,443 | (23,216) |
| **Net cash provided by operating activities** | **667,905** | 822,607 | 930,560 |
| **Financing Activities** | | | |
| Change in short–term debt | **(74,732)** | 547,646 | (380,910) |
| Issuance of long–term debt | **398,126** | 39,361 | 688,166 |
| Redemption of long–term debt | **(150,488)** | (828,502) | (487,901) |
| Retirement of preferred stock of subsidiaries | **(31,075)** | — | — |
| Issuance of common stock | **415,631** | 350,526 | 270,074 |
| Dividends on common stock | **(378,256)** | (338,630) | (322,371) |
| **Net cash provided by (used in) financing activities** | **179,206** | (229,599) | (232,942) |
| **Investing Activities** | | | |
| Construction expenditures (less allowance for equity funds used during construction) | **(1,049,723)** | (691,444) | (702,705) |
| Proceeds from notes receivable | **19,996** | 17,460 | 9,187 |
| Withdrawal of restricted funds held in trust | **164,171** | 25,273 | — |
| Acquisitions and other investments | **(108,551)** | (2,975) | (87,873) |
| Proceeds from distributions by investments and sale of investments and subsidiaries | **110,526** | 54,173 | 51,252 |
| **Net cash used in investing activities** | **(863,581)** | (597,513) | (730,139) |
| **Net decrease in cash and cash equivalents from continuing operations** | **(16,470)** | (4,505) | (32,521) |
| **Cash and cash equivalents from continuing operations at beginning of period** | **162,526** | 167,031 | 199,552 |
| **Cash and cash equivalents from continuing operations at end of period** | **$ 146,056** | $ 162,526 | $ 167,031 |
| **Cash Flows from Discontinued Operations** | | | |
| Operating activities | **$ 2,022** | $ 3,304 | $ 9,242 |
| Financing activities | **(9,866)** | 2,811 | (27,084) |

| | | | |
|---|---|---|---|
| Investing activities | **5,829** | (6,189) | (1,600) |
| **Net decrease in cash and cash equivalents from discontinued operations** | **(2,015)** | (74) | (19,442) |
| **Cash and cash equivalents from discontinued operations at beginning of period** | **2,015** | 2,089 | 21,531 |
| **Cash and cash equivalents from discontinued operations at end of period** | **$ —** | $ 2,015 | $ 2,089 |
| **Supplemental Disclosure of Cash Flow Information** | | | |
| Cash paid during the year for: | | | |
| Interest (net of amount capitalized) | **$ 287,033** | $ 298,142 | $ 263,228 |
| Income taxes | **$ 121,359** | $ 73,197 | $ 92,175 |
| Non–cash financing & investing activities: | | | |
| Restricted cash proceeds from the issuance of debt securities | **$ 99,725** | $ 302,271 | $ 80,339 |

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

CINERGY CORP.

CONSOLIDATED STATEMENTS OF CAPITALIZATION

| | December 31 | |
|---|---|---|
| | 2005 | 2004 |
| | (dollars in thousands) | |
| **Long-term Debt** | | |
| **Cinergy Corp.** | | |
| Other Long-term Debt: | | |
| 6.53% Debentures due December 16, 2008 | $ **200,000** | $ 200,000 |
| 6.90% Note Payable due February 16, 2007 | **326,032** | 326,032 |
| **Total Other Long-term Debt** | **526,032** | 526,032 |
| Unamortized Premium and Discount – Net | **(1,913)** | (3,980) |
| **Total – Cinergy Corp.** | **524,119** | 522,052 |
| **Cinergy Global Resources, Inc.** | | |
| Other Long-term Debt: | | |
| 6.20% Debentures due November 3, 2008 | **150,000** | 150,000 |
| Variable interest rate of Euro Inter-Bank Offered Rate plus 1.2%, maturing November 2016 | **80,386** | 89,391 |
| **Total Other Long-term Debt** | **230,386** | 239,391 |
| Unamortized Premium and Discount – Net | **(94)** | (126) |
| **Total – Cinergy Global Resources, Inc.** | **230,292** | 239,265 |
| **Cinergy Investments, Inc.** | | |
| Other Long-term Debt: | | |
| 9.23% Notes Payable, due November 5, 2016 | **105,950** | 107,142 |
| 7.81% Notes Payable, due August 2009 | **76,354** | 93,041 |
| Other | **20,778** | 18,055 |
| **Total – Cinergy Investments, Inc.** | **203,082** | 218,238 |
| **Operating Companies** | | |
| The Cincinnati Gas & Electric Company (**CG&E**) and subsidiaries | | |
| First Mortgage Bonds | **94,700** | 94,700 |
| Other Long-term Debt | **1,535,721** | 1,535,721 |
| Unamortized Premium and Discount – Net | **(35,488)** | (36,753) |
| **Total Long-term Debt** | **1,594,933** | 1,593,668 |
| PSI Energy, Inc. (**PSI**) | | |
| First Mortgage Bonds | **540,720** | 620,720 |
| Secured Medium-term Notes | **77,500** | 77,500 |
| Other Long-term Debt | **1,584,647** | 1,185,813 |
| Unamortized Premium and Discount – Net | **(9,262)** | (9,814) |
| **Total Long-term Debt** | **2,193,605** | 1,874,219 |
| **Total Consolidated Debt** | $ **4,746,031** | $ 4,447,442 |
| **Less: Current Portion** | **352,589** | 219,967 |
| **Total Long-term Debt** | $ **4,393,442** | $ 4,227,475 |
| **Cumulative Preferred Stock of Subsidiaries** | | |
| **CG&E** and subsidiaries | $ **20,485** | $ 20,485 |
| **PSI** | **11,258** | 42,333 |
| **Total Cumulative Preferred Stock of Subsidiaries** | $ **31,743** | $ 62,818 |
| **Common Stock Equity** | $ **4,577,395** | $ 4,115,922 |
| **Total Consolidated Capitalization** | $ **9,002,580** | $ 8,406,215 |

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

## THE CINCINNATI GAS & ELECTRIC COMPANY

## CONSOLIDATED STATEMENTS OF INCOME

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| | | (dollars in thousands) | |
| **Operating Revenues** (Note 1(f)) | | | |
| Electric | **$ 2,042,730** | $ 1,689,683 | $ 1,691,353 |
| Gas | **779,616** | 690,675 | 627,720 |
| Other (Note 1(f)(*iii*)) | **238,819** | 130,365 | 62,876 |
| **Total Operating Revenues** | **3,061,165** | 2,510,723 | 2,381,949 |
| **Operating Expenses** | | | |
| Fuel, emission allowances, and purchased power | **700,761** | 521,959 | 496,041 |
| Gas purchased | **513,690** | 427,585 | 382,310 |
| Costs of fuel resold | **188,516** | 98,898 | 54,661 |
| Operation and maintenance | **695,263** | 594,381 | 499,556 |
| Depreciation | **182,368** | 179,487 | 186,819 |
| Taxes other than income taxes | **214,119** | 198,445 | 199,818 |
| **Total Operating Expenses** | **2,494,717** | 2,020,755 | 1,819,205 |
| **Operating Income** | **566,448** | 489,968 | 562,744 |
| **Miscellaneous Income – Net** | **18,122** | 16,228 | 30,660 |
| **Interest Expense** | **99,355** | 90,836 | 115,215 |
| **Income Before Taxes** | **485,215** | 415,360 | 478,189 |
| **Income Taxes** (Note 12) | **184,218** | 158,518 | 178,077 |
| **Income Before Cumulative Effect of Changes in Accounting Principles** | **300,997** | 256,842 | 300,112 |
| Cumulative effect of changes in accounting principles, net of tax (Note 1(s)(*iv*)) | **(3,044)** | — | 30,938 |
| **Net Income** | **$ 297,953** | $ 256,842 | $ 331,050 |
| **Preferred Dividend Requirement** | **846** | 845 | 846 |
| **Net Income Applicable to Common Stock** | **$ 297,107** | $ 255,997 | $ 330,204 |

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

## THE CINCINNATI GAS & ELECTRIC COMPANY

## CONSOLIDATED BALANCE SHEETS

### ASSETS

| | December 31 | |
|---|---|---|
| | 2005 | 2004 |
| | (dollars in thousands) | |
| **Current Assets** | | |
| Cash and cash equivalents | **$ 9,674** | $ 4,154 |
| Notes receivable from affiliated companies | **177,256** | 121,559 |
| Accounts receivable less accumulated provision for doubtful accounts of $3,518 at December 31, 2005, and $722 at December 31, 2004 (Note 5(c)) | **207,188** | 145,105 |
| Accounts receivable from affiliated companies | **37,718** | 30,916 |
| Fuel, emission allowances, and supplies (Note 1(i)) | **225,982** | 199,769 |
| Energy risk management current assets (Note 1(m)(*i*)) | **543,787** | 148,866 |
| Prepayments and other | **177,417** | 54,650 |
| **Total Current Assets** | **1,379,022** | 705,019 |
| **Property, Plant, and Equipment – at Cost** | | |
| Utility plant in service (Note 22) | | |
| Electric | **2,320,546** | 2,249,352 |
| Gas | **1,270,075** | 1,179,764 |
| Common | **265,412** | 249,576 |
| **Total Utility Plant In Service** | **3,856,033** | 3,678,692 |
| Construction work in progress | **69,269** | 45,762 |
| **Total Utility Plant** | **3,925,302** | 3,724,454 |
| Non-regulated property, plant, and equipment (Note 22) | **3,850,463** | 3,660,226 |
| Accumulated depreciation (Note 1(j)(*i*)) | **2,815,852** | 2,694,708 |
| **Net Property, Plant, and Equipment** | **4,959,913** | 4,689,972 |
| **Other Assets** | | |
| Regulatory assets (Note 1(e)) | **555,798** | 609,550 |
| Energy risk management non-current assets (Note 1(m)(*i*)) | **180,197** | 47,276 |
| Restricted funds held in trust | **58,189** | 93,671 |
| Other | **100,724** | 86,871 |
| **Total Other Assets** | **894,908** | 837,368 |
| **Total Assets** | **$ 7,233,843** | $ 6,232,359 |

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

THE CINCINNATI GAS & ELECTRIC COMPANY
CONSOLIDATED BALANCE SHEETS

## LIABILITIES AND SHAREHOLDER'S EQUITY

| | December 31 | |
|---|---|---|
| | 2005 | 2004 |
| | (dollars in thousands) | |
| **Current Liabilities** | | |
| Accounts payable | $ 562,887 | $ 332,316 |
| Accounts payable to affiliated companies | 243,793 | 85,127 |
| Accrued taxes | 177,551 | 149,010 |
| Accrued interest | 24,438 | 19,408 |
| Notes payable and other short-term obligations (Note 7) | 112,100 | 112,100 |
| Notes payable to affiliated companies (Note 7) | 114,252 | 180,116 |
| Long-term debt due within one year | — | 150,000 |
| Energy risk management current liabilities (Note 1(m)(*i*)) | 552,105 | 120,204 |
| Other | 40,837 | 33,712 |
| **Total Current Liabilities** | 1,827,963 | 1,181,993 |
| **Non-Current Liabilities** | | |
| Long-term debt (Note 6) | 1,594,933 | 1,443,668 |
| Deferred income taxes (Note 12) | 1,055,093 | 1,090,897 |
| Unamortized investment tax credits | 67,229 | 73,120 |
| Accrued pension and other postretirement benefit costs (Note 11) | 245,950 | 228,058 |
| Regulatory liabilities (Note 1(e)) | 151,670 | 164,846 |
| Energy risk management non-current liabilities (Note 1(m)(*i*)) | 183,678 | 40,184 |
| Other | 111,410 | 70,395 |
| **Total Non-Current Liabilities** | 3,409,963 | 3,111,168 |
| **Commitments and Contingencies** (Note 13) | | |
| **Total Liabilities** | 5,237,926 | 4,293,161 |
| **Cumulative Preferred Stock** | | |
| Not subject to mandatory redemption | 20,485 | 20,485 |
| **Common Stock Equity** (Note 3) | | |
| Common stock – $8.50 par value; authorized shares – 120,000,000; outstanding shares – 89,663,086 at December 31, 2005 and December 31, 2004 | 762,136 | 762,136 |
| Paid-in capital | 603,249 | 584,176 |
| Retained earnings | 657,254 | 610,232 |
| Accumulated other comprehensive loss (Note 20) | (47,207) | (37,831) |
| **Total Common Stock Equity** | 1,975,432 | 1,918,713 |
| **Total Liabilities and Shareholder's Equity** | $ 7,233,843 | $ 6,232,359 |

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

## THE CINCINNATI GAS & ELECTRIC COMPANY

## CONSOLIDATED STATEMENTS OF CHANGES IN COMMON STOCK EQUITY

| | Common Stock | Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total Common Stock Equity |
|---|---|---|---|---|---|
| | | | (dollars in thousands) | | |
| **2003** | | | | | |
| Beginning balance | $ 762,136 | $ 586,292 | $ 487,652 | $ (25,746) | $ 1,810,334 |
| Comprehensive income: | | | | | |
| Net income | | | 331,050 | | 331,050 |
| Other comprehensive income (loss), net of tax effect of $4,321 (Note 20) | | | | | |
| Minimum pension liability adjustment | | | | (8,017) | (8,017) |
| Unrealized gain on investment trusts | | | | 1 | 1 |
| Cash flow hedges | | | | 1,298 | 1,298 |
| Total comprehensive income | | | | | 324,332 |
| Dividends on preferred stock | | | (846) | | (846) |
| Dividends on common stock | | | (227,863) | | (227,863) |
| Contribution from parent company for reallocation of taxes | | 236 | | | 236 |
| Ending balance | $ 762,136 | $ 586,528 | $ 589,993 | $ (32,464) | $ 1,906,193 |
| **2004** | | | | | |
| Comprehensive income: | | | | | |
| Net income | | | 256,842 | | 256,842 |
| Other comprehensive income (loss), net of tax effect of $3,453 (Note 20) | | | | | |
| Minimum pension liability adjustment | | | | (9,666) | (9,666) |
| Cash flow hedges | | | | 4,299 | 4,299 |
| Total comprehensive income | | | | | 251,475 |
| Dividends on preferred stock | | | (845) | | (845) |
| Dividends on common stock | | | (235,758) | | (235,758) |
| Contribution from parent company for reallocation of taxes | | (2,352) | | | (2,352) |
| Ending balance | $ 762,136 | $ 584,176 | $ 610,232 | $ (37,831) | $ 1,918,713 |
| **2005** | | | | | |
| **Comprehensive income:** | | | | | |
| **Net income** | | | **297,953** | | **297,953** |
| **Other comprehensive income (loss), net of tax effect of $1,050** (Note 20) | | | | | |
| **Minimum pension liability adjustment** | | | | **(13,426)** | **(13,426)** |
| **Cash flow hedges** | | | | **4,050** | **4,050** |
| **Total comprehensive income** | | | | | **288,577** |
| **Dividends on preferred stock** | | | **(845)** | | **(845)** |
| **Dividends on common stock** | | | **(250,086)** | | **(250,086)** |
| **Contribution from parent company for reallocation of taxes** | | **19,073** | | | **19,073** |
| **Ending balance** | **$ 762,136** | **$ 603,249** | **$ 657,254** | **$ (47,207)** | **$ 1,975,432** |

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

## THE CINCINNATI GAS & ELECTRIC COMPANY

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| | | (dollars in thousands) | |
| **Operating Activities** | | | |
| Net income | **$ 297,953** | $ 256,842 | $ 331,050 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation | **182,368** | 179,487 | 186,819 |
| Deferred income taxes and investment tax credits – net | **(43,661)** | 53,519 | 82,228 |
| Cumulative effect of changes in accounting principles, net of tax | **3,044** | — | (30,938) |
| Change in net position of energy risk management activities | **47,554** | (15,797) | (20,593) |
| Allowance for equity funds used during construction | **(1,042)** | (458) | (2,749) |
| Regulatory asset/liability deferrals | **(31,482)** | (24,227) | (40,510) |
| Regulatory asset amortization | **96,501** | 48,649 | 36,824 |
| Accrued pension and other postretirement benefit costs | **21,685** | (447) | 21,694 |
| Cost of removal | **(7,023)** | (7,875) | — |
| Changes in current assets and current liabilities: | | | |
| Accounts and notes receivable | **(124,582)** | (25,348) | 23,453 |
| Fuel, emission allowances, and supplies | **(26,213)** | (63,835) | (14,061) |
| Prepayments | **(122,760)** | (39,586) | (6,393) |
| Accounts payable | **389,237** | 63,928 | 9,608 |
| Accrued taxes and interest | **33,571** | 938 | (14,283) |
| Other assets | **(5,535)** | 4,323 | 16,729 |
| Other liabilities | **9,439** | 15,508 | (21,117) |
| **Net cash provided by operating activities** | **719,054** | 445,621 | 557,761 |
| **Financing Activities** | | | |
| Change in short–term debt, including net affiliate notes | **(65,864)** | 134,460 | 104,114 |
| Issuance of long–term debt | **—** | 39,361 | 256,198 |
| Redemption of long–term debt | **—** | (110,000) | (394,899) |
| Dividends on preferred stock | **(845)** | (845) | (846) |
| Dividends on common stock | **(250,086)** | (235,758) | (227,863) |
| **Net cash used in financing activities** | **(316,795)** | (172,782) | (263,296) |
| **Investing Activities** | | | |
| Construction expenditures (less allowance for equity funds used during construction) | **(434,034)** | (299,751) | (323,959) |
| Withdrawal of restricted funds held in trust | **37,630** | — | — |
| Other investments | **(335)** | 59 | — |
| Proceeds from disposition of subsidiaries and investments | **—** | 15,165 | — |
| **Net cash used in investing activities** | **(396,739)** | (284,527) | (323,959) |
| **Net increase (decrease) in cash and cash equivalents** | **5,520** | (11,688) | (29,494) |
| **Cash and cash equivalents at beginning of period** | **4,154** | 15,842 | 45,336 |
| **Cash and cash equivalents at end of period** | **$ 9,674** | $ 4,154 | $ 15,842 |
| **Supplemental Disclosure of Cash Flow Information** | | | |
| Cash paid during the year for: | | | |
| Interest (net of amount capitalized) | **$ 98,183** | $ 92,542 | $ 103,339 |
| Income taxes | **$ 204,209** | $ 102,502 | $ 45,937 |
| Non–cash financing & investing activities: | | | |
| Restricted cash proceeds from the issuance of debt securities | **$ —** | $ 93,671 | $ — |

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

## THE CINCINNATI GAS & ELECTRIC COMPANY

## CONSOLIDATED STATEMENTS OF CAPITALIZATION

| | December 31 | |
|---|---|---|
| | 2005 | 2004 |
| | (dollars in thousands) | |
| **Long–term Debt** | | |
| **CG&E** | | |
| First Mortgage Bonds: | | |
| 5.45% Series due January 1, 2024 (Pollution Control) | $ **46,700** | $ 46,700 |
| 5 ½% Series due January 1, 2024 (Pollution Control) | **48,000** | 48,000 |
| **Total First Mortgage Bonds** | **94,700** | 94,700 |
| Other Long–term Debt: | | |
| Liquid Asset Notes with Coupon Exchange due October 1, 2007 (Executed interest rate swap to fix the rate at 6.87% through maturity) | **100,000** | 100,000 |
| 6.40% Debentures due April 1, 2008 | **100,000** | 100,000 |
| 6.90% Debentures due June 1, 2025 | **150,000** | 150,000 |
| 5.70% Debentures due September 15, 2012, effective interest rate of 6.42% | **500,000** | 500,000 |
| 5.40% Debentures due June 15, 2033, effective interest rate of 6.90% | **200,000** | 200,000 |
| 5 3/8% Debentures due June 15, 2033 | **200,000** | 200,000 |
| Series 2002A, Ohio Air Quality Development Revenue Refunding Bonds, due September 1, 2037 (Pollution Control) | **42,000** | 42,000 |
| Series 2002B, Ohio Air Quality Development Revenue Refunding Bonds, due September 1, 2037 (Pollution Control) | **42,000** | 42,000 |
| Series 2004A, Ohio Air Quality Development Revenue Bonds, due November 1, 2039 (Pollution Control) (Note 6) | **47,000** | 47,000 |
| Series 2004B, Ohio Air Quality Development Revenue Bonds, due November 1, 2039 (Pollution Control) (Note 6) | **47,000** | 47,000 |
| Series 1992A, 6.50% Collateralized Pollution Control Revenue Refunding Bonds, due November 15, 2022 | **12,721** | 12,721 |
| **Total Other Long–term Debt** | **1,440,721** | 1,440,721 |
| Unamortized Premium and Discount – Net | **(34,897)** | (36,093) |
| **Total Long–term Debt** | **1,500,524** | 1,499,328 |
| The Union Light, Heat and Power Company | | |
| Other Long–term Debt | **95,000** | 95,000 |
| Unamortized Premium and Discount – Net | **(591)** | (660) |
| **Total Long–term Debt** | **94,409** | 94,340 |
| **Total Consolidated Debt** | $ **1,594,933** | $ 1,593,668 |
| **Less: Current Portion** | **—** | 150,000 |
| **Total Long–term Debt** | $ **1,594,933** | $ 1,443,668 |

**Cumulative Preferred Stock**

| Par/Stated Value | Authorized Shares | Shares Outstanding at December 31, 2005 | Series | Mandatory Redemption | | |
|---|---|---|---|---|---|---|
| $ 100 | 6,000,000 | 204,849 | 4% – 4 ¾% | No | $ **20,485** | $ 20,485 |
| **Common Stock Equity** | | | | | $ **1,975,432** | $ 1,918,713 |
| **Total Consolidated Capitalization** | | | | | $ **3,590,850** | $ 3,382,866 |

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

PSI ENERGY, INC.

CONSOLIDATED STATEMENTS OF INCOME

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| | | (dollars in thousands) | |
| **Operating Revenues** (Note 1(f)) | | | |
| Electric | **$ 1,974,963** | $ 1,753,699 | $ 1,603,019 |
| **Operating Expenses** | | | |
| Fuel, emission allowances, and purchased power | **765,917** | 651,086 | 630,216 |
| Operation and maintenance | **480,111** | 474,517 | 448,668 |
| Depreciation | **266,230** | 221,596 | 163,938 |
| Taxes other than income taxes | **50,013** | 47,152 | 46,200 |
| **Total Operating Expenses** | **1,562,271** | 1,394,351 | 1,289,022 |
| **Operating Income** | **412,692** | 359,348 | 313,997 |
| **Miscellaneous Income – Net** | **21,877** | 9,348 | 6,288 |
| **Interest Expense** | **109,557** | 91,481 | 85,843 |
| **Income Before Taxes** | **325,012** | 277,215 | 234,442 |
| **Income Taxes** (Note 12) | **127,217** | 112,213 | 100,567 |
| **Income Before Cumulative Effect of a Change in Accounting Principle** | **197,795** | 165,002 | 133,875 |
| Cumulative effect of a change in accounting principle, net of tax (Note 1(s)(*iv*)) | — | — | (494) |
| **Net Income** | **$ 197,795** | $ 165,002 | $ 133,381 |
| **Preferred Dividend Requirement** | **1,797** | 2,587 | 2,587 |
| **Net Income Applicable to Common Stock** | **$ 195,998** | $ 162,415 | $ 130,794 |

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

## PSI ENERGY, INC.

## CONSOLIDATED BALANCE SHEETS

**ASSETS**

| | December 31 | |
|---|---|---|
| | 2005 | 2004 |
| | (dollars in thousands) | |
| **Current Assets** | | |
| Cash and cash equivalents | $ **31,860** | $ 10,794 |
| Restricted deposits | **32,649** | 22,063 |
| Notes receivable from affiliated companies | **87,714** | 72,958 |
| Accounts receivable less accumulated provision for doubtful accounts of $137 at December 31, 2005, and $171 at December 31, 2004 (Note 5(c)) | **54,566** | 31,177 |
| Accounts receivable from affiliated companies | **75,698** | 437 |
| Fuel, emission allowances, and supplies (Note 1(i)) | **170,345** | 108,793 |
| Prepayments and other | **42,415** | 11,804 |
| **Total Current Assets** | **495,247** | 258,026 |
| **Property, Plant, and Equipment – at Cost** | | |
| Utility plant in service (Note 21) | **6,857,968** | 6,397,776 |
| Construction work in progress | **431,584** | 287,925 |
| **Total Utility Plant** | **7,289,552** | 6,685,701 |
| Accumulated depreciation (Note 1(j)(*i*)) | **2,456,183** | 2,284,932 |
| **Net Property, Plant, and Equipment** (Note 21) | **4,833,369** | 4,400,769 |
| **Other Assets** | | |
| Regulatory assets (Note 1(e)) | **514,056** | 420,783 |
| Other investments | **75,615** | 73,396 |
| Restricted funds held in trust | **243,612** | 264,335 |
| Other | **80,283** | 32,587 |
| **Total Other Assets** | **913,566** | 791,101 |
| **Total Assets** | $ **6,242,182** | $ 5,449,896 |

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

PSI ENERGY, INC.
CONSOLIDATED BALANCE SHEETS

## LIABILITIES AND SHAREHOLDER'S EQUITY

| | December 31 2005 | 2004 |
|---|---|---|
| | (dollars in thousands) | |
| **Current Liabilities** | | |
| Accounts payable | **$ 116,996** | $ 65,151 |
| Accounts payable to affiliated companies | **53,455** | 38,292 |
| Accrued taxes | **33,713** | 65,871 |
| Accrued interest | **34,530** | 27,532 |
| Notes payable and other short-term obligations (Note 7) | **185,500** | 135,500 |
| Notes payable to affiliated companies (Note 7) | **249,712** | 130,580 |
| Long-term debt due within one year | **325,050** | 50,000 |
| Other | **59,368** | 33,326 |
| **Total Current Liabilities** | **1,058,324** | 546,252 |
| **Non-Current Liabilities** | | |
| Long-term debt (Note 6) | **1,868,555** | 1,824,219 |
| Deferred income taxes (Note 12) | **609,569** | 638,061 |
| Unamortized investment tax credits | **23,624** | 26,603 |
| Accrued pension and other postretirement benefit costs (Note 11) | **227,435** | 209,992 |
| Regulatory liabilities (Note 1(e)) | **394,377** | 392,573 |
| Other | **87,077** | 88,665 |
| **Total Non-Current Liabilities** | **3,210,637** | 3,180,113 |
| **Commitments and Contingencies** (Note 13) | | |
| **Total Liabilities** | **4,268,961** | 3,726,365 |
| **Cumulative Preferred Stock** | | |
| Not subject to mandatory redemption | **11,258** | 42,333 |
| **Common Stock Equity** (Note 3) | | |
| Common stock -- without par value; $.01 stated value; authorized shares – 60,000,000; outstanding shares – 53,913,701 at December 31, 2005 and December 31, 2004 | **539** | 539 |
| Paid-in capital | **840,692** | 626,019 |
| Retained earnings | **1,148,192** | 1,078,617 |
| Accumulated other comprehensive loss (Note 20) | **(27,460)** | (23,977) |
| **Total Common Stock Equity** | **1,961,963** | 1,681,198 |
| **Total Liabilities and Shareholder's Equity** | **$ 6,242,182** | $ 5,449,896 |

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

## PSI ENERGY, INC.

## CONSOLIDATED STATEMENTS OF CHANGES IN COMMON STOCK EQUITY

| | Common Stock | Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total Common Stock Equity |
|---|---|---|---|---|---|
| | | | (dollars in thousands) | | |
| **2003** | | | | | |
| Beginning balance | $ 539 | $ 426,931 | $ 981,946 | $ (8,119) | $ 1,401,297 |
| Comprehensive income: | | | | | |
| Net income | | | 133,381 | | 133,381 |
| Other comprehensive income (loss), net of tax effect of $3,645 (Note 20) | | | | | |
| Minimum pension liability adjustment | | | | (11,534) | (11,534) |
| Unrealized gain on investment trusts | | | | 6,232 | 6,232 |
| Total comprehensive income | | | | | 128,079 |
| Dividends on preferred stock | | | (2,587) | | (2,587) |
| Dividends on common stock | | | (93,950) | | (93,950) |
| Contribution from parent company – equity infusion | | 200,000 | | | 200,000 |
| Contribution from parent company for reallocation of taxes | | 343 | | | 343 |
| Ending balance | $ 539 | $ 627,274 | $1,018,790 | $ (13,421) | $ 1,633,182 |
| **2004** | | | | | |
| Comprehensive income: | | | | | |
| Net income | | | 165,002 | | 165,002 |
| Other comprehensive income (loss), net of tax effect of $7,350 (Note 20) | | | | | |
| Minimum pension liability adjustment | | | | (12,597) | (12,597) |
| Unrealized gain on investment trusts | | | | 2,041 | 2,041 |
| Total comprehensive income | | | | | 154,446 |
| Dividends on preferred stock | | | (2,587) | | (2,587) |
| Dividends on common stock | | | (102,588) | | (102,588) |
| Contribution from parent company for reallocation of taxes | | (1,255) | | | (1,255) |
| Ending balance | $ 539 | $ 626,019 | $1,078,617 | $ (23,977) | $ 1,681,198 |
| **2005** | | | | | |
| **Comprehensive income:** | | | | | |
| **Net income** | | | **197,795** | | **197,795** |
| **Other comprehensive income (loss), net of tax effect of $2,196** (Note 20) | | | | | |
| **Minimum pension liability adjustment** | | | | **(10,204)** | **(10,204)** |
| **Unrealized gain on investment trusts** | | | | **205** | **205** |
| **Cash flow hedges** | | | | **6,516** | **6,516** |
| **Total comprehensive income** | | | | | **194,312** |
| **Dividends on preferred stock** | | | **(1,975)** | | **(1,975)** |
| **Dividends on common stock** | | | **(126,245)** | | **(126,245)** |
| **Contribution from parent – equity infusion** | | **200,000** | | | **200,000** |
| **Contribution from parent company for reallocation of taxes** | | **14,673** | | | **14,673** |
| **Ending balance** | **$ 539** | **$ 840,692** | **$1,148,192** | **$ (27,460)** | **$ 1,961,963** |

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

PSI ENERGY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| | | (dollars in thousands) | |
| **Operating Activities** | | | |
| Net income | $ **197,795** | $ 165,002 | $ 133,381 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation | **266,230** | 221,596 | 163,938 |
| Cumulative effect of a change in accounting principle, net of tax | **—** | — | 494 |
| Deferred income taxes and investment tax credits – net | **(23,638)** | 49,085 | 38,424 |
| Allowance for equity funds used during construction | **(7,273)** | (1,811) | (4,783) |
| Regulatory asset/liability deferrals | **(225,028)** | (22,519) | (41,282) |
| Regulatory asset amortization | **84,319** | 43,723 | 53,107 |
| Accrued pension and other postretirement benefit costs | **18,699** | 18,735 | 13,048 |
| Cost of removal | **(13,226)** | (9,887) | (16,598) |
| Changes in current assets and current liabilities: | | | |
| Accounts and notes receivable | **(113,406)** | (1,204) | 35,643 |
| Fuel, emission allowances, and supplies | **(61,014)** | 40,599 | 27,330 |
| Prepayments | **(21,566)** | 297 | 686 |
| Accounts payable | **67,007** | (24,589) | (104,515) |
| Accrued taxes and interest | **(26,119)** | (2,631) | (33,004) |
| Other assets | **(58,633)** | 11,219 | (29,308) |
| Other liabilities | **21,341** | (4,152) | 10,174 |
| **Net cash provided by operating activities** | **105,488** | 483,463 | 246,735 |
| **Financing Activities** | | | |
| Change in short–term debt, including net affiliate notes | **119,132** | (57,866) | 15,542 |
| Issuance of long–term debt | **393,962** | — | 431,968 |
| Redemption of long–term debt | **(131,166)** | (1,100) | (460,903) |
| Contribution from parent | **200,000** | — | 200,000 |
| Retirement of preferred stock | **(31,075)** | — | — |
| Dividends on preferred stock | **(1,974)** | (2,587) | (2,587) |
| Dividends on common stock | **(126,245)** | (102,588) | (93,950) |
| **Net cash provided by (used in) financing activities** | **422,634** | (164,141) | 90,070 |
| **Investing Activities** | | | |
| Construction expenditures (less allowance for equity funds used during construction) | **(532,520)** | (337,208) | (330,362) |
| Withdrawal of restricted funds held in trust | **126,541** | 25,273 | — |
| Other investments | **(101,077)** | (3,158) | (1,885) |
| **Net cash used in investing activities** | **(507,056)** | (315,093) | (332,247) |
| **Net increase in cash and cash equivalents** | **21,066** | 4,229 | 4,558 |
| **Cash and cash equivalents at beginning of period** | **10,794** | 6,565 | 2,007 |
| **Cash and cash equivalents at end of period** | $ **31,860** | $ 10,794 | $ 6,565 |
| **Supplemental Disclosure of Cash Flow Information** | | | |
| Cash paid during the year for: | | | |
| Interest (net of amount capitalized) | $ **112,774** | $ 101,275 | $ 95,733 |
| Income taxes | $ **183,127** | $ 60,353 | $ 65,564 |
| Non–cash financing & investing activities: | | | |
| Restricted cash proceeds from the issuance of debt securities | $ **99,725** | $ 208,600 | $ 80,339 |

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

**psi energy, inc.**

**consolidated statements of capitalization**

| | December 31 2005 | 2004 |
|---|---|---|
| | (dollars in thousands) | |
| **Long-term Debt** | | |
| First Mortgage Bonds: | | |
| Series ZZ, 5 ¾% due February 15, 2028 (Pollution Control) | $ — | $ 50,000 |
| Series AAA, 7 1/8% due February 1, 2024 | — | 30,000 |
| Series BBB, 8.0% due July 15, 2009 | **124,665** | 124,665 |
| Series CCC, 8.85% due January 15, 2022 | **53,055** | 53,055 |
| Series DDD, 8.31% due September 1, 2032 | **38,000** | 38,000 |
| Series EEE, 6.65% due June 15, 2006 | **325,000** | 325,000 |
| **Total First Mortgage Bonds** | **540,720** | 620,720 |
| Secured Medium-term Notes: | | |
| Series A, 8.55% to 8.57% as of December 31, 2005 and 2004, respectively. Due December 27, 2011. | **7,500** | 7,500 |
| Series B, 6.37% to 8.24%, due August 15, 2008 to August 22, 2022 (Series A and B, 7.255% weighted average interest rate as of December 31, 2005 and 2004. 8.1 and 9.1 year weighted average remaining life at December 31, 2005 and 2004, respectively) | **70,000** | 70,000 |
| **Total Secured Medium-term Notes** | **77,500** | 77,500 |
| Other Long-term Debt: | | |
| Indiana Development Finance Authority (IDFA) Environmental Refunding Revenue Bonds, due May 1, 2035 | **44,025** | 44,025 |
| IDFA Environmental Refunding Revenue Bonds, due April 1, 2022 | **10,000** | 10,000 |
| 6.35% Debentures due November 15, 2006 | **50** | 50 |
| 6.50% Synthetic Putable Yield Securities due August 1, 2026 | **—** | 50,000 |
| 7.25% Junior Maturing Principal Securities due March 15, 2028 | **2,658** | 2,658 |
| 6.00% Rural Utilities Service Obligation payable in annual installments | **78,722** | 79,888 |
| 6.52% Senior Notes due March 15, 2009 | **97,342** | 97,342 |
| 7.85% Debentures due October 15, 2007 | **265,000** | 265,000 |
| 5.00% Debentures due September 15, 2013 | **400,000** | 400,000 |
| 6.12% Debentures due October 15, 2035 | **350,000** | — |
| Series 2002A, IDFA Environmental Refunding Revenue Bonds, due March 1, 2031 | **23,000** | 23,000 |
| Series 2002B, IDFA Environmental Refunding Revenue Bonds, due March 1, 2019 | **24,600** | 24,600 |
| Series 2003, IDFA Environmental Refunding Revenue Bonds, due April 1, 2022 | **35,000** | 35,000 |
| Series 2004B, IDFA Environmental Revenue Bonds, due December 1, 2039 (Note 6) | **77,125** | 77,125 |
| Series 2004C, IDFA Environmental Revenue Bonds, due December 1, 2039 (Note 6) | **77,125** | 77,125 |
| Series 2005A, Indiana Finance Authority (IFA), Environmental Revenue Refunding Bonds, 4.50% fixed rate, due July 1, 2035 | **50,000** | — |
| Series 2005C, IFA, Environmental Revenue Bonds, variable rate, due October 1, 2040 | **50,000** | — |
| **Total Other Long-term Debt** | **1,584,647** | 1,185,813 |
| Unamortized Premium and Discount – Net | **(9,262)** | (9,814) |
| **Total Consolidated Long-term Debt** | **$ 2,193,605** | $ 1,874,219 |
| **Less: Current Portion** | **325,050** | 50,000 |
| **Total Long-term Debt** | **$ 1,868,555** | $ 1,824,219 |

**Cumulative Preferred Stock**

| Par/Stated Value | Authorized Shares | Shares Outstanding at December 31, 2005 | Series | Mandatory Redemption | | |
|---|---|---|---|---|---|---|
| $ 100 (Note 4) | 5,000,000 | 36,695 | 3 ½% | No | **$ 3,669** | $ 34,744 |
| $ 25 | 5,000,000 | 303,544 | 4.16% – 4.32% | No | **7,589** | 7,589 |
| **Total Preferred Stock** | | | | | **$ 11,258** | $ 42,333 |

| | | |
|---|---|---|
| Common Stock Equity | **$ 1,961,963** | $ 1,681,198 |
| **Total Consolidated Capitalization** | **$ 3,841,776** | $ 3,547,750 |

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

## THE UNION LIGHT, HEAT AND POWER COMPANY

## STATEMENTS OF INCOME

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| | | (dollars in thousands) | |
| **Operating Revenues** (Note 1(f)) | | | |
| Electric | **$ 239,801** | $ 230,068 | $ 222,081 |
| Gas | **148,326** | 124,475 | 110,072 |
| **Total Operating Revenues** | **388,127** | 354,543 | 332,153 |
| **Operating Expenses** | | | |
| Electricity purchased from parent company for resale (Note 1(u)(*ii*)) | **168,158** | 162,497 | 154,572 |
| Gas purchased | **100,663** | 79,278 | 69,774 |
| Operation and maintenance | **67,292** | 55,810 | 53,704 |
| Depreciation | **20,625** | 20,034 | 18,315 |
| Taxes other than income taxes | **4,955** | 3,544 | 4,412 |
| **Total Operating Expenses** | **361,693** | 321,163 | 300,777 |
| **Operating Income** | **26,434** | 33,380 | 31,376 |
| **Miscellaneous Income – Net** | **2,947** | 813 | 3,561 |
| **Interest Expense** | **6,903** | 5,179 | 6,127 |
| **Income Before Taxes** | **22,478** | 29,014 | 28,810 |
| **Income Taxes** (Note 12) | **7,833** | 10,376 | 9,781 |
| **Net Income** | **$ 14,645** | $ 18,638 | $ 19,029 |

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

## THE UNION LIGHT, HEAT AND POWER COMPANY

## BALANCE SHEETS

**ASSETS**

| | December 31 | |
|---|---|---|
| | 2005 | 2004 |
| | (dollars in thousands) | |
| **Current Assets** | | |
| Cash and cash equivalents | $ **9,876** | $ 4,197 |
| Notes receivable from affiliated companies | **29,267** | 20,675 |
| Accounts receivable less accumulated provision for doubtful accounts of $162 at December 31, 2005, and $13 at December 31, 2004 (Note 5(c)) | **1,618** | 1,451 |
| Accounts receivable from affiliated companies | **6,567** | 5,671 |
| Inventory and supplies | **10,767** | 8,500 |
| Prepayments and other | **4,500** | 285 |
| **Total Current Assets** | **62,595** | 40,779 |
| **Property, Plant, and Equipment – at Cost** | | |
| Utility plant in service (Note 22) | | |
| Electric | **299,012** | 285,828 |
| Gas | **276,908** | 256,667 |
| Common | **45,319** | 42,176 |
| **Total Utility Plant In Service** | **621,239** | 584,671 |
| Construction work in progress | **12,840** | 6,070 |
| **Total Utility Plant** | **634,079** | 590,741 |
| Accumulated depreciation (Note 1(j)(*i*)) | **188,614** | 176,726 |
| **Net Property, Plant, and Equipment** (Note 22) | **445,465** | 414,015 |
| **Other Assets** | | |
| Regulatory assets (Note 1(e)) | **7,529** | 10,070 |
| Other | **2,625** | 2,801 |
| **Total Other Assets** | **10,154** | 12,871 |
| **Total Assets** | $ **518,214** | $ 467,665 |

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

THE UNION LIGHT, HEAT AND POWER COMPANY

BALANCE SHEETS

## LIABILITIES AND SHAREHOLDER'S EQUITY

| | December 31 | |
|---|---|---|
| | 2005 | 2004 |
| | (dollars in thousands) | |
| **Current Liabilities** | | |
| Accounts payable | $ 26,206 | $ 16,028 |
| Accounts payable to affiliated companies | 26,815 | 22,236 |
| Accrued interest | 1,374 | 1,370 |
| Notes payable to affiliated companies (Note 7) | 29,777 | 11,246 |
| Other | 16,967 | 7,009 |
| **Total Current Liabilities** | 101,139 | 57,889 |
| **Non-Current Liabilities** | | |
| Long-term debt (Note 6) | 94,409 | 94,340 |
| Deferred income taxes (Note 12) | 52,800 | 58,422 |
| Unamortized investment tax credits | 2,373 | 2,626 |
| Accrued pension and other postretirement benefit costs (Note 11) | 19,354 | 17,762 |
| Regulatory liabilities (Note 1(e)) | 29,038 | 29,979 |
| Other | 22,642 | 14,136 |
| **Total Non-Current Liabilities** | 220,616 | 217,265 |
| **Commitments and Contingencies** (Note 13) | | |
| **Total Liabilities** | 321,755 | 275,154 |
| **Common Stock Equity** (Note 3) | | |
| Common stock – $15.00 par value; authorized shares – 1,000,000; outstanding shares – 585,333 at December 31, 2005 and December 31, 2004 | 8,780 | 8,780 |
| Paid-in capital | 23,760 | 23,455 |
| Retained earnings | 166,242 | 161,562 |
| Accumulated other comprehensive loss | (2,323) | (1,286) |
| **Total Common Stock Equity** | 196,459 | 192,511 |
| **Total Liabilities and Shareholder's Equity** | $ 518,214 | $ 467,665 |

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

## THE UNION LIGHT, HEAT AND POWER COMPANY

## STATEMENTS OF CHANGES IN COMMON STOCK EQUITY

| | Common Stock | Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Total Common Stock Equity |
|---|---|---|---|---|---|
| | | | (dollars in thousands) | | |
| **2003** | | | | | |
| Beginning balance | $ 8,780 | $ 23,644 | $ 144,800 | $ (60) | $ 177,164 |
| Comprehensive income: | | | | | |
| Net income | | | 19,029 | | 19,029 |
| Other comprehensive loss, net of tax effect of $291 | | | | | |
| Minimum pension liability adjustment | | | | (429) | (429) |
| Total comprehensive income | | | | | 18,600 |
| Dividends on common stock | | | (6,305) | | (6,305) |
| Contribution from parent company for reallocation of taxes | | (103) | | | (103) |
| Ending balance | $ 8,780 | $ 23,541 | $ 157,524 | $ (489) | $ 189,356 |
| **2004** | | | | | |
| Comprehensive income: | | | | | |
| Net income | | | 18,638 | | 18,638 |
| Other comprehensive loss, net of tax effect of $539 | | | | | |
| Minimum pension liability adjustment | | | | (797) | (797) |
| Total comprehensive income | | | | | 17,841 |
| Dividends on common stock | | | (14,600) | | (14,600) |
| Contribution from parent company for reallocation of taxes | | (86) | | | (86) |
| Ending balance | $ 8,780 | $ 23,455 | $ 161,562 | $ (1,286) | $ 192,511 |
| **2005** | | | | | |
| **Comprehensive income:** | | | | | |
| **Net income** | | | **14,645** | | **14,645** |
| **Other comprehensive loss, net of tax effect of $608** | | | | | |
| **Minimum pension liability adjustment** | | | | **(1,037)** | **(1,037)** |
| **Total comprehensive income** | | | | | **13,608** |
| **Dividends on common stock** | | | **(9,965)** | | **(9,965)** |
| **Contribution from parent company for reallocation of taxes** | | **305** | | | **305** |
| **Ending balance** | **$ 8,780** | **$ 23,760** | **$ 166,242** | **$ (2,323)** | **$ 196,459** |

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

## THE UNION LIGHT, HEAT AND POWER COMPANY

## STATEMENTS OF CASH FLOWS

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| | | (dollars in thousands) | |
| **Operating Activities** | | | |
| Net income | $ **14,645** | $ 18,638 | $ 19,029 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation | **20,625** | 20,034 | 18,315 |
| Deferred income taxes and investment tax credits – net | **2,161** | 7,601 | 7,808 |
| Allowance for equity funds used during construction | **(642)** | 18 | (183) |
| Regulatory asset/liability deferrals | **(5,459)** | (2,337) | (8,138) |
| Regulatory asset amortization | **3,847** | 1,613 | 1,843 |
| Accrued pension and other postretirement benefit costs | **2,005** | (371) | 1,520 |
| Cost of removal | **(1,188)** | (1,588) | — |
| Changes in current assets and current liabilities: | | | |
| Accounts and notes receivable | **(9,655)** | (3,026) | (9,060) |
| Inventory and supplies | **(2,267)** | (564) | 246 |
| Prepayments | **(4,215)** | (6) | 37 |
| Accounts payable | **14,757** | 3,702 | 3,449 |
| Accrued taxes and interest | **7,344** | (729) | (1,185) |
| Other assets | **2,237** | 2,995 | (3,708) |
| Other liabilities | **62** | (599) | 3,088 |
| **Net cash provided by operating activities** | **44,257** | 45,381 | 33,061 |
| **Financing Activities** | | | |
| Change in short–term debt, including net affiliate notes | **18,531** | (33,987) | 31,157 |
| Issuance of long–term debt | **—** | 39,361 | — |
| Redemption of long–term debt | **—** | — | (20,000) |
| Dividends on common stock | **(9,965)** | (14,600) | (6,305) |
| **Net cash provided by (used in) financing activities** | **8,566** | (9,226) | 4,852 |
| **Investing Activities** | | | |
| Construction expenditures (less allowance for equity funds used during construction) | **(47,144)** | (33,857) | (39,940) |
| **Net cash used in investing activities** | **(47,144)** | (33,857) | (39,940) |
| **Net increase (decrease) in cash and cash equivalents** | **5,679** | 2,298 | (2,027) |
| **Cash and cash equivalents at beginning of period** | **4,197** | 1,899 | 3,926 |
| **Cash and cash equivalents at end of period** | $ **9,876** | $ 4,197 | $ 1,899 |
| **Supplemental Disclosure of Cash Flow Information** | | | |
| Cash paid during the year for: | | | |
| Interest (net of amount capitalized) | $ **6,581** | $ 4,796 | $ 5,842 |
| Income taxes | $ **(2,689)** | $ 2,827 | $ 3,001 |

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

## THE UNION LIGHT, HEAT AND POWER COMPANY

## STATEMENTS OF CAPITALIZATION

| | December 31 | |
|---|---|---|
| | 2005 | 2004 |
| | (dollars in thousands) | |
| **Long-term Debt** | | |
| Other Long-term Debt: | | |
| 6.50% Debentures due April 30, 2008 | **$ 20,000** | $ 20,000 |
| 7.65% Debentures due July 15, 2025 | **15,000** | 15,000 |
| 7.875% Debentures due September 15, 2009 | **20,000** | 20,000 |
| 5.00% Debentures due December 15, 2014 | **40,000** | 40,000 |
| **Total Other Long-term Debt** | **95,000** | 95,000 |
| Unamortized Premium and Discount – Net | **(591)** | (660) |
| **Total Long-term Debt** | **$ 94,409** | $ 94,340 |
| **Common Stock Equity** | **$ 196,459** | $ 192,511 |
| **Total Capitalization** | **$ 290,868** | $ 286,851 |

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

## INDEX

## NOTES TO CONDENSED FINANCIAL STATEMENTS

## NOTES TO 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. (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. See Note 2 for further information regarding the pending merger.

(b) *Nature of Operations*

**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 well as Cinergy Investments, Inc. (Investments), its non–regulated investment holding company.

**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, and distribution of electricity |

| | |
|---|---|
| | • Sale and/or transportation of natural gas |
| | • Electric commodity marketing and trading operations |
| **PSI** | • Generation, transmission, and distribution of electricity |
| **ULH&P**(1) | • Transmission and distribution of electricity |
| | • Sale and transportation of natural gas |

(1) See Note 22 for further discussion of the transfer of certain generation assets in January 2006. Following the transfer, **ULH&P** has generation as a principal line of business.

The following table presents further information related to the operations of our other principal subsidiaries, Cinergy Services, Inc. (Services) and Investments:

| | Principal Services and Line(s) of Business |
|---|---|
| **Services**(1) | • Administrative services<br>• Management services<br>• Support services |
| **Investments** | • Cogeneration and energy efficiency investments<br>• Natural gas marketing and trading operations(2) |

(1) Services provides the noted services to our subsidiaries.
(2) Natural gas marketing and trading operations are primarily conducted through Cinergy Marketing & Trading, LP (Marketing & Trading), one of its subsidiaries.

We conduct operations through our subsidiaries and manage our businesses 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).

See Note 18 for further discussion of our reportable segments.

(c) *Repeal of the Public Utility Holding Company Act of 1935 (PUHCA 1935) and Establishment of the Federal Energy Regulatory Commission (FERC) Public Utility Holding Company Act of 2005 (PUHCA 2005)*

Because **Cinergy** is a utility holding company, we are registered with the Securities and Exchange Commission (SEC) and were subject to regulation under the PUHCA 1935. The Energy Policy Act of 2005, among other provisions, repealed the PUHCA 1935 and replaced it with the PUHCA 2005, under the jurisdiction of the FERC, effective February 8, 2006. The net effect of these legislative changes was to abolish the regulatory regime imposed under the PUHCA 1935, while at the same time, enhancing the FERC's authority over books and records of holding companies, in order to assist the FERC and state utility regulators in protecting customers of regulated utilities. In December 2005, the FERC adopted final rules further implementing the provisions of the PUHCA 2005. Among other things, these rules impose certain limited filing and reporting obligations on holding companies such as **Cinergy**. At this time, it is too early to predict the overall impact that the Energy Policy Act of 2005 will have on our financial position or results of operations.

(d) *Presentation*

Management makes estimates and assumptions when preparing financial statements under generally accepted accounting principles (GAAP). Actual results could differ, as these estimates and assumptions involve judgment about future events or performance. These estimates and assumptions affect various matters, including:

- the reported amounts of assets and liabilities in our Balance Sheets at the dates of the financial statements;
- the disclosure of contingent assets and liabilities at the dates of the financial statements; and
- the reported amounts of revenues and expenses in our Statements of Income during the reporting periods.

We have restated certain prior–year amounts in **Cinergy's** financial statements, including cash flows to reflect the impact of discontinued operations in 2005. For a further discussion of discontinued operations, see Note 16. Additionally, we have reclassified certain prior–year amounts in the financial statements of **Cinergy**, **CG&E**, **PSI**, and **ULH&P** to conform to current presentation.

We use three different methods to report investments in subsidiaries or other companies: the consolidation method; the equity method; and the cost method.

*(i) Consolidation Method*

For traditional operating entities, we use the consolidation method when we own a majority of the voting stock of or have the ability to control a subsidiary. For variable interest entities (VIE) (discussed further in Note 5), we use the consolidation method when we anticipate absorbing a majority of the losses or receiving a majority of the returns of an entity, should they occur. We eliminate all significant intercompany transactions when we consolidate these accounts. Our consolidated financial statements include the accounts of **Cinergy**, **CG&E**, and **PSI**, and their wholly–owned subsidiaries.

*(ii) Equity Method*

We use the equity method to report investments, joint ventures, partnerships, subsidiaries, and affiliated companies in which we do not have control, but have the ability to exercise influence over operating and financial policies (generally, 20 percent to 50 percent ownership). Under the equity method we report:

- our investment in the entity as *Investments in unconsolidated subsidiaries* in our Balance Sheets; and
- our percentage share of the earnings from the entity as *Equity in earnings of unconsolidated subsidiaries* in our Statements of Income.

*(iii) Cost Method*

We use the cost method to report investments, joint ventures, partnerships, subsidiaries, and affiliated companies in which we do not have control and are unable to exercise significant influence over operating and financial policies (generally, up to 20 percent ownership). Under the cost method, we report our investments in the entity as *Other investments* in our Balance Sheets.

(e) *Regulation*

Our utility operating companies and certain of our non–utility subsidiaries must comply with the rules prescribed by the SEC under the PUHCA 1935, through February 8, 2006. The PUHCA 1935 was replaced with the PUHCA 2005, under the FERC's jurisdiction, as previously discussed in (c). Our utility operating companies must also comply with the other rules prescribed by the FERC and the applicable state utility commissions of Ohio, Indiana, and Kentucky.

Our utility operating companies use the same accounting policies and practices for financial reporting purposes as non–regulated companies under GAAP. However, sometimes actions by the FERC and the state utility commissions result in accounting treatment different from that used by non–regulated companies. When this occurs, we apply the provisions of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 71, *Accounting for the Effects of Certain Types of Regulation* (Statement 71). In accordance with Statement 71, we record regulatory assets and liabilities (expenses deferred for future recovery from customers or amounts provided in current rates to cover costs to be incurred in the future, respectively) on our Balance Sheets.

The state of Ohio passed comprehensive electric deregulation legislation in 1999, and in 2000, the Public Utilities Commission of Ohio (PUCO) approved a stipulation agreement relating to **CG&E's** transition plan creating a Regulatory Transition Charge (RTC)

designed to recover **CG&E's** generation–related regulatory assets and transition costs over a ten–year period beginning January 1, 2001. Accordingly, application of Statement 71 was discontinued for the generation portion of **CG&E's** business.

In November 2004, the PUCO approved **CG&E's** Electric Rate Stabilization Plan (RSP) which expires December 31, 2008. The features of the RSP were applied to non–residential customers beginning January 1, 2005 and January 1, 2006 for residential customers. The major features of the RSP are:

- A Provider of Last Resort (POLR) charge which consists of:
  - An Annually Adjusted Component intended to provide cost recovery primarily for environmental compliance expenditures;
  - An Infrastructure Maintenance Fund charge intended to compensate **CG&E** for committing its physical capacity; and
  - A System Reliability Tracker intended to provide actual cost recovery for capacity purchases, purchased power, reserve capacity, and related market costs for purchases to meet capacity needs.
- Generation rates and fuel recovery which consists of the establishment of market rates for generation service and a fuel cost recovery mechanism. See Note 13(b)(*iii*) for more information; and
- Transmission cost recovery which permits **CG&E** to recover Midwest Independent Transmission System Operator, Inc. (Midwest ISO) charges, all FERC approved transmission costs, and all congestion costs allocable to retail ratepayers that receive services from **CG&E**.

Excluding **CG&E's** deregulated generation–related assets and liabilities, as of December 31, 2005, **CG&E**, **PSI**, and **ULH&P** continue to meet the criteria to apply Statement 71. If Indiana or Kentucky were to implement deregulation legislation, the application of Statement 71 would need to be reviewed. Based on our utility operating companies' current regulatory orders and the regulatory environment in which they currently operate, the recovery of regulatory assets recognized in the accompanying Balance Sheets, as of December 31, 2005, is probable. For a further discussion of **CG&E's** regulatory developments, see Note 13(b)(*iii*). For a further discussion of **PSI's** regulatory developments, see Notes 13(b)(*i*) and 13(b)(*ii*).

Our regulatory assets, liabilities, and amounts authorized for recovery through regulatory orders at December 31, 2005 and 2004, were as follows:

| | 2005 | | | 2004 | | |
|---|---|---|---|---|---|---|
| | CG&E(1) | PSI | Cinergy | CG&E(1) | PSI | Cinergy |
| | (in millions) | | | | | |
| Regulatory assets | | | | | | |
| Amounts due from customers – income taxes(2) | $ 80 | $ 18 | $ 98 | $ 74 | $ 22 | $ 96 |
| Gasification services agreement buyout costs(3)(4) | — | 217 | 217 | — | 227 | 227 |
| Post–in–service carrying costs and deferred operating expenses(4)(5) | 4 | 83 | 87 | 3 | 80 | 83 |
| Deferred merger costs | 2 | 26 | 28 | — | 38 | 38 |
| Unamortized costs of reacquiring debt | 13 | 32 | 45 | 15 | 25 | 40 |
| RTC recoverable assets(4)(6) | 414 | — | 414 | 494 | — | 494 |
| Capital–related distribution costs(7) | 35 | — | 35 | 11 | — | 11 |
| Deferred fuel costs(8) | — | 68 | 68 | — | — | — |
| Deferred Midwest ISO costs(8) | — | 30 | 30 | — | — | — |
| Other | 8 | 40 | 48 | 12 | 29 | 41 |
| Total Regulatory assets | $ 556 | $ 514 | $ 1,070 | $ 609 | $ 421 | $ 1,030 |
| Total Regulatory assets authorized for recovery(9) | $ 554 | $ 465 | $ 1,019 | $ 602 | $ 378 | $ 980 |
| Regulatory liabilities | | | | | | |
| Accrued cost of removal(10) | $ (149) | $ (394) | $ (543) | $ (164) | $ (367) | $ (531) |
| Deferred fuel costs | (3) | — | (3) | (1) | (25) | (26) |
| Total Regulatory liabilities | $ (152) | $ (394) | $ (546) | $ (165) | $ (392) | $ (557) |

(1) Includes $8 million at December 31, 2005, and $10 million at December 31, 2004, related to **ULH&P's** regulatory assets. Of these amounts, $6 million at December 31, 2005, and $9 million at December 31, 2004, have been authorized for recovery. Includes $(29) million and $(30) million of regulatory liabilities at December 31, 2005 and 2004, respectively, related to **ULH&P**.

(2) The various regulatory commissions overseeing the regulated business operations of our utility operating companies regulate income tax provisions reflected in customer rates. In accordance with the provisions of Statement 71, we have recorded net regulatory assets for **CG&E**, **PSI**, and **ULH&P**.

(3) **PSI** reached an agreement with Dynegy, Inc. to purchase the remainder of its 25–year contract for coal gasification services. In accordance with an order from the Indiana Utility Regulatory Commission (IURC), **PSI** began recovering this asset over an 18–year period that commenced upon the termination of the gas services agreement in 2000.

(4) Regulatory assets earning a return at December 31, 2005.

(5) For **PSI**, this amount includes $35 million that is authorized for recovery but is not earning a return and $42 million that is not yet authorized for recovery and is not earning a return at December 31, 2005.

(6) In August 2000, **CG&E's** deregulation transition plan was approved. Effective January 1, 2001, a RTC went into effect and provides for recovery of all then existing generation–related regulatory assets and various transition costs over a ten–year period. Because a separate charge provides for recovery, these assets were aggregated and are included as a single amount in this presentation. The classification of all transmission and distribution related regulatory assets has remained the same.

(7) In November 2004, **CG&E's** RSP was approved by the PUCO. **CG&E** had 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 from January 1, 2006 through December 31, 2010.

(8) Represents authorized recoverable expenses and/or returnable revenues that will be billed and collected or returned at a future date, in connection with **PSI's** fuel cost recovery mechanism and Midwest ISO cost recovery mechanism.

(9) At December 31, 2005, these amounts were being recovered through rates charged to customers over remaining periods ranging from 1 to 60 years for **CG&E**, 1 to 36 years for PSI, and 1 to 15 years for **ULH&P**.

(10) Represents amounts received for anticipated future removal and retirement costs of regulated property, plant, and equipment that do not represent legal obligations pursuant to SFAS No. 143, *Accounting for Asset Retirement Obligations*

(Statement 143). See Note 1(l) for a further discussion of Statement 143.

(f) *Revenue Recognition*

*(i) Utility Revenues*

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 December 31, 2005, 2004, and 2003 were as follows:

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| | | (in millions) | |
| **Cinergy** | **$ 227** | $ 203 | $ 176 |
| **CG&E** and subsidiaries | **150** | 129 | 112 |
| **PSI** | **77** | 74 | 64 |
| **ULH&P** | **27** | 23 | 20 |

*(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 SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (Statement 133), further discussed in (m)(*i*). 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* (EITF 02–3).

1. Net Reporting

Net reporting requires presentation of realized and unrealized gains and losses on trading derivatives on a net basis in *Operating Revenues* pursuant to the requirements of EITF 02–3, regardless of whether the transactions were settled physically. Energy derivatives involving frequent buying and selling with the objective of generating profits from differences in price are classified as trading and reported net.

2. Gross Reporting

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. Non–trading derivatives typically involve physical delivery of the underlying commodity and are therefore generally presented on a gross basis.

Derivatives are classified as non–trading only when (a) the contracts involve the purchase of gas or electricity to serve our native load requirements (end–use customers within our utility operating companies' franchise service territories), or (b) the contracts involve the sale of gas or electricity and we have the intent and projected ability to fulfill the majority of the obligations from company–owned assets, which generally is limited to the sale of generation to third parties when it is not required to meet native load requirements.

*(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 Statements of Income. *Other Operating Revenues* for **Cinergy** also includes sales of synthetic fuel.

(g) *Energy Purchases and Fuel Costs*

The expenses associated with electric and gas services include:

- fuel used to generate electricity and the associated transportation costs;
- costs of emission allowances;
- electricity purchased from others; and
- natural gas purchased from others and the associated transportation costs.

These expenses are shown in the Statements of Income of **Cinergy**, **CG&E**, and **PSI** as *Fuel, emission allowances, and purchased power* expense and *Gas purchased* expense. These expenses are shown in **ULH&P's** Statements of Income as *Electricity purchased from parent company for resale* expense and *Gas purchased* expense.

**PSI** utilizes a cost tracking recovery mechanism (commonly referred to as a fuel adjustment clause) that recovers retail and a portion of its wholesale fuel costs from customers. Indiana law limits the amount of fuel costs that **PSI** can recover to an amount that will not result in earning a return in excess of that allowed by the IURC. The fuel adjustment clause is calculated based on the estimated cost of fuel in the next three–month period, and is trued up after actual costs are known. **PSI** records any under–recovery or over–recovery resulting from the differences between estimated and actual costs as a regulatory asset or liability until it is billed or refunded to its customers, at which point it is adjusted through fuel expense.

In addition to the fuel adjustment clause, **PSI** utilizes a purchased power tracking mechanism approved by the IURC for the recovery of costs related to certain specified purchases of power necessary to meet native load peak demand requirements to the extent such costs are not recovered through the existing fuel adjustment clause.

As part of the PUCO's November 2004 approval of **CG&E's** RSP, a cost tracking recovery mechanism was established to recover costs of retail fuel and emission allowances that exceed the amount originally included in the rates frozen in the **CG&E** transition plan. This mechanism was effective January 1, 2005 for non–residential customers and January 1, 2006 for residential customers. **CG&E** began utilizing a tracking mechanism approved by the PUCO for the recovery of system reliability capacity costs related to certain specified purchases of power. This mechanism was effective January 1, 2005 for non–residential customers and January 1, 2006 for residential customers. Because **CG&E** does not apply Statement 71 to its generation operations, differences between fuel costs billed and costs incurred are not recorded as regulatory assets or liabilities.

(h) *Cash and Cash Equivalents*

We define *Cash and cash equivalents* on our Balance Sheets and Statements of Cash Flows as investments with maturities of three months or less when acquired.

(i) *Fuel, Emission Allowances, and Supplies*

We maintain coal inventories for use in the production of electricity, emission allowances inventories for regulatory compliance purposes due to the production of electricity, and gas inventories both as part of Investments' trading business as well as for **CG&E's** gas distribution business. These inventories are accounted for at the lower of cost or market, with cost being determined using the weighted–average method.

Materials and supplies inventory is accounted for on a weighted–average cost basis.

(j) *Property, Plant, and Equipment*

*Property, Plant, and Equipment* includes the utility and non–regulated business property and equipment that is in use, being held for future use, or under construction. We report our *Property, Plant, and Equipment* at its original cost, which includes:

- materials;
- contractor fees;

- salaries;
- payroll taxes;
- fringe benefits;
- financing costs of funds used during construction (described in (*ii*) and (*iii*)); and
- other miscellaneous amounts.

We capitalize costs for regulated property, plant, and equipment that are associated with the replacement or the addition of equipment that is considered a property unit. Property units are intended to describe an item or group of

items. The cost of normal repairs and maintenance is expensed as incurred. On an annual basis, we perform major pre-planned maintenance activities on our generating units. These pre-planned activities are expensed when incurred. When regulated property, plant, and equipment is retired, **Cinergy** charges the original cost, less salvage, to *Accumulated depreciation* and the cost of removal to *Regulatory liabilities*, which is consistent with the composite method of depreciation. See (l) for further information on accrued cost of removal. A gain or loss is recorded on the sale of regulated property, plant, and equipment if an entire operating unit, as defined by the FERC, is sold. A gain or loss is recorded on non-regulated property, plant, and equipment whenever there is a related sale or retirement.

*(i) Depreciation*

We determine the provisions for depreciation expense using the straight-line method. The depreciation rates are based on periodic studies of the estimated useful lives and the net cost to remove the properties. Inclusion of cost of removal in depreciation rates was discontinued for all non-regulated property beginning in 2003, as a result of adopting Statement 143. Our utility operating companies use composite depreciation rates. These rates are approved by the respective state utility commissions with respect to regulated property. The average depreciation rates for *Property, Plant, and Equipment* are presented in the following table.

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| **Cinergy(1)** | **3.2 %** | 3.2 % | 2.8 % |
| **CG&E** and subsidiaries | **2.4** | 2.6 | 2.6 |
| **PSI** | **4.1** | 3.7 | 3.1 |
| **ULH&P** | **3.4** | 3.5 | 3.2 |

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

In June 2004, **PSI** implemented new depreciation rates, as a result of changes in useful lives of production assets and an increased rate for cost of removal, that were approved in **PSI's** latest retail rate case. The impact of this change in accounting estimate was an increase of approximately $30 million and $18 million in **Cinergy's** and **PSI's** *Depreciation* expense for 2005 and 2004, respectively.

*(ii) Allowance for Funds Used During Construction (AFUDC)*

Our utility operating companies finance construction projects with borrowed funds and equity funds. Regulatory authorities allow us to record the costs of these funds as part of the cost of construction projects. AFUDC is calculated using a methodology authorized by the regulatory authorities.

The equity component of AFUDC, which is credited to *Miscellaneous Income (Expense) – Net*, for the years ended December 31, 2005, 2004, and 2003, was as follows:

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| | | (in millions) | |
| **Cinergy** | **$ 7.1** | $ 1.6 | $ 7.5 |
| **CG&E** and subsidiaries | **1.0** | 0.5 | 2.7 |
| **PSI** | **6.1** | 1.1 | 4.8 |
| **ULH&P** | **0.6** | — | 0.2 |

The borrowed funds component of AFUDC, which is recorded on a pre–tax basis and is credited to *Interest Expense*, for the years ended December 31, 2005, 2004, and 2003, was as follows:

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| | | (in millions) | |
| **Cinergy** | $ **9.5** | $ 2.7 | $ 5.7 |
| **CG&E** and subsidiaries | **1.3** | 0.4 | 1.0 |
| **PSI** | **8.2** | 2.3 | 4.7 |
| **ULH&P** | **0.2** | 0.1 | 0.1 |

With the deregulation of **CG&E's** generation assets, the AFUDC method is no longer used to capitalize the cost of funds used during generation–related construction at **CG&E**. See *(iii)* for a discussion of capitalized interest. The majority of **PSI's** projects are being recovered through a construction work in progress (CWIP) tracker. Once CWIP projects are approved and included in the CWIP tracking mechanism, the costs of funds are no longer accrued on the project.

*(iii) Capitalized Interest*

**Cinergy** capitalizes interest costs for non–regulated construction projects in accordance with SFAS No. 34, *Capitalization of Interest Cost* (Statement 34). The primary differences from AFUDC are that the Statement 34 methodology does not include a component for equity funds and does not emphasize short–term borrowings over long–term borrowings. Capitalized interest costs, which are recorded on a pre–tax basis, for the years ended December 31, 2005, 2004, and 2003, were as follows:

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| | | (in millions) | |
| **Cinergy(1)** | $ **6.1** | $ 4.5 | $ 7.9 |
| **CG&E** and subsidiaries | **5.4** | 4.1 | 7.7 |

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

(k) *Impairments*

*(i) Long–Lived Assets*

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long–Lived Assets*, we evaluate long–lived assets for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. So long as an asset or group of assets is not held for sale, the determination of whether an impairment has occurred is based on an estimate of undiscounted future cash flows (including related tax effects) attributable to the assets, as compared with the carrying value of the assets. If an impairment has occurred, the amount of the impairment recognized is determined by estimating the fair value of the assets and recording a provision for an impairment loss if the carrying value is greater than the fair value. Once assets are classified as held for sale, the comparison of undiscounted cash flows to carrying value is disregarded and an impairment loss is recognized for any amount by which the carrying value exceeds the fair value of the assets less cost to sell.

At December 31, 2005, the carrying value of gas–fired peaking plants that are not subject to cost–of–service–based ratemaking is approximately $400 million. GAAP does not require us to estimate the fair value of these assets since they are recoverable on a nominal basis. However, we believe the fair value of these plants to be substantially below their carrying value.

*(ii) Unconsolidated Investments*

We evaluate the recoverability of investments in unconsolidated subsidiaries when events or changes in circumstances indicate that the carrying amount of the asset is other than temporarily impaired. An investment is

considered impaired if the fair value of the investment is less than its carrying value. We only recognize an impairment loss when an impairment is considered to be other than temporary. We consider an impairment to be other than temporary when a forecasted recovery up to the investment's carrying value is not expected for a reasonable period of time. We evaluate several factors, including, but not limited to, our intent and ability to hold the investment, the severity of the impairment, the duration of the impairment and the entity's historical and projected financial performance, when determining whether or not an impairment is other than temporary. Once an investment is considered other than temporarily impaired and an impairment loss is recognized (as *Miscellaneous Income (Expense) – Net*), the carrying value of the investment is not adjusted for any subsequent recoveries in fair value. As of December 31, 2005 and 2004, we do not have any material unrealized losses that are deemed to be temporary in nature. We have not incurred any material impairment charges on unconsolidated investments during 2005. See Note 17(a) for the amount of impairment charges recorded during 2004.

(l) *Asset Retirement Obligations and Accrued Cost of Removal*

In accordance with Statement 143, we recognize the fair value of legal obligations associated with the retirement or removal of long–lived assets at the time the obligations are incurred and can be reasonably estimated. The initial recognition of this liability is accompanied by a corresponding increase in property, plant, and equipment. Subsequent to the initial recognition, the liability is adjusted for any revisions to the expected value of the retirement obligation (with corresponding adjustments to property, plant, and equipment), and for accretion of the liability due to the passage of time (recognized as *Operation and maintenance* expense). Additional depreciation expense is recorded prospectively for any property, plant, and equipment increases.

See (s)(*iv*) for a summary of cumulative effect adjustments, which includes our adoption of Statement 143, and (s)(*i*) for a discussion of our December 31, 2005 adoption of FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (Interpretation 47), an interpretation of Statement 143.

**CG&E's** transmission and distribution business, **PSI**, and **ULH&P** ratably accrue the estimated retirement and removal cost of rate regulated property, plant, and equipment when removal of the asset is considered likely, in accordance with established regulatory practices. The accrued, but not incurred, balance for these costs is classified as *Regulatory liabilities*, under Statement 71. We do not accrue the estimated cost of removal when no legal obligation associated with retirement or removal exists for any of our non–regulated assets (including **CG&E's** generation assets).

Approximately $2 million of asset retirement obligations were transferred to **ULH&P** from **CG&E** in January 2006 in conjunction with the transfer of generating assets. See (s)(*i*) for additional information.

(m) *Derivatives*

We account for derivatives under Statement 133, which requires all derivatives, subject to certain exemptions, to be accounted for at fair value. Changes in a derivative's fair value must be recognized currently in earnings unless specific hedge accounting criteria are met. Gains and losses on derivatives that qualify as hedges can (a) offset related fair value changes on the hedged item in the Statements of Income for fair value hedges; or (b) be recorded in other comprehensive income for cash flow hedges. To qualify for hedge accounting, derivatives must be designated as a hedge (for example, an offset of interest rate risks) and must be effective at reducing the risk associated with the hedged item. Accordingly, changes in the fair values or cash flows of instruments designated as hedges must be highly correlated with changes in the fair values or cash flows of the related hedged items.

*(i) Energy Marketing and Trading*

We account for all energy trading derivatives at fair value. These derivatives are shown in our Balance Sheets as *Energy risk management assets* and *Energy risk management liabilities*. Changes in a derivative's fair value represent unrealized gains and losses and are recognized as revenues in our Statements of Income unless specific hedge accounting criteria are met.

Non–derivatives involve the physical delivery of energy and are accounted for as accrual contracts. Accrual contracts are not adjusted for changes in fair value.

Although we intend to settle accrual contracts with company–owned assets, occasionally we settle these contracts with purchases on the open trading markets. The cost of these purchases could be in excess of the associated revenues. We recognize the gains or losses on these transactions as delivery occurs. Open market purchases may occur for the following reasons:

- generating station outages;
- least–cost alternative;
- native load requirements; and
- extreme weather.

We value derivatives using end–of–the–period fair values, utilizing the following factors (as applicable):

- closing exchange prices (that is, closing prices for standardized electricity and natural gas products traded on an organized exchange, such as the New York Mercantile Exchange);
- broker–dealer and over–the–counter price quotations; and
- model pricing (which considers time value and historical volatility factors of electricity and natural gas).

In October 2002, the EITF reached a consensus in EITF 02–3 to rescind EITF Issue 98–10, *Accounting for Contracts Involved in Energy Trading and Risk Management Activities* (EITF 98–10). EITF 98–10 permitted non–derivative contracts to be accounted for at fair value if certain criteria were met. Effective with the adoption of EITF 02–3 on January 1, 2003, non–derivative contracts and natural gas held in storage that were previously accounted for at fair value were required to be accounted for on an accrual basis, with gains and losses on the transactions being recognized at the time the contract was settled. See (s)(*iv*) for a summary of cumulative effect adjustments.

**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** 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 was as follows:

| | 2005 | 2004 |
|---|---|---|
| | (in millions) | |
| Portion of gain (loss) on hedging instruments determined to be ineffective | $ — | $ (2) |
| Portion of gain (loss) on hedging instruments related to changes in time value excluded from assessment of ineffectiveness | (5) | 28 |
| Total included in *Gas Operating Revenues* | $ (5) | $ 26 |

*(ii) Financial*

In addition to energy derivatives, we use derivative financial instruments to manage exposure to fluctuations in interest rates. We use interest rate swaps (an agreement by two parties to exchange fixed–interest rate cash flows for variable–interest rate cash flows) and treasury locks (an agreement that fixes the yield or price on a specific treasury security for a specific period, which we sometimes use in connection with the issuance of fixed rate debt). We account for such derivatives at fair value and assess the effectiveness of any such derivative used in hedging activities.

At December 31, 2005, the ineffectiveness of instruments that we have classified as cash flow hedges of variable–rate debt instruments was not material. Reclassification of unrealized gains or losses on cash flow hedges of debt instruments from *Accumulated other comprehensive income (loss)* occurs as interest is accrued on the hedged debt

instrument. The unrealized losses that will be reclassified as a charge to *Interest Expense* during the twelve–month period ending December 31, 2006 are not expected to be material.

(n) *Intangible Assets*

Under the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets* (Statement 142), goodwill and other intangible assets with indefinite lives are not amortized. Statement 142 requires that goodwill is assessed annually, or when circumstances indicate that the fair value of a reporting unit has declined significantly, by applying a fair–value–based test. This test is applied at the reporting unit level, which is not broader than the current business segments discussed in Note 18. Acquired intangible assets are separately recognized if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, rented, or exchanged, regardless of intent to do so.

(o) *Income Taxes*

**Cinergy** and its subsidiaries file a consolidated federal income tax return and combined/consolidated state and local tax returns in certain jurisdictions. **Cinergy** and its subsidiaries have an income tax allocation agreement; the corporate taxable income method is used to allocate tax benefits to the subsidiaries whose investments or results of operations provide those tax benefits. Any tax liability not directly attributable to a specific subsidiary is allocated proportionately among the subsidiaries as required by the agreement.

SFAS No. 109, *Accounting for Income Taxes*, requires an asset and liability approach for financial accounting and reporting of income taxes. The tax effects of differences between the financial reporting and tax basis of accounting are reported as *Deferred income tax assets* or *liabilities* in our Balance Sheets and are based on currently enacted income tax rates. We evaluate quarterly the realizability of our deferred tax assets by assessing our valuation allowance and adjusting the amount of such allowance, if necessary.

Investment tax credits, which have been used to reduce our federal income taxes payable, have been deferred for financial reporting purposes. These deferred investment tax credits are being amortized over the useful lives of the property to which they are related. For a further discussion of income taxes, see Note 12.

(p) *Contingencies*

In the normal course of business, **Cinergy**, **CG&E**, **PSI**, and **ULH&P** are subject to various regulatory actions, proceedings, and lawsuits related to environmental, tax, or other legal matters. We reserve for these potential contingencies when they are deemed probable and reasonably estimable liabilities. However, these amounts are estimates based upon assumptions involving judgment and therefore actual results could differ. For further discussion of contingencies, see Note 13.

(q) *Pension and Other Postretirement Benefits*

**Cinergy** provides benefits to retirees in the form of pension and other postretirement benefits. Our reported costs of providing these pension and other postretirement benefits are developed by actuarial valuations and are dependent upon numerous factors resulting from actual plan experience and assumptions of future experience. Changes made to the provisions of the plans may impact current and future pension costs. Pension costs associated with **Cinergy's** defined benefit plans are impacted by employee demographics, th level of contributions we make to the plan, and earnings on plan assets. These pension costs may also be significantly affected by changes in key actuarial assumptions, including anticipated rates of return on plan assets and the discount rates used in determining the projected benefit obligation. Changes in pension obligations associated with the previously discussed factors are not immediately recognized as pension costs on the Statements of Income but are deferred and amortized in the future over the average remaining service period of active plan participants to the extent they exceed certain thresholds prescribed by SFAS No. 87, *Employers' Accounting for Pensions* (Statement 87).

Other postretirement benefit costs are impacted by employee demographics, per capita claims costs, and health care cost trend rates and may also be affected by changes in key actuarial assumptions, including the discount rate used in determining the accumulated postretirement benefit obligation (APBO). Changes in postretirement benefit

obligations associated with these factors are not immediately recognized as postretirement benefit costs but are deferred and amortized in the future over the average remaining service period of active plan participants to the extent they exceed certain thresholds prescribed by SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions* (Statement 106).

**Cinergy** reviews and updates its actuarial assumptions for its pension and postretirement benefit plans on an annual basis, unless plan amendments or other significant events require earlier remeasurement at an interim period. For additional information on pension and other postretirement benefits, see Note 11.

(r) *Stock–Based Compensation*

In 2003, we prospectively adopted accounting for our stock–based compensation plans using the fair value recognition provisions of SFAS No. 123, *Accounting for Stock–Based Compensation* (Statement 123), as amended by SFAS 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. Prior to 2003, we had accounted for our stock–based compensation plans using the intrinsic value method under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*. See Note 3(c) for further information on our stock–based compensation plans. The impact on our *Net Income* and earnings per common share (EPS) if the fair–value based method had been applied to all outstanding and unvested awards in each period was not material. In December 2004, the FASB issued a revision of Statement 123 entitled *Share–Based Payment*. See (s)(*ii*) for further information.

(s) *Accounting Changes*

*(i) Asset Retirement Obligations*

In March 2005, the FASB issued Interpretation No. 47, an interpretation of 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.

We adopted Interpretation 47 on December 31, 2005 and recorded multiple asset retirement obligations as a result. These asset retirement obligations primarily related to obligations associated with retiring gas mains, recorded by **Cinergy**, **CG&E**, and **ULH&P**, and future asbestos abatement at certain generating stations, recorded by **Cinergy**, **CG&E**, and **PSI**.

**Cinergy** and **CG&E** recognized a loss of approximately $3 million (net of tax) for the cumulative effect of this change in accounting principle. The cumulative effect resulted from asset retirement obligations primarily associated with our non–regulated generating assets. See (s)(*iv*) for a summary of cumulative effect adjustments. The effect of adoption for **Cinergy**, **CG&E**, **PSI**, and **ULH&P** included balance sheet reclassifications of approximately $35 million, $27 million, $8 million, and $5 million, respectively, from *Regulatory liabilities*. See discussion of *Regulatory liabilities* previously disclosed in (e). The increases in asset retirement obligations from adopting Interpretation 47 were $51 million, $39 million, $12 million and $6 million for **Cinergy**, **CG&E**, **PSI**, and **ULH&P**, respectively.

Pro–forma results as if Interpretation 47 was applied retroactively for the years ended December 31, 2005, 2004, and 2003 are not materially different from reported results. The December 31, 2004 and December 31, 2003 pro–forma liabilities for asset retirement obligations recorded as a result of the adoption of Interpretation 47 are not materially different than the December 31, 2005 balances.

*(ii) Share–Based Payment*

In December 2004, the FASB issued a replacement of Statement 123, *SFAS 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. 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 are 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 an immaterial loss 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 grants of future 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 3(c).

*(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. The repatriation of foreign earnings pursuant to this provision did not have a material impact on our financial position or results of operations.

*(iv) Cumulative Effect of Changes in Accounting Principles, Net of Tax*

In 2005, **Cinergy** recognized a *Cumulative effect of a change in accounting principle, net of tax* as a result of the recognition of conditional asset retirement obligations in conjunction with the adoption of Interpretation 47. In 2003, **Cinergy**, **CG&E**, and **PSI** recognized *Cumulative effect of changes in accounting principles, net of tax* as a result of the reversal of accrued cost of removal for non-regulated generating assets in conjunction with the adoption of Statement 143 and the change in accounting for certain energy related contracts from fair value to accrual in accordance with the rescission of EITF 98-10. There were no cumulative effect adjustments in 2004. The following table summarizes these cumulative effect adjustments and their related tax effects.

| | Year to Date December 31 | | | | | |
|---|---|---|---|---|---|---|
| | 2005 | | | 2003 | | |
| | Before-tax Amount | Tax (Expense) Benefit | Net-of-tax Amount | Before-tax Amount | Tax (Expense) Benefit | Net-of-tax Amount |
| | (in millions) | | | | | |
| **Cinergy(1)** | | | | | | |
| Asset retirement obligation (Interpretation 47 adoption) | $ (5) | $ 2 | $ (3) | $ — | $ — | $ — |
| Rescission of EITF 98-10 (EITF 02-3 adoption) | — | — | — | (21) | 8 | (13) |
| Asset retirement obligation (Statement 143 adoption) | — | — | — | 64 | (25) | 39 |
| | $ (5) | $ 2 | $ (3) | $ 43 | $ (17) | $ 26 |
| **CG&E** | | | | | | |
| Asset retirement obligation (Interpretation 47 adoption) | $ (5) | $ 2 | $ (3) | $ — | $ — | $ — |
| Rescission of EITF 98-10 (EITF 02-3 adoption) | — | — | — | (13) | 5 | (8) |
| Asset retirement obligation (Statement 143 adoption) | — | — | — | 64 | (25) | 39 |
| | $ (5) | $ 2 | $ (3) | $ 51 | $ (20) | $ 31 |
| **PSI** | | | | | | |
| Asset retirement obligation (Interpretation 47 adoption) | $ — | $ — | $ — | $ — | $ — | $ — |
| Rescission of EITF 98-10 (EITF 02-3 adoption) | — | — | — | (1) | 0.5 | (0.5) |
| | $ — | $ — | $ — | $ (1) | $ 0.5 | $ (0.5) |

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

(t) *Translation of Foreign Currency*

We translate the assets and liabilities of foreign subsidiaries, whose functional currency (generally, the local currency of the country in which the subsidiary is located) is not the United States dollar, using the appropriate exchange rate as of the end of the year. We translate income and expense items using the average exchange rate prevailing during the month the respective transaction occurs. We record translation gains and losses in *Accumulated other comprehensive income (loss)*, which is a component of common stock equity. When a foreign subsidiary is sold, the cumulative translation gain or loss as of the date of sale is removed from *Accumulated other comprehensive income (loss)* and is recognized as a component of the gain or loss on the sale of the subsidiary in our Statements of Income.

(u) *Related Party Transactions*

**CG&E**, **PSI**, and **ULH&P** engage in related party transactions. These transactions, which are eliminated upon consolidation, are generally performed at cost and in accordance with the SEC regulations under the PUHCA 1935 and the applicable state and federal commission regulations. See (c) for a further discussion of the repeal of the PUHCA 1935 and the implementation of the FERC's PUHCA 2005. The Balance Sheets of our utility operating companies reflect amounts payable to and/or receivable from related

parties as *Accounts payable to affiliated companies* and *Accounts receivable from affiliated companies*. The significant related party transactions are disclosed below.

*(i) Services*

Services provides our regulated and non–regulated subsidiaries with a variety of centralized administrative, management, and support services in accordance with agreements approved by the SEC under the PUHCA 1935.

The costs of these services are charged to our companies on a direct basis, or for general costs which cannot be directly attributed, based on predetermined allocation factors, including the following ratios:

- sales;
- electric peak load;
- number of employees;
- number of customers; and
- construction expenditures.

These costs were as follows for the years ended December 31, 2005, 2004, and 2003:

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| | | (in millions) | |
| **CG&E** and subsidiaries | **$ 370** | $ 286 | $ 219 |
| **PSI** | **259** | 230 | 193 |
| **ULH&P** | **31** | 21 | 22 |

During 2003, Cinergy Power Generation Services, LLC (Generation Services) supplied electric production–related construction, operation and maintenance services to certain of our subsidiaries pursuant to agreements approved by the SEC under the PUHCA 1935. **CG&E** and its subsidiaries received services from Generation Services in the amount of $96 million for the year ended December 31, 2003. **PSI** received services in the amount of $55 million for the year ended December 31, 2003. Effective January 1, 2004, these services are now provided by Services and/or directly by **CG&E** and **PSI** as all Generation Services employees were transferred to other affiliated corporations.

*(ii) Purchased Energy*

Through December 31, 2005 **ULH&P** purchased energy from **CG&E** pursuant to a contract effective January 1, 2002, which was approved by the FERC and the Kentucky Public Service Commission (KPSC). This five–year agreement is a negotiated fixed rate contract with **CG&E**. **ULH&P** purchased energy from **CG&E** for resale in the amounts of $168 million, $162 million, and $155 million for the years ended December 31, 2005, 2004, and 2003, respectively. These amounts are reflected in the Statements of Income for **ULH&P** as *Electricity purchased from parent company for resale*. This contract was terminated effective December 31, 2005 in connection with the transfer of generating assets from **CG&E** to **ULH&P**. For information on the transfer of generating assets to **ULH&P** on January 1, 2006, see Note 22.

**PSI** and **CG&E** purchased energy from each other under a federal and state approved joint operating agreement. These sales and purchases are reflected in the Statements of Income of **PSI** and **CG&E** as *Electric operating revenues* and *Fuel, emission allowances, and purchased power* expense and were as follows for the years ended December 31, 2005, 2004, and 2003:

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| | | (in millions) | |
| **CG&E** | | | |
| Electric operating revenues | **$ 32** | $ 48 | $ 63 |
| Purchased power(1) | **14** | 80 | 74 |

| | | | |
|---|---|---|---|
| **PSI** | | | |
| Electric operating revenues | **14** | 80 | 74 |
| Purchased power(1) | **32** | 48 | 63 |

(1) Includes intercompany purchases that are presented net in accordance with EITF 02–3.

Effective January 1, 2006, the joint operating agreement was terminated. With the implementation of Midwest ISO's structured Day-Ahead and Real-Time Energy Market, Midwest ISO took over the responsibility of dispatching generation units in its footprint, including **PSI** and **CG&E** generation units, and it was no longer necessary to have a joint operating agreement between **PSI** and **CG&E**.

**CG&E** and **PSI** had an agreement with Marketing & Trading to purchase gas for certain gas-fired peaking plants. Purchases under this agreement were approximately $26 million, $4 million, and $6 million for **CG&E** and $130 million, $37 million, and $20 million for **PSI** for the years ended December 31, 2005, 2004, and 2003, respectively. The amounts are reflected in the Statements of Income of **CG&E** and **PSI** as *Fuel, emission allowances, and purchased power* expense.

During 2005, **PSI** terminated the agreement with Marketing & Trading to purchase gas, and on December 29, 2005, **PSI** and **ULH&P** entered into separate agreements with an unrelated third party to supply all of the natural gas to be used as fuel for certain gas-fired peaking plants.

*(iii) Other*

**CG&E** and **ULH&P** enter into various agreements with Marketing & Trading to manage their interstate pipeline transportation, storage capacity, and gas supply contracts. Under the terms of these agreements, Marketing & Trading is obligated to deliver natural gas to meet **CG&E's** and **ULH&P's** requirements. Payments under these agreements for the years ended December 31, 2005, 2004, and 2003 were approximately $726 million, $480 million, and $413 million for **CG&E** and its subsidiaries and $102 million, $79 million, and $78 million for **ULH&P**. These amounts are recorded in the Statements of Income for **CG&E** and **ULH&P** as *Gas purchased* expense. Certain of these amounts for **CG&E** and **ULH&P** have been deferred for future recovery. In addition, certain of these amounts for **CG&E** are presented net in *Gas operating revenues* in accordance with EITF 02-3.

**ULH&P** terminated its agreement with Marketing & Trading, and on December 29, 2005, entered into an agreement with an unrelated third party to manage their interstate pipeline transportation, storage capacity, and gas supply contracts.

During 2004 and 2005, **CG&E** served as the purchase and sales agent for **PSI** with respect to emission allowances. As of December 31, 2005, **CG&E's** affiliated receivables and **PSI's** affiliated payables totaled approximately $3 million. All other amounts were immaterial. There were no emission allowance transactions between **CG&E** and **PSI** in 2003.

**Cinergy Corp.**, Services, and our utility operating companies participate in a money pool arrangement to better manage cash and working capital requirements. These amounts are reflected in *Notes payable to affiliated companies* and *Notes receivable from affiliated companies* on the Balance Sheets of our utility operating companies. For a further discussion of the money pool agreement, see Note 7.

**2.** 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.

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:

Completed:

- 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 November 2005, the KPSC approved Duke's and **Cinergy's** application seeking approval of a transfer and acquisition of control of **ULH&P**.

- In November 2005, the state utility regulatory agency in South Carolina approved Duke's application requesting authorization to enter into a business combination.

- In December 2005, the PUCO approved **Cinergy's** application of a change in control with respect to **CG&E**. The PUCO affirmed the approval in February 2006.

- In December 2005, the FERC approved Duke's and **Cinergy's** application requesting approval of the merger and the subsequent internal restructuring and consolidation of the merged company.

- In February 2006, the NRC approved Duke's application requesting approval of the merger.

- The FCC has approved assignment of all eight **Cinergy** wireless telecommunications licenses.

- In light of the repeal of the PUHCA 1935, as amended, effective February 2006, the merger will no longer require SEC authorization under the PUHCA 1935.

Pending:

- 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. On December 15, 2005, **PSI** filed with the IURC a settlement agreement reached with the staff of the IURC, the Indiana Office of Utilities Consumer Counsel and the PSI Industrial Group. Settlement hearings were held in January 2006 and a final order is expected in March 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. Hearings were held in January 2006 and a final order is expected in March 2006.

- Special meetings of shareholders of both companies for the purpose of voting on the merger will be held on March 10, 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, with respect to one plant located in Indiana the IURC. The FERC approved this transaction in December 2005. **CG&E** and the Duke affiliate that owns the interest in the Indiana plant filed an application with

the IURC requesting approval for the transfer (as well as the declination by the IURC of jurisdiction over **CG&E** following the transfer) in October 2005. A final order approving the transfer and the IURC's declination of jurisdiction over **CG&E** was received in February 2006. Duke and **Cinergy** intend to effectuate the transfer as an equity infusion into **CG&E** at book value. In conjunction with the transfer, Duke Capital LLC, a subsidiary of Duke, and **CG&E** intend to enter into a financial arrangement covering a multi-year period, to eliminate any potential cash shortfalls that may result from **CG&E** owning and operating the five stations. 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 2005, 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 alleged that the defendants breached their duties of due care and loyalty to shareholders by agreeing to the merger agreement between Duke and **Cinergy** and was 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 2005, which was granted in November of 2005. An appeal was not filed by the plaintiffs and the case is closed.

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.

## 3. Common Stock

(a) *Changes In Common Stock Outstanding*

The following table reflects information related to shares of **Cinergy Corp.** common stock issued for stock–based plans.

| | Shares Authorized for Issuance under Plan | Number of Shares Available for Future Issuance(2) | Shares Used to Grant or Settle Awards | | |
|---|---|---|---|---|---|
| | | | 2005 | 2004 | 2003 |
| Cinergy Corp. 1996 LTIP | 14,500,000 | 2,012,161 | **770,518** | 1,729,679 | 1,742,046 |
| Cinergy Corp. Stock Option Plan (SOP) | 5,000,000 | 1,318,500 | **33,900** | 393,523 | 421,611 |
| Cinergy Corp. Employee Stock Purchase and Savings Plan | 2,000,000 | 1,482,664 | — | — | 168,756 |
| Cinergy Corp. UK Sharesave Scheme | 75,000 | 62,047 | **589** | 7,313 | 3,364 |
| Cinergy Corp. Retirement Plan for Directors | 175,000 (1) | — | **6,203** | 5,909 | 5,602 |
| Cinergy Corp. Directors' Equity Compensation Plan | 75,000 | 35,805 | **423** | 1,095 | 3,824 |
| Cinergy Corp. Directors' Deferred Compensation Plan | 200,000 | 92,415 | **5,655** | 5,388 | 25,826 |
| Cinergy Corp. 401(k) Plans | 6,469,373 (1) | 1,169,358 | **1,615,900** | 1,174,600 | 1,544,900 |
| Cinergy Corp. Direct Stock Purchase and Dividend Reinvestment Plan | 3,000,000 (1) | 497,388 | **538,163** | 627,205 | 679,301 |
| Cinergy Corp. 401(k) Excess Plan | 100,000 (1) | — | — | — | — |

(1) Plan does not contain an authorization limit. The number of shares presented reflects amounts registered with the SEC as of December 31, 2005.

(2) Shares available exclude the number of shares to be issued upon exercise of outstanding options, warrants, and rights.

We retired 111,544 shares of common stock in 2005, 829,575 shares in 2004, and 519,976 shares in 2003, mainly representing shares tendered as payment for the exercise of previously granted stock options.

**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. **Cinergy Corp.** issued approximately 3.0 million shares in 2005 and approximately 3.9 million shares in 2004 to satisfy its obligations under these plans.

In December 2004, **Cinergy Corp.** issued 6.1 million shares of common stock under its January 2003 $750 million registration statement with the SEC. The net proceeds of $247 million were used to reduce short-term indebtedness.

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. See Note 5(b) for further discussion of the securities.

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.

In January 2006, **CG&E** contributed approximately $140 million in capital to **ULH&P** in conjunction with the transfer of certain generating assets to **ULH&P**. See Note 22 for additional information.

**Cinergy Corp.** owns all of the common stock of **CG&E** and **PSI**. All of **ULH&P's** common stock is held by **CG&E**.

(b) *Dividend Restrictions*

**Cinergy Corp.'s** ability to pay dividends to holders of its common stock is principally dependent on the ability of **CG&E** and **PSI** to pay **Cinergy Corp.** dividends on their common stock. **Cinergy Corp.**, **CG&E**, and **PSI** cannot pay dividends on their common stock if their respective preferred stock dividends or preferred trust dividends are in arrears. The amount of common stock dividends that each company can pay is also limited by certain capitalization and earnings requirements under **CG&E's** and **PSI's** credit instruments. Currently, these requirements do not impact the ability of either company to pay dividends on its common stock. In addition, until consummation or termination of the merger with Duke, **Cinergy** is prohibited from paying dividends in excess of its historical levels without prior consent of Duke.

(c) *Stock–based Compensation Plans*

We currently have the following stock–based compensation plans:

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

The LTIP, the SOP, the Employee Stock Purchase and Savings Plan, 401(k) Plans, and the 401(k) Excess Plan are discussed below. The activity in 2005, 2004, and 2003 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. See Note 1(s)(*ii*) for additional information on costs we recognized related to stock–based compensation plans. Effective January 1, 2006, **Cinergy** adopted Statement 123R. See Note 1(r) for additional information regarding this new accounting standard.

*(i) LTIP*

Under this plan, certain key employees may be granted incentive and non–qualified stock options, stock appreciation rights (SARs), restricted stock, 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.

From 2003 through 2005, performance–based share awards were paid with 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.*

Entitlement to performance–based shares is based on **Cinergy's** TSR over designated Cycles as measured against a pre–defined peer group. 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 | 362 |
| IX | 1/2005 | 2005–2007 | 340 |
| X | 1/2006 | 2006–2008 | 351 |

Participants may earn more or less performance shares if **Cinergy's** TSR ranks above or below the 55th percentile of the TSR of its peer group. For the three–year performance period ended December 31, 2005 (Cycle VII), approximately 109,000 shares (including dividend equivalent shares) were earned, based on our relative TSR.

*(ii) SOP*

The SOP was designed to align executive compensation with shareholder interests. Under the SOP, incentive and non–qualified stock options, SARs, and SARs in tandem with stock options could have been granted to key employees, officers, and outside directors. The activity under this plan predominantly consisted of the grant of stock options. Options were granted with an option price equal to the fair market value of the shares on the grant date. Options generally vested over five years at a rate of 20 percent per year, beginning on the grant date, and expiring 10 years from the grant date. As of October 2004, no additional incentive stock options may be granted under the plan.

*(iii) Employee Stock Purchase and Savings Plan*

The Employee Stock Purchase and Savings Plan allowed essentially all full–time, regular employees to purchase shares of common stock pursuant to a stock option feature. The last offering period began May 1, 2001, and ended June 30, 2003, with 168,101 shares purchased and the remaining cash distributed to the respective participants. The purchase price for all shares under this offering was $32.78.

Stock option activity for 2005, 2004, and 2003 for the LTIP, SOP, and Employee Stock Purchase and Savings Plan is summarized as follows:

| | LTIP and SOP | | Employee Stock Purchase and Savings Plan(1) | |
|---|---|---|---|---|
| | Shares Subject to Option | Weighted Average Exercise Price | Shares Subject to Option | Weighted Average Exercise Price |
| Balance at December 31, 2002 | 7,361,700 | $ 29.06 | 218,170 | $ 32.78 |
| Options granted(2) | 897,100 | 34.30 | — | — |
| Options exercised | (1,630,046) | 24.89 | (168,101) | 32.78 |
| Options forfeited | (59,300) | 30.51 | (50,069) | 32.78 |
| Balance at December 31, 2003 | 6,569,454 | 30.79 | — | — |
| Options granted(2) | 739,200 | 38.79 | | |
| Options exercised | (1,950,570) | 26.41 | | |
| Options forfeited | (32,700) | 35.95 | | |
| Balance at December 31, 2004 | 5,325,384 | 33.35 | | |
| **Options granted(2)** | **766,100** | **41.78** | | |
| **Options exercised** | **(490,263)** | **30.27** | | |
| **Options forfeited** | **(116,572)** | **39.66** | | |
| **Balance at December 31, 2005** | **5,484,649** | **$ 34.72** | | |
| **Options Exercisable:** | | | | |
| At December 31, 2003 | 3,700,346 | $ 29.52 | | |
| At December 31, 2004 | 2,706,876 | $ 32.01 | | |
| **At December 31, 2005** | **3,310,549** | **$ 32.86** | | |

(1) Shares were not offered after June 30, 2003.

(2) Options were not granted under the SOP during 2005, 2004, or 2003.

The weighted average fair value of options granted under the LTIP was $5.64 in 2005, $5.65 in 2004, and $4.96 in 2003. The fair values of options granted were estimated as of the grant date using the Black–Scholes option–pricing model and the following assumptions:

| | LTIP | | |
|---|---|---|---|
| | 2005 | 2004 | 2003 |
| Risk–free interest rate | **3.63%** | 3.35% | 3.02% |
| Expected dividend yield | **4.52%** | 4.97% | 5.34% |
| Expected life | **4.99yrs.** | 5.33yrs. | 5.35yrs. |
| Expected volatility | **21.24%** | 24.47% | 26.15% |

Price ranges, along with certain other information, for options outstanding under the combined LTIP and SOP plans at December 31, 2005, were as follows:

| | Outstanding | | Exercisable | |
|---|---|---|---|---|

| Exercise Price Range | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life | Number of Shares | Weighted Average Exercise Price |
|---|---|---|---|---|---|
| $ 23.66 – $ 33.64 | 1,896,158 | $ 29.77 | 5.04 yrs. | 1,712,158 | $ 29.66 |
| $ 33.88 – $ 36.88 | 1,979,691 | $ 35.11 | 4.91 yrs. | 1,266,291 | $ 35.52 |
| $ 37.82 – $ 43.70 | 1,608,800 | $ 40.08 | 7.63 yrs. | 332,100 | $ 39.16 |

*(iv) 401(k) Plans*

We sponsor 401(k) employee retirement plans that cover substantially all United States employees. Employees can contribute up to 50 percent of pre–tax base salary (subject to Internal Revenue Service (IRS) limits) and up to 15 percent of after–tax base salary. We make matching contributions to these plans in the form of **Cinergy Corp.** common stock, contributing 100 percent of the first three percent of an employee's pre–tax contributions plus 50 percent of the next two percent of an employee's pre–tax contributions, and we have the discretion to make incentive

matching contributions based on **Cinergy's** net income. Employees are immediately vested in both their contributions and our matching contributions.

**Cinergy's**, **CG&E's**, and **PSI's** matching contributions for the years ended December 31, 2005, 2004, and 2003 were as follows:

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| | | (in millions) | |
| **Cinergy(1)** | **$ 18** | $ 20 | $ 18 |
| **CG&E** and subsidiaries | **4** | 5 | 3 |
| **PSI** | **4** | 4 | 4 |

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

Effective January 1, 2003, each **Cinergy** employee whose pension benefit is determined using a cash balance formula is also eligible to receive an annual deferred profit sharing contribution, calculated as a percentage of that employee's total pension eligible earnings. The deferred profit sharing contribution made by **Cinergy** is based on the corporate net income performance level for the year, and is made to the 401(k) plans in the form of **Cinergy Corp.** common stock. Employees vest in their benefit upon reaching three years of service, or immediately upon reaching age 65 while employed. **Cinergy** has recorded approximately $4.7 million and $2.4 million, respectively, of profit sharing contribution costs for the years ended December 31, 2005 and December 31, 2004.

*(v) 401(k) Excess Plan*

The 401(k) Excess Plan is a non–qualified deferred compensation plan for a select group of **Cinergy** management and other highly compensated employees. It is a means by which these employees can defer additional compensation, and receive company matching contributions, provided they have already contributed the maximum amount (pursuant to the anti–discrimination rules for highly compensated employees) under the qualified 401(k) Plans. All funds deferred are held in a rabbi trust administered by an independent trustee.

*(vi) Merger–Related Obligations*

Several of the company's benefit plans contain "change–in–control" clauses that provide enhanced, and/or accelerate the payment of, benefits to management level employees in the event of a qualifying transaction such as would occur upon the consummation of the proposed merger with Duke as discussed in Note 2. These include benefits paid pursuant to the LTIP and certain payments under **Cinergy's** Annual Incentive Plan. Certain employees will also be 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 terminates his employment prior to the closing of the merger, the employee is obligated to repay all of the payments, and if the merger does not close on or prior to December 15, 2006, the employee is 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. 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 have been recorded as prepaid compensation in *Prepayments and other*. Approximately half of these payments are being accounted for as a retention bonus and will be expensed over the period between January 1, 2006 and the estimated closing of the pending merger with Duke. The remainder, representing the half that executives must repay if the merger is never consummated, will remain in *Prepayments and other* until the merger closes.

In addition to payments made in December, based upon certain assumptions and using our current best estimates, the Company's remaining contractual obligations that will be triggered upon merger consummation, and due shortly thereafter, including severance payments for those executives that have indicated their intention to terminate for "good reason", is expected to be approximately $73 million. These amounts will be accounted for when the merger closes. This estimate only includes amounts payable pursuant to existing benefit arrangements and employment contracts and does not include the value of accelerated stock options, retirement benefits earned prior to the merger, and amounts payable under severance plans that Duke and **Cinergy** are considering to reduce redundant positions after the merger closes.

**4.** Cumulative Preferred Stock

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

In February 2006, **CG&E** notified holders of its $16.98 million notional amount 4% Cumulative Preferred Stock, and holders of its $3.5 million notional amount 4.75% Cumulative Preferred Stock that it intends to redeem all outstanding shares on March 10 at a price of $108 per share and $101 per share, respectively, plus accrued and unpaid dividends.

**5.** Variable Interest Entities

(a) *Power Sale Special Purpose Entities (SPEs)*

In accordance with FASB Interpretation No. 46, *Consolidation of Variable Interest Entities*, we consolidate two SPEs that have individual power sale agreements with Central Maine Power Company (CMP) for approximately 45 megawatts (MW) of capacity, ending in 2009, and 35 MW of capacity, ending in 2016. In addition, these SPEs have individual power purchase agreements with Cinergy Capital & Trading, Inc. (Capital & Trading) to supply the power. Capital & Trading also provides various services, including certain credit support facilities. Upon the initial consolidation of these two SPEs on July 1, 2003, approximately $239 million of notes receivable, $225 million of non–recourse debt, and miscellaneous other assets and liabilities were included on **Cinergy's** Balance Sheets. The debt was incurred by the SPEs to finance the buyout of the existing power contracts that CMP held with the former suppliers. The cash flows from the notes receivable are designed to repay the debt. Note 10 provides additional information regarding the debt and the notes receivable, respectively.

(b) *Preferred Trust Securities*

In December 2001, **Cinergy Corp.** issued approximately $316 million notional amount of combined securities consisting of (a) 6.9 percent preferred trust securities, due February 2007, and (b) stock purchase contracts obligating the holders to purchase between 9.2 and 10.8 million shares of **Cinergy Corp.** common stock by February 2005. A $50 preferred trust security and stock purchase contract were sold together as a single security unit (Unit). The preferred trust securities were issued through a trust whose common stock was 100 percent owned by **Cinergy Corp**. The stock purchase contracts were issued directly by **Cinergy Corp.** The trust loaned the proceeds from the issuance of the securities to **Cinergy Corp.** in exchange for a note payable to the trust that was eliminated in consolidation. The proceeds of $306 million, which was net of approximately $10 million of issuance costs, were used to pay down **Cinergy Corp.'s** short–term indebtedness. In January and February 2005, certain holders settled the stock purchase contracts early and elected to remove the units from the remarketing. In February 2005, the remaining preferred trust securities were successfully remarketed and the dividend rate was reset at 6.9 percent. The preferred trust securities will mature in February 2007. To settle the stock purchase contracts, **Cinergy Corp.** issued 9.2 million shares of common stock at the ceiling price of $34.40 per

share as the market price of the stock exceeded the ceiling price of the contract. Net proceeds of approximately $316 million were used to repay short–term indebtedness.

Each Unit continues to receive quarterly cash payments of 6.9 percent per annum of the notional amount, which represents a preferred trust security dividend. The trust's ability to pay dividends on the preferred trust securities is solely dependent on its receipt of interest payments from **Cinergy Corp.** on the note payable. However, **Cinergy Corp.** has fully and unconditionally guaranteed the preferred trust securities.

As of July 1, 2003, we no longer consolidate the trust that was established to issue the preferred trust securities. The preferred trust securities are no longer included in **Cinergy Corp.'s** Balance Sheets. In addition, the note payable owed to the trust, which has a current carrying value of $324 million, is included in *Long-term debt.*

(c) *Sales of Accounts Receivable*

In February 2002, **CG&E**, **PSI**, and **ULH&P** entered into an agreement to sell certain of their accounts receivable and related collections. **Cinergy Corp.** formed Cinergy Receivables Company, LLC (Cinergy Receivables) to purchase, on a revolving basis, nearly all of the retail accounts receivable and related collections of **CG&E**, **PSI**, and **ULH&P**. **Cinergy Corp.** does not consolidate Cinergy Receivables since it meets the requirements to be accounted for as a qualifying SPE. The transfers of receivables are accounted for as sales, pursuant to Statement 140.

The proceeds obtained from the sales of receivables are largely cash but do include a subordinated note from Cinergy Receivables for a portion of the purchase price (typically approximates 25 percent of the total proceeds). The note is subordinate to senior loans that Cinergy Receivables obtains from commercial paper conduits controlled by unrelated financial institutions. Cinergy Receivables provides credit enhancement related to senior loans in the form of over-collateralization of the purchased receivables. However, the over-collateralization is calculated monthly and does not extend to the entire pool of receivables held by Cinergy Receivables at any point in time. As such, these senior loans do not have recourse to all assets of Cinergy Receivables. These loans provide the cash portion of the proceeds paid to **CG&E**, **PSI**, and **ULH&P**.

This subordinated note is a retained interest (right to receive a specified portion of cash flows from the sold assets) under SFAS No. 140, *Accounting for Transfer and Servicing of Financial Assets and Extinguishments of Liabilities -- a replacement of FASB Statement No. 125* (Statement 140) and is classified within *Notes receivable from affiliated companies* in the accompanying Balance Sheets of **CG&E**, **PSI**, and **ULH&P** and is classified within *Notes receivable* on **Cinergy Corp.'s** Balance Sheets. In addition, **Cinergy Corp.'s** investment in Cinergy Receivables constitutes a purchased beneficial interest (purchased right to receive specified cash flows, in our case residual cash flows), which is subordinate to the retained interests held by **CG&E**, **PSI**, and **ULH&P**. The carrying values of the retained interests are determined by allocating the carrying value of the receivables between the assets sold and the interests retained based on relative fair value. The key assumptions in estimating fair value are credit losses and selection of discount rates. Because (a) the receivables generally turn in less than two months, (b) credit losses are reasonably predictable due to each company's broad customer base and lack of significant concentration, and (c) the purchased beneficial interest is subordinate to all retained interests and thus would absorb losses first, the allocated bases of the subordinated notes are not materially different than their face value. Interest accrues to **CG&E**, **PSI**, and **ULH&P** on the retained interests using the accretable yield method, which generally approximates the stated rate on the notes since the allocated basis and the face value are nearly equivalent. **Cinergy Corp.** records income from Cinergy Receivables in a similar manner. We record an impairment charge against the carrying value of both the retained interests and purchased beneficial interest whenever we determine that an other-than-temporary impairment has occurred (which is unlikely unless credit losses on the receivables far exceed the anticipated level).

The key assumptions used in measuring the retained interests are as follows (all amounts are averages of the assumptions used in sales during the period):

| | Cinergy | | CG&E and subsidiaries | | PSI | | ULH&P | |
|---|---|---|---|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Anticipated credit loss rate | **0.7%** | 0.7% | **0.8%** | 0.9% | **0.5%** | 0.5% | **1.1%** | 1.2% |
| Discount rate on expected cash flows | **5.7%** | 3.8% | **5.7%** | 3.8% | **5.7%** | 3.8% | **5.7%** | 3.8% |
| Receivables turnover rate(1) | **12.3%** | 12.6% | **13.0%** | 13.4% | **11.2%** | 11.5% | **12.3%** | 12.9% |

(1) Receivables at each month-end divided by annualized sales for the month.

The hypothetical effect on the fair value of the retained interests assuming both a 10 percent and 20 percent unfavorable variation in credit losses or discount rates is not material due to the short turnover of receivables and historically low credit loss history.

**CG&E** retains servicing responsibilities for its role as a collection agent on the amounts due on the sold receivables. However, Cinergy Receivables assumes the risk of collection on the purchased receivables without recourse to **CG&E**, **PSI**, and **ULH&P** in the event of a loss. While no direct recourse to **CG&E**, **PSI**, and **ULH&P** exists, these entities risk loss in the event collections are not sufficient to allow for full recovery of their retained interests. No servicing asset or liability is recorded since the servicing fee paid to **CG&E** approximates a market rate.

The following table shows the gross and net receivables sold, retained interests, purchased beneficial interest, sales, and cash flows during the periods ending December 31, 2005 and 2004.

| | 2005 | | | |
|---|---|---|---|---|
| | Cinergy | CG&E and subsidiaries | PSI | ULH&P |
| | (in millions) | | | |
| Receivables sold as of period end | $ 670 | $ 453 | $ 217 | $ 71 |
| Less: Retained interests | 264 | 177 | 87 | 29 |
| Net receivables sold as of period end | $ 406 | $ 276 | $ 130 | $ 42 |
| Purchased beneficial interest | $ 22 | $ -- | $ — | $ — |
| **Sales during period** | | | | |
| Receivables sold | $ 4,419 | $ 2,636 | $ 1,783 | $ 406 |
| Loss recognized on sale | 53 | 35 | 18 | 6 |
| **Cash flows during period** | | | | |
| Cash proceeds from sold receivables | $ 4,296 | $ 2,546 | $ 1,750 | $ 392 |
| Collection fees received | 2 | 2 | — | — |
| Return received on retained interests | 24 | 14 | 10 | 2 |

| | 2004 | | | |
|---|---|---|---|---|
| | Cinergy | CG&E and subsidiaries | PSI | ULH&P |
| | (in millions) | | | |
| Receivables sold as of period end | $ 538 | $ 339 | $ 199 | $ 54 |
| Less: Retained interests | 194 | 121 | 73 | 21 |
| Net receivables sold as of period end | $ 344 | $ 218 | $ 126 | $ 33 |
| Purchased beneficial interest | $ 18 | $ — | $ — | $ — |
| **Sales during period** | | | | |
| Receivables sold | $ 3,895 | $ 2,253 | $ 1,642 | $ 367 |
| Loss recognized on sale | 38 | 25 | 13 | 4 |
| **Cash flows during period** | | | | |
| Cash proceeds from sold receivables | $ 3,835 | $ 2,213 | $ 1,622 | $ 360 |
| Collection fees received | 2 | 2 | — | — |
| Return received on retained interests | 17 | 10 | 7 | 2 |

(d) *Other*

**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.

**6.** Long–Term Debt

Refer to the Statements of Capitalization for detailed information for **Cinergy's**, **CG&E's**, **PSI's**, and **ULH&P's** 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.

In November 2004, **CG&E** borrowed the proceeds from the Ohio Air Quality Development Authority's issuance of $47 million principal amount of its State of Ohio Air Quality Development Revenue Bonds 2004 Series A and $47 million principal amount of its State of Ohio Air Quality Development Revenue Bonds 2004 Series B (for loans totaling $94 million), both due November 1, 2039. Payment of principal and interest on the Bonds when due is insured by separate bond insurance policies issued by XL Capital Assurance. The initial interest rate for both Series A and Series B was 1.92%. The interest rates on Series A and Series B were initially reset on January 5, 2005 and January 12, 2005, respectively, and then every 35 days by auction thereafter. Because the holders cannot tender the Bonds for purchase by the issuer while the Bonds are in the auction rate mode, these debt obligations are classified as *Long–term debt*. **CG&E** is using the proceeds from these borrowings to assist in financing its portion of the costs of acquiring, constructing and installing certain solid waste disposal facilities comprising air quality facilities at Units 7 and 8 at **CG&E's** majority–owned Miami Fort Generating Station (Miami Fort Station).

In December 2004, **PSI** borrowed the proceeds from the Indiana Development Finance Authority's issuance of $77 million principal amount of its Environmental Revenue Bonds, Series 2004B and $77 million principal amount of its Environmental Revenue Bonds, Series 2004C, both due December 1, 2039 (for loans totaling $154 million). Payment of principal and interest on the Bonds when due is insured by separate bond insurance policies issued by XL Capital Assurance. The initial interest rate for Series 2004B was 1.80% and for Series 2004C was 1.85%. The interest rates on both Series 2004B and Series 2004C were initially reset on January 11, 2005 and then every 35 days by auction thereafter. Because the holders cannot tender the Bonds for purchase by the issuer while the 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 December 2004, **ULH&P** issued $40 million principal amount of its 5.00% Debentures due December 15, 2014 (effective interest rate of 5.26%). Proceeds from this issuance were used for general corporate purposes and the repayment of outstanding indebtedness.

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.

Also 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 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.

In January 2006, **ULH&P** assumed responsibility for principal and interest payments on $61 million of **CG&E's** long-term pollution control bonds in conjunction with the transfer of certain generating assets to **ULH&P**. The bonds will still remain on **CG&E's** balance sheet and **ULH&P's** obligation will be reflected as an intercompany note payable from **ULH&P** to **CG&E**. See Note 22 for additional information.

The following table reflects the long-term debt maturities excluding any redemptions due to the exercise of call provisions or capital lease obligations. Callable means we have the right to buy back a given security from the holder at a specified price before maturity.

**Long-term Debt Maturities**

| | Cinergy(1) | CG&E and subsidiaries | PSI | ULH&P |
|---|---|---|---|---|
| | (in millions) | | | |
| 2006 | $ 353 | $ — | $ 325 | $ — |
| 2007 | 728 | 100 | 268 | — |
| 2008 | 550 | 120 | 43 | 20 |
| 2009 | 272 | 20 | 223 | 20 |

| | | | | |
|---|---|---|---|---|
| 2010 | 18 | — | 2 | — |
| Thereafter | 2,872 | 1,390 | 1,342 | 55 |
| Total | $ 4,793 | $ 1,630 | $ 2,203 | $ 95 |

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

Maintenance and replacement fund provisions contained in **PSI's** first mortgage bond indenture require: (1) cash payments, (2) bond retirements, or (3) pledges of unfunded property additions each year based on an amount related to **PSI's** net revenues.

**CG&E's** transmission and distribution assets of approximately $2.9 billion are subject to the lien of its first mortgage bond indenture. The utility property of **PSI** is also subject to the lien of its first mortgage bond indenture.

As discussed previously, **CG&E** and **PSI** periodically borrowed proceeds from the issuance of tax–exempt bonds for the purpose of funding the acquisition and construction of solid waste disposal facilities located at various generating stations in Indiana and Ohio. Because some of these facilities have not commenced construction and others are not yet complete, proceeds from the borrowings have been placed in escrow with a trustee and may be drawn upon only as facilities are built and qualified costs incurred. In the event any of the proceeds are not drawn, **CG&E** and **PSI** would eventually be required to return the unused proceeds to bondholders. **CG&E** and **PSI** expect to draw down all of the proceeds over the next two years.

**7.** Notes Payable and Other Short–term Obligations

Short–term obligations may include:

- short–term notes;
- variable rate pollution control notes;
- commercial paper; and
- money pool.

**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*:

| | December 31, 2005 | | | December 31, 2004 | | |
|---|---|---|---|---|---|---|
| | Established Lines | Outstanding | Weighted Average Rate | Established Lines | Outstanding | Weighted Average Rate |
| | | (in millions) | | | | |
| **Cinergy** | | | | | | |
| **Cinergy Corp.** | | | | | | |
| Revolving line(1) | $ 2,000 | $ — | — % | $ 2,000 | $ — | — % |
| Uncommitted lines | 40 | — | — | 40 | — | — |
| Commercial paper(2) | | 515 | 4.43 | | 675 | 2.45 |
| Utility operating companies | | | | | | |
| Uncommitted lines | 75 | — | — | 75 | — | — |
| Pollution control notes | | 298 | 4.00 | | 248 | 2.43 |
| Non–regulated subsidiaries | | | | | | |
| Revolving lines(3) | 162 | 77 | 4.95 | 158 | — | — |
| Short–term debt | | 9 | 9.96 | | — | — |
| Pollution control notes | | 25 | 3.90 | | 25 | 2.30 |
| **Cinergy Total** | | $ 924 | 4.37 % | | $ 948 | 2.44 % |
| **CG&E** and subsidiaries | | | | | | |
| Uncommitted lines | $ 15 | $ — | — % | $ 15 | $ — | — % |
| Pollution control notes | | 112 | 3.86 | | 112 | 2.34 |
| Money pool | | 114 | 4.41 | | 180 | 2.38 |
| **CG&E Total** | | $ 226 | 4.14 % | | $ 292 | 2.36 % |
| **PSI** | | | | | | |
| Uncommitted lines | $ 60 | $ — | — % | $ 60 | $ — | — % |
| Pollution control notes | | 186 | 4.07 | | 136 | 2.49 |
| Money pool | | 250 | 4.41 | | 130 | 2.38 |
| **PSI Total** | | $ 436 | 4.27 % | | $ 266 | 2.44 % |
| **ULH&P** | | | | | | |
| Money pool | | $ 30 | 4.41 % | | $ 11 | 2.38 % |
| **ULH&P Total** | | $ 30 | 4.41 % | | $ 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 $100 million sublimit for **ULH&P** (which was increased from $65 million in conjunction with its transaction with **CG&E** in which **ULH&P** acquired interests in three of **CG&E's** electric generating stations. See Note 22 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.

(a) *Short-term Notes*

Short-term borrowings mature within one year from the date of issuance. We primarily use an unsecured revolving line of credit and the sale of commercial paper for short-term borrowings. A portion of **Cinergy Corp.'s** revolving line is used to provide credit support for commercial paper and letters of credit. When the revolving line is reserved for commercial paper or backing letters of credit, it is not available for additional borrowings. The fees paid to secure short-term borrowings were immaterial during each of the years ended December 31, 2005, 2004, and 2003.

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, legal or material adverse change representations and warranties that were in the credit agreements it replaced.

At December 31, 2005, **Cinergy Corp.** had $1.1 billion remaining unused and available capacity relating to its $2 billion revolving credit facility. This 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 | | | $ 515 | |
| Letter of credit support | | | 358 | |
| Total five–year facility(1) | | $ 2,000 | 873 | $ 1,127 |

(1) In September 2005, **Cinergy Corp.** successfully placed a $2 billion senior unsecured revolving credit facility which replaced the $1 billion three–year facility, set to expire in April 2007, and the $1 billion five–year facility, set to expire in December 2009. **CG&E** and **PSI** each have $500 million borrowing sublimits on this facility, and **ULH&P** has a $100 million borrowing sublimit on this facility (which was increased from $65 million in conjunction with its transaction with **CG&E** in which **ULH&P** acquired interests in three of **CG&E's** electric generating stations. See Note 22 for further information regarding this transaction.)

In addition to the revolving credit facility, **Cinergy Corp.**, **CG&E**, and **PSI** also maintain uncommitted lines of credit. 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. **Cinergy Corp.**, **CG&E**, and **PSI** have established uncommitted lines of $40 million, $15 million, and $60 million, respectively, all of which remained unused as of December 31, 2005.

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

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

A breach of these covenants could result in the termination of the credit facility and the acceleration of the related indebtedness. In addition to breaches of covenants, certain other events that could result in the termination of the 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. In no event shall a default on the part of **CG&E**, **PSI**, or **ULH&P** result solely from a default on the part of any other borrower, including **Cinergy**. As of December 31, 2005, **Cinergy**, **CG&E**, **PSI,** and **ULH&P** are in compliance with all of their debt covenants.

(b) *Variable Rate Pollution Control Notes*

**CG&E** and **PSI** have issued certain variable rate pollution control notes (tax–exempt notes obtained to finance equipment or land development for pollution control purposes). Because the holders of these notes have the right to have their notes redeemed on a daily, weekly, or monthly basis, they are reflected in *Notes payable and other short–term obligations* on the Balance Sheets of **Cinergy**, **CG&E**, and **PSI**. At December 31, 2005, **Cinergy**, **CG&E** and **PSI** had $323 million, $112 million and $186 million, respectively, outstanding in variable rate pollution control notes, classified as short–term debt. **ULH&P** had no outstanding short–term pollution control notes. Any short–term pollution control note borrowings outstanding do not reduce the unused and available short–term debt regulatory authority of **CG&E**, **PSI**, and **ULH&P**.

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% 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 funds are 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.

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* on **Cinergy's** and **PSI's** Balance Sheets. **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.

In January 2006, **ULH&P** assumed responsibility for principal and interest payments on $16 million of **CG&E's** redeemable variable rate pollution control bonds in conjunction with the transfer of certain generating assets to **ULH&P**. The bonds will still remain on **CG&E's** balance sheet and **ULH&P's** obligation will be reflected as an intercompany note payable from **ULH&P** to **CG&E**. See Note 22 for additional information.

(c) *Commercial Paper*

**Cinergy Corp.'s** commercial paper program is supported by **Cinergy Corp.'s** $2 billion revolving credit facility. 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 December 31, 2005, **Cinergy Corp.** had $515 million in commercial paper outstanding.

(d) *Money Pool*

**Cinergy Corp.**, Services, and our utility operating companies participate in a money pool arrangement to better manage cash and working capital requirements. Under this arrangement, those companies with surplus short–term funds provide short–term loans to affiliates (other than **Cinergy Corp.**) participating under this arrangement. This surplus cash may be from internal or external sources. The amounts outstanding under this money pool arrangement are shown as a component of *Notes receivable from affiliated companies* and/or *Notes payable to affiliated companies* on the Balance Sheets of **CG&E**, **PSI**, and **ULH&P**. Any money pool borrowings outstanding reduce the unused and available short–term debt regulatory authority of **CG&E**, **PSI**, and **ULH&P**.

**8.** Leases

(a) *Operating Leases*

We have entered into operating lease agreements for various facilities and properties such as computer, communication and transportation equipment, and office space. Total rental payments on operating leases for each of the past three years are detailed in the following table. This table also shows future minimum lease payments required for operating leases with remaining non–cancelable lease terms in excess of one year as of December 31, 2005:

| | Lease Expense | | | Estimated Minimum Lease Payments | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | Thereafter | Total |
| | | | | | | (in millions) | | | | |
| **Cinergy(1)** | $ 72 | $ 85 | **$ 66** | $ 44 | $ 36 | $ 26 | $ 18 | $ 14 | $ 25 | $ 163 |
| **CG&E** and subsidiaries | 34 | 36 | **30** | 9 | 7 | 6 | 4 | 3 | 4 | 33 |
| **PSI** | 31 | 32 | **27** | 11 | 10 | 9 | 7 | 6 | 10 | 53 |
| **ULH&P** | 4 | 4 | **2** | — | — | — | — | — | — | — |

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

(b) *Capital Leases*

In each of the years 1999 through 2005, **CG&E**, **PSI**, and **ULH&P** entered into capital lease agreements to fund the purchase of gas and electric meters, and associated equipment. The lease terms are for 120 months commencing with the date of purchase and contain buyout options ranging from 105 to 108 months. The first buyout will occur in December 2008 and each year thereafter. It is our objective to own the meters and associated equipment indefinitely and the operating companies plan to exercise the buyout option at month 105. As of December 31, 2005, **Cinergy's** effective interest rate on capital lease obligations outstanding was 5.5 percent. The meters and associated equipment are depreciated at the same rate as if owned by the operating companies. **CG&E**, **PSI**, and **ULH&P** each recorded a capital lease obligation, included in *Non–Current Liabilities–Other*.

The total minimum lease payments and the present values for these capital lease items are shown below:

| | Total Minimum Lease Payments | | | |
|---|---|---|---|---|
| | Cinergy | CG&E and subsidiaries | PSI | ULH&P |
| | | (in millions) | | |
| Total minimum lease payments(1) | $ 91 | $ 60 | $ 32 | $ 16 |
| Less: amount representing interest | 17 | 12 | 6 | 4 |
| Present value of minimum lease payments | $ 74 | $ 48 | $ 26 | $ 12 |

(1) Annual minimum lease payments are immaterial.

**9.** Financial Instruments

(a) *Financial Derivatives*

We have entered into financial derivative contracts for the purpose of managing financial instrument risk.

Our current policy of managing exposure to fluctuations in interest rates is to maintain approximately 30 percent of the total amount of outstanding debt in variable interest rate debt instruments. In maintaining this level of exposure, we use interest rate swaps. Under the swaps, we agree with other parties to exchange, at specified intervals, the difference between fixed rate and variable rate interest amounts calculated on an agreed notional amount.

**CG&E** has an outstanding interest rate swap agreement that decreased the percentage of variable rate debt. Under the provisions of the swap, which has a notional amount of $100 million, **CG&E** pays a fixed rate and receives a variable rate through October 2007. This swap qualifies as a cash flow hedge under the provisions of Statement 133. As the terms of the swap agreement mirror the terms of the debt agreement that it is hedging, we anticipate that this swap will continue to be effective as a hedge. Changes in fair value of this swap are recorded in *Accumulated other comprehensive income (loss)*.

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 that they will be highly effective hedges. Changes in the fair value of these swaps are recorded in *Accumulated other comprehensive income (loss)*.

See Note 1(m)(*ii*) for additional information on financial derivatives. In the future, we will continually monitor market conditions to evaluate whether to modify our use of financial derivative contracts to manage financial instrument risk.

(b) *Fair Value of Other Financial Instruments*

The estimated fair values of other financial instruments were as follows (this information does not claim to be a valuation of the companies as a whole):

| | December 31, 2005 | | December 31, 2004 | |
|---|---|---|---|---|
| Financial Instruments | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | (in millions) | | | |
| **Cinergy(1)** | | | | |
| First mortgage bonds and other long–term debt(2) | **$ 4,746** | **$ 4,831** | $ 4,447 | $ 4,710 |
| **CG&E** and subsidiaries | | | | |
| First mortgage bonds and other long–term debt(2) | **$ 1,595** | **$ 1,609** | $ 1,594 | $ 1,641 |
| **PSI** | | | | |
| First mortgage bonds and other long–term debt(2) | **$ 2,194** | **$ 2,215** | $ 1,874 | $ 1,999 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **ULH&P** | | | | | | | | |
| Other long–term debt | **$** | **94** | **$** | **96** | $ | 94 | $ | 99 |

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

(2) Includes amounts reflected as *Long–term debt due within one year.*

The following methods and assumptions were used to estimate the fair values of each major class of instruments:

*(i) Cash and cash equivalents, Restricted deposits, and Notes payable and other short–term obligations*

Due to the short period to maturity, the carrying amounts reflected on the Balance Sheets approximate fair values.

*(ii) Long–term debt*

The fair values of long–term debt issues were estimated based on the latest quoted market prices or, if not listed on the New York Stock Exchange, on the present value of future cash flows. The discount rates used approximate the incremental borrowing costs for similar instruments.

(c) *Credit Risk*

Credit risk is the exposure to economic loss that would occur as a result of nonperformance by counterparties, pursuant to the terms of their contractual obligations. Specific components of credit risk include counterparty default risk, collateral risk, concentration risk, and settlement risk.

*(i) Trade Receivables and Physical Power Portfolio*

Our concentration of credit risk with respect to trade accounts receivable from electric and gas retail customers is limited. The large number of customers and diversified customer base of residential, commercial, and industrial customers significantly reduces our credit risk. Contracts within the physical portfolio of power marketing and trading operations are primarily with traditional electric cooperatives and municipalities and other investor–owned utilities. At December 31, 2005, we believe the likelihood of significant losses associated with credit risk in our trade accounts receivable or physical power portfolio is remote.

*(ii) 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 December 31, 2005, 95 percent of **Cinergy's** credit exposure and 89 percent of **CG&E's** 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. **Cinergy's** remaining five percent represents credit exposure of $74 million and **CG&E's** remaining 11 percent represents credit exposure of $38 million with counterparties rated non–investment grade.

As of December 31, 2005, **CG&E** had a concentration of trading credit exposure of $62 million with one counterparty accounting for greater than 10 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. If 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.

*(iii) Financial Derivatives*

Potential exposure to credit risk also exists from our use of financial derivatives such as interest rate swaps and treasury locks. Because these financial instruments are transacted with highly rated financial institutions, we do not anticipate nonperformance by any of the counterparties.

**10.** Notes Receivable

**Cinergy** has approximately $194 million and $214 million of notes receivable as of December 31, 2005 and 2004, respectively, comprised of two separate notes with one counterparty. The credit rating of the counterparty is BBB.

The first note, with a December 31, 2005 balance of $82 million and a December 31, 2004 balance of $101 million, bears an effective interest rate of 7.81 percent and matures in August 2009. The second note, with a balance of $112 million as of December 31, 2005 and $113 million as of December 31, 2004, bears an effective interest rate of 9.23 percent and matures in December 2016.

The following table reflects the maturities of these notes as of December 31, 2005.

**Notes Receivable Maturities**
**(in millions)**

| | |
|---|---|
| 2006 | $ 23 |
| 2007 | 25 |
| 2008 | 29 |
| 2009 | 24 |
| 2010 | 8 |
| Thereafter | 85 |
| Total | $ 194 |

**11.** Pension and Other Postretirement Benefits

**Cinergy Corp.** sponsors both pension and other postretirement benefit plans.

Our qualified defined benefit pension plans cover substantially all United States employees meeting certain minimum age and service requirements. During 2002, eligible **Cinergy** employees were offered the opportunity to make a one–time election, effective January 1, 2003, to either continue to have their pension benefit determined by the traditional defined benefit pension formula or to have their benefit determined using a cash balance formula. A similar election was provided to certain union employees at a later time.

The traditional defined benefit program utilizes a final average pay formula to determine pension benefits. These benefits are based on:

- years of participation;
- age at retirement; and

- the applicable average Social Security wage base.

Benefits are accrued under the cash balance formula based upon a percentage of pension eligible earnings plus interest. In addition, participants with the cash balance formula may request a lump-sum cash payment upon termination of their employment, which may result in increased cash requirements from pension plan assets. At the effective time of the election, benefits ceased accruing under the traditional defined benefit pension formula for employees who elected the cash balance formula. There was no change to retirement benefits earned prior to the effective time of the election. The pension benefits of all non-union and certain union employees hired after

December 31, 2002 are calculated using the cash balance formula. At December 31, 2005, approximately 81 percent of **Cinergy's** employees remain in the traditional defined benefit program.

The introduction of the cash balance features to our defined benefit plans did not have a material effect on our financial position or results of operations.

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.

**Cinergy's** investment strategy with respect to pension assets is designed to achieve a moderate level of overall portfolio risk in keeping with our desired risk objective, which is established through careful consideration of plan liabilities, plan funded status, and corporate financial condition. The portfolio's target asset allocation is 60 percent equity and 40 percent debt with specified allowable ranges around these targets. Within the equity segment, we are broadly diversified across domestic, developed international and emerging market equities, with the largest concentration being domestic. Further diversification is achieved through allocations to growth/value and small–, mid–, and large–cap equities. Within the debt segment, we principally maintain separate "core plus" and "core" portfolios. The "core plus" portfolio makes tactical use of the "plus" sectors (e.g., high yield, developed international, emerging markets, etc.) while the "core" portfolio is a domestic, investment grade portfolio. In late 2004, **Cinergy** commenced the implementation of alternative investment strategies in its investment program. The initial allocation incorporated an investment in a hedge fund of funds in conjunction with an S&P 500 swaps and futures overlay program and is classified as part of our large–cap United States equity allocation. In 2005, a commitment was made to a private equity fund of funds with funding expected to occur over an approximate three–year period. Fund of funds are limited partnership vehicles that allocate invested capital to underlying funds (e.g. hedge funds or private equity) that pursue various investment strategies. Other than the hedge fund of funds strategy, the use of derivatives is currently limited to collateralized mortgage obligations and asset–backed securities. Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews, annual liability measurements, and periodic asset/liability studies.

**Cinergy** uses a September 30 measurement date for its defined benefit pension plans. The asset allocation at September 30, 2005 and 2004 by asset category was as follows:

| | Percentage of Fair Value of Plan Assets at September 30 | |
|---|---|---|
| Asset Category | 2005 | 2004 |
| Equity securities(1) | **62%** | 62% |
| Debt securities(2) | **37%** | 38% |
| Cash | **1%** | —% |

(1) The portfolio's target asset allocation is 60 percent equity with an allowable range of 50 percent to 70 percent.

(2) The portfolio's target asset allocation is 40 percent debt with an allowable range of 30 percent to 50 percent.

In addition, **Cinergy Corp.** sponsors 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 began funding certain of these non–qualified plans through a rabbi trust in 1999. This trust, which consists of equity (64 percent) and debt (36 percent) securities at December 31, 2005, is not restricted to the payment of plan benefits and therefore, not considered plan assets under Statement 87. Trust assets were approximately $10 million, for both the years ended December 31, 2005 and 2004, and are reflected in **Cinergy's** Balance Sheets as *Other investments.*

**Cinergy Corp.** provides 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. Neither **CG&E** nor **ULH&P** pre–fund their obligations for these postretirement benefits. In 1999, **PSI** began pre–funding its obligations through a

grantor trust as authorized by the IURC. This trust, which consists of equity (65 percent) and debt (35 percent) securities at December 31, 2005, is not restricted to

the payment of plan benefits and therefore, not considered plan assets under Statement 106. At December 31, 2005 and 2004, trust assets were approximately $74 million and $71 million, respectively, and are reflected in **Cinergy's** Balance Sheets as *Other investments*.

Qualified pension benefit contributions for 2005 were $102 million. Based on preliminary estimates, we expect 2006 contributions of approximately $120 million for qualified pension benefits. As discussed previously, we do not hold "plan assets" as defined by Statement 87 and Statement 106 for our non-qualified pension plans and other postretirement benefit costs, and therefore contributions are equal to the benefit payments presented in the following table.

The following estimated benefits payments, which reflect future service, are expected to be paid:

| | Qualified Pension Benefits | Non-Qualified Pension Benefits | Other Postretirement Benefits |
|---|---|---|---|
| | | (in millions) | |
| **2006** | $ 79 | $ 10 | $ 25 |
| **2007** | 79 | 10 | 26 |
| **2008** | 81 | 10 | 27 |
| **2009** | 83 | 14 | 28 |
| **2010** | 86 | 10 | 29 |
| **Five years thereafter** | 508 | 56 | 166 |

Our benefit plans' costs for the past three years included the following components:

| | Qualified Pension Benefits | | | Non-Qualified Pension Benefits | | | Other Postretirement Benefits | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2005 | 2004 | 2003 | 2005 | 2004 | 2003 | 2005 | 2004 | 2003 |
| | | | | | (in millions) | | | | |
| Service cost | **$ 38** | $ 35 | $ 31 | **$ 6** | $ 5 | $ 3 | **$ 6** | $ 5 | $ 4 |
| Interest cost | **96** | 89 | 86 | **7** | 7 | 7 | **23** | 22 | 23 |
| Expected return on plans' assets | **(88)** | (81) | (81) | **—** | — | — | **—** | — | — |
| Amortization of transition (asset) obligation | **—** | (1) | (1) | **—** | — | — | **1** | 1 | 3 |
| Amortization of prior service cost | **5** | 5 | 5 | **2** | 2 | 1 | **(1)** | — | — |
| Recognized actuarial gain | **8** | 2 | — | **2** | 2 | 2 | **11** | 8 | 5 |
| Voluntary early retirement costs (Statement 88)(1) | **—** | — | 9 | **—** | — | — | **—** | — | — |
| Net periodic benefit cost | **$ 59** | $ 49 | $ 49 | **$ 17** | $ 16 | $ 13 | **$ 40** | $ 36 | $ 35 |

(1) SFAS No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits* (Statement 88).

The net periodic benefit cost by registrant was as follows:

| | Qualified Pension Benefits | | | Non-Qualified Pension Benefits | | | Other Postretirement Benefits | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2005 | 2004 | 2003 | 2005 | 2004 | 2003 | 2005 | 2004 | 2003 |
| | | | | | (in millions) | | | | |
| **Cinergy(1)** | **$ 59** | $ 49 | $ 49 | **$ 17** | $ 16 | $ 13 | **$ 40** | $ 36 | $ 35 |
| **CG&E** and subsidiaries | **13** | 15 | 10 | **1** | 1 | 1 | **8** | 9 | 9 |
| **PSI** | **11** | 13 | 12 | **1** | 1 | 1 | **15** | 20 | 18 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **ULH&P** | **1** | 1 | 1 | — | — | — | **1** | 1 | 1 |

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

The following table provides a reconciliation of the changes in the plans' benefit obligations and fair value of assets for 2005 and 2004, and a statement of the funded status for both years. **Cinergy** uses a September 30 measurement date for its defined benefit pension plans and other postretirement benefit plans.

| | Qualified Pension Benefits | | Non-Qualified Pension Benefits | | Other Postretirement Benefits | |
|---|---|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| | (in millions) | | | | | |
| **Change in benefit obligation** | | | | | | |
| Benefit obligation at beginning of period | $ 1,578 | $ 1,458 | $ 120 | $ 108 | $ 409 | $ 399 |
| Service cost | 38 | 35 | 6 | 5 | 6 | 5 |
| Interest cost | 96 | 88 | 7 | 7 | 23 | 22 |
| Amendments | (1) | (1) | 3 | 8 | (1) | (24) |
| Actuarial (gain) loss | 120 | 69 | 19 | — | (3) | 27 |
| Benefits paid | (80) | (71) | (8) | (8) | (20) | (20) |
| Benefit obligation at end of period | 1,751 | 1,578 | 147 | 120 | 414 | 409 |
| **Change in plan assets** | | | | | | |
| Fair value of plan assets at beginning of period | 1,021 | 877 | — | — | — | — |
| Actual return on plan assets | 127 | 98 | — | — | — | — |
| Employer contribution | 102 | 117 | 8 | 8 | 19 | 20 |
| Benefits paid | (81) | (71) | (8) | (8) | (19) | (20) |
| Fair value of plan assets at end of period | 1,169 | 1,021 | — | — | — | — |
| **Funded status** | (582) | (557) | (147) | (120) | (414) | (409) |
| Unrecognized prior service cost | 24 | 30 | 19 | 19 | (2) | (2) |
| Unrecognized net actuarial loss | 378 | 304 | 56 | 38 | 175 | 189 |
| Unrecognized net transition (asset) obligation | — | — | — | — | 2 | 4 |
| Employer contribution | — | — | 2 | 2 | 6 | 5 |
| Accrued benefit cost at December 31 | $ (180) | $ (223) | $ (70) | $ (61) | $ (233) | $ (213) |
| **Amounts recognized in balance sheets** | | | | | | |
| Accrued benefit liability | $ (366) | $ (366) | $ (130) | $ (109) | $ (233) | $ (213) |
| Intangible asset | 24 | 30 | 19 | 19 | — | — |
| Accumulated other comprehensive income (pre-tax) | 162 | 113 | 41 | 29 | — | — |
| Net recognized at end of period | $ (180) | $ (223) | $ (70) | $ (61) | $ (233) | $ (213) |

The accumulated benefit obligation for the qualified defined benefit pension plans was approximately $1,535 million and approximately $1,387 million for 2005 and 2004, respectively. The accumulated benefit obligation for the non-qualified defined benefit pension plans was approximately $132 million and $111 million for 2005 and 2004, respectively.

The weighted-average assumptions used to determine benefit obligations were as follows:

| | Qualified Pension Benefits | | Non-Qualified Pension Benefits | | Other Postretirement Benefits | |
|---|---|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Discount rate | **5.75%** | 6.25% | **5.75%** | 6.25% | **5.50%** | 5.75% |
| Rate of future compensation increase | **4.00** | 4.00 | **4.00** | 4.00 | **N/A** | N/A |

The weighted–average assumptions used to determine net periodic benefit cost for the years ended December 31, 2005, 2004, and 2003 were as follows:

| | Qualified Pension Benefits | | | Non–Qualified Pension Benefits | | | Other Postretirement Benefits | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2005 | 2004 | 2003 | 2005 | 2004 | 2003 | 2005 | 2004 | 2003 |
| Discount rate | **5.75%** | 6.25% | 6.75% | **5.75%** | 6.25% | 6.75% | **5.50%** | 6.25% | 6.75% |
| Expected return on plans' assets | **8.50** | 8.50 | 9.00 | **N/A** | N/A | N/A | **N/A** | N/A | N/A |
| Rate of future compensation increase | **4.00** | 4.00 | 4.00 | **4.00** | 4.00 | 4.00 | **N/A** | N/A | N/A |

Our discount rate is determined by matching the anticipated payouts under our pension and postretirement plans to the rates from a hypothetical spot rate yield curve. The curve is created by deriving the rates for hypothetical zero coupon bonds from high–yield double A coupon bonds of varying maturities. Non–callable bonds and outliers (defined as bonds with yields outside of two standard deviations from the mean) are excluded in computing the yield curve.

The calculation of **Cinergy's** expected long–term rate of return is a two–step process. Capital market assumptions (e.g., forecasts) are first developed for various asset classes based on underlying fundamental and economic drivers of performance. Such drivers for equity and debt instruments include profit margins, dividend yields, and interest paid for use of capital. Risk premiums for each asset class are then developed based on factors such as expected liquidity, credit spreads, inflation uncertainty and country/currency risk. Current valuation factors such as present interest and inflation rate levels underpin this process.

The assumptions are then modeled via a probability based multi–factor capital market methodology. Through this modeling process, a range of possible 10–year annualized returns are generated for each strategic asset class. Those returns falling at the 50$^{th}$ percentile are utilized in the calculation of **Cinergy's** expected long–term rate of return.

The assumed health care cost trend rates were as follows:

| | 2005 | 2004 |
|---|---|---|
| Health care cost trend rate assumed for next year | **7.00%** | 8.00% |
| Rate to which the cost trend rate is assumed to decline (the ultimate trend rate) | **5.00%** | 5.00% |
| Year that the rate reaches the ultimate trend rate | **2008** | 2008 |

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. Our health care cost trend is calculated using healthcare inflation rates, Gross Domestic Product growth, Medicare integration, allowances for plan design variables, and other cost drivers. A one–percentage–point change in assumed health care cost trend rates would have the following effects:

| | One–Percentage–Point Increase | One–Percentage–Point Decrease |
|---|---|---|
| | (in millions) | |
| Effect on total of service and interest cost components | $ 4 | $ (4) |
| Effect on APBO | 47 | (42) |

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 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 and 2005 net periodic benefit cost was 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.*

In January 2004, **Cinergy** announced to employees the creation of a new retiree Health Reimbursement Account (HRA) option, which will impact the postretirement healthcare benefits provided by **Cinergy**. HRAs are bookkeeping accounts that can be used to pay for qualified medical expenses after retirement. The majority of employees had the opportunity during the Fall of 2004 to make a one–time election to remain in **Cinergy's** current retiree healthcare program or to move to the new HRA option. Approximately 40 percent of **Cinergy's** employees elected the new HRA option. The HRA option has no effect on current retirees receiving postretirement benefits from **Cinergy**. As is the case under the current retiree health program, employees who participate in the HRA option, generally, will become eligible to receive their HRA benefit only upon retirement on or after the age of 50 with at least five years of service. We expect that the impact of the new HRA option will not be material to our other postretirement benefit costs.

**12.** Income Taxes

The following table shows the significant components of **Cinergy's**, **CG&E's**, **PSI's**, and **ULH&P's** net deferred income tax liabilities as of December 31:

| | Cinergy(1) | | CG&E and subsidiaries | | PSI | | ULH&P | |
|---|---|---|---|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| | | | | (in millions) | | | | |
| **Deferred Income Tax Liability** | | | | | | | | |
| Property, plant, and equipment | **$ 1,620** | $ 1,706 | **$ 951** | $ 971 | **$ 604** | $ 656 | **$ 57** | $ 63 |
| Unamortized costs of reacquiring debt | **18** | 15 | **5** | 6 | **13** | 9 | **1** | — |
| Deferred operating expenses and carrying costs | **12** | — | **1** | — | **11** | — | **1** | — |
| Purchased power tracker | **1** | 4 | **—** | — | **1** | 4 | **—** | — |
| RTC | **163** | 194 | **163** | 194 | **—** | — | **—** | — |
| Net energy risk management assets | **47** | 51 | **1** | 5 | **—** | — | **—** | — |
| Amounts due from customers–income taxes | **37** | 39 | **28** | 28 | **9** | 11 | **—** | 2 |
| Gasification services agreement buyout costs | **82** | 86 | **—** | — | **82** | 86 | **—** | — |
| Other | **35** | 21 | **14** | 19 | **17** | 7 | **1** | — |
| **Total Deferred Income Tax Liability** | **2,015** | 2,116 | **1,163** | 1,223 | **737** | 773 | **60** | 65 |
| **Deferred Income Tax Asset** | | | | | | | | |
| Unamortized investment tax credits | **35** | 39 | **25** | 29 | **9** | 11 | **1** | 1 |
| Accrued pension and other postretirement benefit costs | **211** | 222 | **63** | 60 | **70** | 65 | **4** | 5 |
| Net energy risk management liabilities | **8** | 28 | **—** | — | **8** | 28 | **—** | — |
| Deferred operating expenses and carrying costs | **2** | 25 | **—** | 9 | **—** | — | **—** | — |
| Rural Utilities Service obligation | **27** | 27 | **—** | — | **27** | 27 | **—** | — |
| Tax credit carryovers | **163** | 121 | **—** | — | **—** | — | **—** | — |
| Other | **46** | 66 | **20** | 34 | **13** | 4 | **2** | 1 |
| **Total Deferred Income Tax Asset** | **492** | 528 | **108** | 132 | **127** | 135 | **7** | 7 |
| **Net Deferred Income Tax Liability** | **$ 1,523** | $ 1,588 | **$ 1,055** | $ 1,091 | **$ 610** | $ 638 | **$ 53** | $ 58 |

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

**Cinergy** and its subsidiaries file a consolidated federal income tax return and combined/consolidated state and local tax returns in certain jurisdictions. The corporate taxable income method is used to allocate tax benefits to the subsidiaries whose investments or results of operations provide those tax benefits. Any tax liability not directly attributable to a specific subsidiary is allocated

proportionately among the subsidiaries as required by the agreement.

The following table summarizes federal and state income taxes charged (credited) to income for **Cinergy**, **CG&E**, **PSI**, and **ULH&P**:

| | Cinergy(1) | | | CG&E and subsidiaries | | | PSI | | | ULH&P | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2005 | 2004 | 2003 | 2005 | 2004 | 2003 | 2005 | 2004 | 2003 | 2005 | 2004 | 2003 |
| | (in millions) | | | | | | | | | | | |
| **Current Income Taxes** | | | | | | | | | | | | |
| Federal | **$ 107** | $ 78 | $ 34 | **$ 213** | $ 88 | $ 84 | **$ 126** | $ 52 | $ 45 | **$ 5** | $ 3 | $ 1 |
| State | **30** | 30 | 25 | **15** | 17 | 12 | **25** | 11 | 17 | **1** | — | 1 |
| **Total Current Income Taxes** | **137** | 108 | 59 | **228** | 105 | 96 | **151** | 63 | 62 | **6** | 3 | 2 |
| **Deferred Income Taxes** | | | | | | | | | | | | |
| Federal | | | | | | | | | | | | |
| Depreciation and other property, plant, and equipment–related items | **(96)** | 126 | 130 | **(38)** | 76 | 74 | **(58)** | 61 | 41 | **(4)** | 7 | 8 |
| Pension and other postretirement benefit costs | **5** | (29) | 23 | **2** | — | 10 | **2** | (14) | 7 | **1** | — | — |
| Unrealized energy risk management transactions | **9** | 26 | 6 | **(20)** | 13 | 5 | — | 1 | 1 | — | — | — |
| Fuel costs | **32** | (48) | 7 | **10** | (27) | 5 | **22** | (21) | 3 | **1** | (1) | — |
| Purchased power tracker | **(2)** | 4 | (5) | — | 5 | — | **(2)** | (1) | (7) | — | — | — |
| Gasification services agreement buyout costs | **(3)** | — | (3) | — | — | — | **(3)** | — | (3) | — | — | — |
| Tax credit carryovers | **(47)** | (75) | (47) | — | — | — | — | — | — | — | — | — |
| Other–net | **34** | 3 | (40) | **(1)** | (7) | (20) | **9** | 13 | (8) | **3** | — | (2) |
| **Total Deferred Federal Income Taxes** | **(68)** | 7 | 71 | **(47)** | 60 | 74 | **(30)** | 39 | 34 | **1** | 6 | 6 |
| State | **35** | (4) | 22 | **8** | (1) | 13 | **9** | 13 | 8 | **1** | 1 | 2 |
| **Total Deferred Income Taxes** | **(33)** | 3 | 93 | **(39)** | 59 | 87 | **(21)** | 52 | 42 | **2** | 7 | 8 |
| **Investment Tax Credits–Net** | **(8)** | (8) | (8) | **(5)** | (5) | (5) | **(3)** | (3) | (3) | — | — | — |
| **Total Income Taxes** | **$ 96** | $ 103 | $ 144 | **$ 184** | $ 159 | $ 178 | **$ 127** | $ 112 | $ 101 | **$ 8** | $ 10 | $ 10 |

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

Internal Revenue Code (IRC) Section 29/45K provides a tax credit (nonconventional fuel source credit) for qualified fuels produced and sold by a taxpayer to an unrelated person during the taxable year. The nonconventional fuel source credit reduced current federal income tax expense approximately $124 million, $98 million, and $84 million for 2005, 2004, and 2003, respectively. See Note 13(c)(*ii*) for further information on this tax credit.

The following table presents a reconciliation of federal income taxes (which are calculated by multiplying the statutory federal income tax rate by book income before federal income tax) to the federal income tax expense reported in the Statements of Income for **Cinergy**, **CG&E**, **PSI**, and **ULH&P**.

| | Cinergy(1) | | | CG&E and subsidiaries | | | PSI | | | ULH&P | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2005 | 2004 | 2003 | 2005 | 2004 | 2003 | 2005 | 2004 | 2003 | 2005 | 2004 | 2003 |
| | (in millions) | | | | | | | | | | | |
| Statutory federal income tax provision | **$ 182** | $ 167 | $ 186 | **$ 162** | $ 140 | $ 158 | **$ 102** | $ 89 | $ 73 | **$ 7** | $ 9 | $ 9 |
| Increases (reductions) in taxes resulting from: | | | | | | | | | | | | |
| Amortization of investment tax credits | **(8)** | (8) | (8) | **(5)** | (5) | (5) | **(3)** | (3) | (3) | — | — | — |
| Depreciation and other property, plant, and equipment–related differences | **(1)** | 8 | 4 | **3** | 4 | 1 | **(4)** | 4 | 4 | **(1)** | — | (2) |
| Preferred dividend requirements of subsidiaries | — | 1 | 1 | — | — | — | — | — | — | — | — | — |
| Income tax credits | **(124)** | (98) | (84) | — | — | — | — | — | — | — | — | — |
| Foreign tax adjustments | **2** | 4 | 5 | — | — | — | — | — | — | — | — | — |
| ESOP dividend | **(8)** | (7) | (6) | — | — | — | — | — | — | — | — | — |
| Other–net | **(12)** | 11 | (1) | **1** | 4 | (1) | **(3)** | (2) | 2 | — | — | — |
| **Federal Income Tax Expense** | **$ 31** | $ 78 | $ 97 | **$ 161** | $ 143 | $ 153 | **$ 92** | $ 88 | $ 76 | **$ 6** | $ 9 | $ 7 |

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

In January 2006, **ULH&P** completed the acquisition of certain generating assets of **CG&E**. The asset transfer, which occurred at net book value, will increase the net deferred income tax liabilities related to these assets by

approximately $7.4 million over the net deferred tax liabilities recognized by **CG&E** as the result of the change in tax jurisdictions. See Note 22 for additional information on the transfer.

**13.** 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 utilize the $NO^x$ emission allowance market to buy or sell $NO^x$ emission allowances as appropriate. As of December 31, 2005, we have incurred approximately $822 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. At the same time, 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 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), 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. 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 as well as the determination not to regulate mercury under Section 112 of the CAA. In December 2005 and again in January 2006, the EPA reconsidered portions of the CAIR, but did not propose any regulatory changes. At this time we cannot predict the outcome of these matters.

Over the 2006–2010 time period, we expect to spend approximately $1.4 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 53 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)(*ii*) for more details. **CG&E** receives partial recovery of depreciation and financing costs related to environmental compliance projects for 2005–2008 through its RSP. See (b)(*iii*) 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 accepted the appeal and set oral arguments for May 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. 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 (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. After we developed a protocol with several other parties regarding the use of control equipment, one of the parties sought a court preliminary injunction to enforce the protocol. The court initially granted the preliminary injunction, but on appeal the preliminary injunction was dissolved and the case was dismissed.

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 Station 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 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.

*(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 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** 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*

**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. 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 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**.

*(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 Retail Electric Rate Case*

In May 2004, the IURC issued an order approving **PSI's** base retail electric rate case, and **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 resulted in an approximate $140 million increase in annual revenues, and an overall 7.3 percent return, including a 10.5 percent return on equity. In addition, the IURC's order provided **PSI** the continuation of a purchased power tracker and the establishment of new trackers for future $NO^x$ emission allowance costs and certain costs related to the Midwest ISO.

*(ii) 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.

*(iii) 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. We expect the court to decide the case in 2006. **CG&E** cannot predict the outcome of this matter.

**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.

*(iv) 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 December 31, 2005, we have capitalized $61 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 will result 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 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.

*(v) 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 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. Marketing & Trading has reached an agreement in principle to settle this suit for an immaterial amount.

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 synthetic fuel from two facilities that qualify for tax credits (through 2007) in accordance with Section 29/45K of the IRC if certain requirements are satisfied. **Cinergy's** sale of synthetic fuel has generated $339 million in tax credits through December 31, 2005. The 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 $339 million in previously claimed Section 29/45K tax credits for synthetic fuel produced by the applicable **Cinergy** facilities and a loss of our ability to claim future Section 29/45K 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 29/45K.

Section 29/45K 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 that for 2006 and 2007, the amount of the tax credits could be reduced. If oil prices are high enough, we will 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 twelve months ended December 31, 2005 was approximately $58 million. The net book value of our plants at December 31, 2005 was approximately $47 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, for which hearings began in February 2006. **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 December 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 $138 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 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.

*(v) Construction and Other Commitments*

Forecasted construction and other committed expenditures for the year 2006 and for the five–year period 2006–2010 (in nominal dollars) are presented in the table below:

| | 2006 | 2006–2010 |
|---|---|---|
| | (in millions) | |
| **Cinergy(1)** | $ 1,377 | $ 5,539 |
| **CG&E** and subsidiaries | 660 | 2,482 |
| **PSI** | 657 | 2,872 |
| **ULH&P** | 67 | 292 |

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

This forecast includes an estimate of expenditures in accordance with the companies' plans regarding environmental compliance.

**14.** Jointly–Owned Plant

**CG&E**, CSP, and DP&L jointly own electric generating units and related transmission facilities. **PSI** is a joint–owner of Gibson Station Unit No. 5 with Wabash Valley Power Association, Inc. (WVPA), and Indiana Municipal Power Agency (IMPA). Additionally, **PSI** is a joint–owner with WVPA and IMPA of certain transmission property and local facilities. These facilities constitute part of the integrated transmission and distribution systems, which are operated and maintained by **PSI**. The Statements of Income reflect **CG&E's** and **PSI's** portions of all operating costs associated with the jointly–owned facilities.

As of December 31, 2005, **CG&E's** and **PSI's** investments in jointly–owned plant or facilities were as follows:

| | Ownership Share | Property, Plant, and Equipment | Accumulated Depreciation | Construction Work in Progress |
|---|---|---|---|---|
| | | (in millions) | | |
| **CG&E** | | | | |
| Production: | | | | |
| Miami Fort Station (Units 7 and 8) | 64.00% | $ 326 | $ 142 | $ 102 |
| W.C. Beckjord Station (Unit 6) | 37.50 | 46 | 31 | — |
| Stuart Station(1) | 39.00 | 396 | 170 | 51 |
| Conesville Station (Unit 4)(1) | 40.00 | 77 | 50 | 11 |
| Zimmer Station | 46.50 | 1,311 | 460 | 5 |
| East Bend Station(2) | 69.00 | 418 | 205 | 1 |
| Killen Station(1) | 33.00 | 206 | 117 | 7 |
| Transmission: | Various | 88 | 45 | — |
| **PSI** | | | | |
| Production: | | | | |
| Gibson Station (Unit 5) | 50.05 | 283 | 139 | 5 |
| Transmission and local facilities: | 94.37 | 2,662 | 1,064 | — |

(1) Station is not operated by **CG&E**.

(2) See Note 22 for further discussion of the transfer of generation assets in January 2006.

**15.** Quarterly Financial Data (unaudited)

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Total |
|---|---|---|---|---|---|
| | (in millions, except per share amounts) | | | | |
| **Cinergy(1)** | | | | | |
| **2005** | | | | | |
| **Results of Operations:** | | | | | |
| Operating Revenues | $ 1,326 | $ 1,100 | $ 1,355 | $ 1,629 | $ 5,410 |
| Operating Income | 204 | 105 | 222 | 256 | 787 |
| Income before discontinued operations and cumulative effect of changes in accounting principles | 115 | 50 | 133 | 192 | 490 |
| Discontinued operations, net of tax | 2 | 1 | (1) | 1 | 3 |
| Cumulative effect of changes in accounting principles, net of tax | — | — | — | (3) | (3) |
| Net Income | $ 117 | $ 51 | $ 132 | $ 190 | $ 490 |
| **Per Share Data:** | | | | | |
| EPS – basic: | | | | | |
| Income before discontinued operations and cumulative effect of changes in accounting principles | 0.59 | 0.24 | 0.68 | 0.96 | 2.47 |
| Discontinued operations, net of tax | 0.01 | 0.01 | (0.01) | — | 0.01 |
| Cumulative effect of changes in accounting principles, net of tax | — | — | — | (0.01) | (0.01) |
| Net Income | $ 0.60 | $ 0.25 | $ 0.67 | $ 0.95 | $ 2.47 |
| EPS – diluted: | | | | | |
| Income before discontinued operations and cumulative effect of changes in accounting principles | 0.59 | 0.24 | 0.67 | 0.96 | 2.46 |
| Discontinued operations, net of tax | 0.01 | 0.01 | (0.01) | — | 0.01 |
| Cumulative effect of changes in accounting principles, net of tax | — | — | — | (0.01) | (0.01) |
| Net Income | $ 0.60 | $ 0.25 | $ 0.66 | $ 0.95 | $ 2.46 |
| **2004** | | | | | |
| **Results of Operations:** | | | | | |
| Operating Revenues | $ 1,272 | $ 1,037 | $ 1,117 | $ 1,202 | $ 4,628 |
| Operating Income | 213 | 143 | 189 | 202 | 747 |
| Income before discontinued operations | 101 | 65 | 99 | 146 | 411 |
| Discontinued operations, net of tax | 2 | (6) | (6) | — | (10) |
| Net Income | $ 103 | $ 59 | $ 93 | $ 146 | $ 401 |
| **Per Share Data:** | | | | | |
| EPS – basic: | | | | | |
| Income before discontinued operations | 0.56 | 0.36 | 0.54 | 0.81 | 2.27 |
| Discontinued operations, net of tax | 0.01 | (0.03) | (0.03) | — | (0.05) |
| Net Income | $ 0.57 | $ 0.33 | $ 0.51 | $ 0.81 | $ 2.22 |
| EPS – diluted: | | | | | |
| Income before discontinued operations | 0.56 | 0.35 | 0.53 | 0.79 | 2.23 |
| Discontinued operations, net of tax | 0.01 | (0.03) | (0.03) | — | (0.05) |
| Net Income | $ 0.57 | $ 0.32 | $ 0.50 | $ 0.79 | $ 2.18 |

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Total |
|---|---|---|---|---|---|
| | (in millions, except per share amounts ) | | | | |
| **CG&E** and subsidiaries | | | | | |
| **2005** | | | | | |
| **Results of Operations:** | | | | | |
| Operating Revenues | **$ 823** | **$ 620** | **$ 679** | **$ 939** | **$ 3,061** |
| Operating Income | **162** | **92** | **115** | **197** | **566** |
| Income before cumulative effect of changes in accounting principles | **85** | **54** | **63** | **99** | **301** |
| Cumulative effect of changes in accounting principles | **—** | **—** | **—** | **(3)** | **(3)** |
| Net Income | **$ 85** | **$ 54** | **$ 63** | **$ 96** | **$ 298** |
| **2004** | | | | | |
| **Results of Operations:** | | | | | |
| Operating Revenues | $ 765 | $ 546 | $ 554 | $ 646 | $ 2,511 |
| Operating Income | 144 | 106 | 120 | 120 | 490 |
| Net Income | 77 | 55 | 64 | 61 | 257 |
| **PSI** | | | | | |
| **2005** | | | | | |
| **Results of Operations:** | | | | | |
| Operating Revenues | **$ 425** | **$ 428** | **$ 573** | **$ 549** | **$ 1,975** |
| Operating Income | **90** | **95** | **147** | **81** | **413** |
| Net Income | **42** | **43** | **66** | **47** | **198** |
| **2004** | | | | | |
| **Results of Operations:** | | | | | |
| Operating Revenues | $ 416 | $ 414 | $ 480 | $ 444 | $ 1,754 |
| Operating Income | 87 | 67 | 112 | 93 | 359 |
| Net Income | 41 | 25 | 48 | 51 | 165 |

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

**16.** Discontinued Operations

During 2003, **Cinergy** completed the disposal of its gas distribution operation in South Africa, sold its remaining wind assets in the United States, and substantially sold or liquidated the assets of its energy marketing business in the Czech Republic.

As a result of the 2003 transactions, assets of approximately $140 million were sold or converted into cash and liabilities of approximately $100 million were assumed by buyers or liquidated. The net, after–tax, gain from these disposal and liquidation transactions was approximately $9 million (including a net, after–tax, cumulative currency translation gain of approximately $6 million).

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. As of December 31, 2005, this subsidiary had assets of approximately $34 million and liabilities of approximately $29 million. In 2005, **Cinergy** recognized a $17 million impairment charge to value this business to its estimated fair value less cost to sell in accordance with being deemed held for sale.

The three consolidated entities above have been presented as *Discontinued operations, net of tax* in **Cinergy's** Consolidated Statements of Income and as *Assets/Liabilities of Discontinued Operations* in **Cinergy's** Consolidated

Balance Sheets. 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 years ended December 31, 2005, 2004, and 2003.

| | December 31 | | |
|---|---|---|---|
| | 2005 | 2004 | 2003 |
| | | (in millions) | |
| **Revenues**(1) | **$ 54** | $ 60 | $ 74 |
| **Income (Loss) Before Taxes** | **$ 6** | $ (9) | $ 1 |
| **Income Taxes Expense (Benefit)** | **$ 3** | $ 1 | $ (5) |
| **Income (Loss) from Discontinued Operations** | | | |
| Income (Loss) from operations, net of tax | **$ 2** | $ (10) | $ (3) |
| Gain (Loss) on disposal, net of tax | **1** | — | 9 |
| **Total Income (Loss) from Discontinued Operations** | **$ 3** | $ (10) | $ 6 |
| **Assets** | | | |
| Current assets | **$ 16** | $ 30 | $ 46 |
| Property, plant, and equipment–net | **—** | 118 | 104 |
| Other assets | **18** | 16 | 20 |
| **Total Assets** | **$ 34** | $ 164 | $ 170 |
| **Liabilities** | | | |
| Current liabilities | **$ 6** | $ 17 | $ 32 |
| Long–term debt (including Long–term debt due within one year) | **18** | — | 2 |
| Other | **5** | 15 | 13 |
| **Total Liabilities** | **$ 29** | $ 32 | $ 47 |

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

**17.** Investment Activity

(a) *Investment Impairment*

**Cinergy** holds a portfolio of direct and indirect investments in Power Technology and Infrastructure (discussed further in Note 18). During 2004, **Cinergy** recognized approximately $56 million in impairment and disposal charges primarily associated with this portfolio. A substantial portion of these charges relate to a company in which **Cinergy** holds a non–controlling interest, that sold 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** 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. Most of the assets contemplated in the purchase/sale agreement were sold in the fourth quarter of 2004 and we recorded a gain of $21 million in 2004 relating to this sale. These earnings are reflected in *Equity in Earnings of Unconsolidated Subsidiaries* in **Cinergy's** Statements of Income.

**18.** Financial Information by Business Segment

We conduct operations through our subsidiaries and manage our businesses through the following three reportable segments:

- Regulated;
- Commercial; and
- 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 years ended December 31, 2005, 2004, and 2003, are as indicated below:

**Business Units**

| | 2005 | | | | | |
|---|---|---|---|---|---|---|
| | Cinergy Business Units | | | | | |
| | Regulated | Commercial | Power Technology and Infrastructure | Total | Reconciling Eliminations(1) | Consolidated |
| | (in millions) | | | | | |
| Operating revenues – | | | | | | |
| External customers | $ 3,472 | $ 1,937 | $ 1 | $ 5,410 | $ — | $ 5,410 |
| Intersegment revenues | 32 | 172 | — | 204 | (204) | — |
| Gross Margins | | | | | | |
| Electric(2) | 1,811 | 725 | — | 2,536 | — | 2,536 |
| Gas(3) | 263 | 40 | — | 303 | — | 303 |
| Depreciation | 368 | 141 | 1 | 510 | — | 510 |
| Equity in earnings of unconsolidated subsidiaries | 5 | 28 | 1 | 34 | — | 34 |
| Interest expense(4) | 154 | 127 | 2 | 283 | — | 283 |
| Income taxes | 174 | (72) | (6) | 96 | — | 96 |
| Discontinued operations, net of tax(5) | — | 3 | — | 3 | — | 3 |
| Cumulative effect of change in accounting principles, net of tax(6) | — | (3) | — | (3) | — | (3) |
| Segment profit (loss) | 289 | 210 | (9) | 490 | — | 490 |
| Segment assets from continuing operations | $ 9,963 | $ 7,025 | $ 132 | $ 17,120 | $ — | $ 17,120 |
| Segment assets from discontinued operations | — | 34 | — | 34 | — | 34 |
| Total segment assets | $ 9,963 | $ 7,059 | $ 132 | $ 17,154 | $ — | $ 17,154 |
| Investments in unconsolidated subsidiaries | 22 | 381 | 76 | 479 | — | 479 |
| Total expenditures for long–lived assets | 783 | 267 | 8 | 1,058 | — | 1,058 |

(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 Statements of Income.

(3) Gas gross margins are calculated as *Gas operating revenues* less *Gas purchased* expense from the Statements of Income.

(4) Interest income is deemed immaterial.

(5) For further information, see Note 16.

(6) For further information, see Note 1(s)(*iv*).

| | 2004 | | | | | |
|---|---|---|---|---|---|---|
| | Cinergy Business Units | | | | | |
| | Regulated | Commercial | Power Technology and Infrastructure | Total | Reconciling Eliminations(1) | Consolidated |
| | | | (in millions) | | | |
| Operating revenues – | | | | | | |
| External customers | $ 3,133 | $ 1,495 | $ — | $ 4,628 | $ — | $ 4,628 |
| Intersegment revenues | 79 | 211 | — | 290 | (290) | — |
| Gross Margins | | | | | | |
| Electric(2) | 1,662 | 616 | — | 2,278 | — | 2,278 |
| Gas(3) | 263 | 92 | — | 355 | — | 355 |
| Depreciation | 326 | 127 | 1 | 454 | — | 454 |
| Equity in earnings of unconsolidated subsidiaries | 3 | 25 | 20 | 48 | — | 48 |
| Interest expense(4) | 145 | 125 | 5 | 275 | — | 275 |
| Income taxes | 173 | (57)(5) | (13) | 103 | — | 103 |
| Discontinued operations, net of tax(6) | — | (10) | — | (10) | — | (10) |
| Segment profit (loss) | 258 | 174 | (31) | 401 | — | 401 |
| Segment assets from continuing operations | $ 8,971 | $ 5,706 | $ 141 | $ 14,818 | $ — | $ 14,818 |
| Segment assets from discontinued operations | — | 164 | — | 164 | — | 164 |
| Total segment assets | $ 8,971 | $ 5,870 | $ 141 | $ 14,982 | $ — | $ 14,982 |
| Investments in unconsolidated subsidiaries | 18 | 413 | 83 | 514 | — | 514 |
| Total expenditures for long–lived assets | 517 | 176 | 7 | 700 | — | 700 |

(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 Statements of Income.

(3) Gas gross margins are calculated as *Gas operating revenues* less *Gas purchased* expense from the Statements of Income.

(4) Interest income is deemed immaterial.

(5) The reduction in income taxes in 2004, as compared to 2003, primarily reflects lower business unit taxable income and also includes an increase in the annual tax credits associated with the production and sale of synthetic fuel. For further information, see Note 13(c)(*ii*).

(6) For further information, see Note 16.

| | 2003 | | | | | |
|---|---|---|---|---|---|---|
| | Cinergy Business Units | | | | | |
| | Regulated | Commercial | Power Technology and Infrastructure | Total | Reconciling Eliminations(1) | Consolidated |
| | (in millions) | | | | | |
| Operating revenues – | | | | | | |
| External customers | $ 2,913 | $ 1,451 | $ — | $ 4,364 | $ — | $ 4,364 |
| Intersegment revenues | 74 | 221 | — | 295 | (295) | — |
| Gross margins | | | | | | |
| Electric(2) | 1,503 | 667 | — | 2,170 | — | 2,170 |
| Gas(3) | 244 | 88 | — | 332 | — | 332 |
| Depreciation | 264 | 129 | — | 393 | — | 393 |
| Equity in earnings (losses) of unconsolidated subsidiaries | 4 | 14 | (3) | 15 | — | 15 |
| Interest expense(4) | 160 | 93 | 17 | 270 | — | 270 |
| Income taxes | 155 | — | (11) | 144 | — | 144 |
| Discontinued operations, net of tax(5) | — | 6 | — | 6 | — | 6 |
| Cumulative effect of changes in accounting principles, net of tax(6) | — | 26 | — | 26 | — | 26 |
| Segment profit (loss) | 221 | 265 | (16) | 470 | — | 470 |
| Segment assets from continuing operations | $ 8,589 | $ 5,185 | $ 176 | $ 13,950 | $ — | $ 13,950 |
| Segment assets from discontinued operations | — | 169 | — | 169 | — | 169 |
| Total segment assets | $ 8,589 | $ 5,354 | $ 176 | $ 14,119 | $ — | $ 14,119 |
| Investments in unconsolidated subsidiaries | 14 | 400 | 81 | 495 | — | 495 |
| Total expenditures for long–lived assets | 554 | 158 | — | 712 | — | 712 |

(1) The Reconciling Eliminations column 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 Statements of Income.

(3) Gas gross margins are calculated as *Gas operating revenues* less *Gas purchased* expense from the Statements of Income.

(4) Interest income is deemed immaterial.

(5) For further information, see Note 16.

(6) For further information, see Note 1(s)(*iv*).

## Products and Services

*(in millions)*

| | Revenues | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Traditional Utility | | | Wholesale Commodity | | | | |
| Year | Electric | Gas | Total | Electric | Gas | Total | Other | Consolidated |
| **2005** | **$ 2,552** | **$ 777** | **$ 3,329** | **$ 1,519** | **$ 40** | **$ 1,559** | **$ 522** | **$ 5,410** |
| 2004 | 2,324 | 690 | 3,014 | 1,187 | 93 | 1,280 | 334 | 4,628 |
| 2003 | 2,156 | 626 | 2,782 | 1,141 | 210 | 1,351 | 231 | 4,364 |

## Geographic Areas and Long-Lived Assets

### Revenues

*(in millions)*

| Year | Domestic | International | Consolidated |
|---|---|---|---|
| **2005** | **$ 5,405** | **$ 5** | **$ 5,410** |
| 2004 | 4,604 | 24 | 4,628 |
| 2003 | 4,343 | 21 | 4,364 |

| | Long-Lived Assets from Continuing Operations | | | Long-Lived Assets from Discontinued Operations | | | Total Long-Lived Assets | | |
|---|---|---|---|---|---|---|---|---|---|
| | (in millions) | | | (in millions) | | | (in millions) | | |
| Year | Domestic | International | Consolidated | Domestic | International | Consolidated | Domestic | International | Consolidated |
| **2005** | **$ 13,110** | **$ 117** | **$ 13,227** | **$ 18** | **$ —** | **$ 18** | **$ 13,128** | **$ 117** | **$ 13,245** |
| 2004 | 12,146 | 167 | 12,313 | 15 | 118 | 133 | 12,161 | 285 | 12,446 |
| 2003 | 11,499 | 174 | 11,673 | 20 | 104 | 124 | 11,519 | 278 | 11,797 |

**19.** Earnings Per Common Share

A reconciliation of EPS – basic to EPS – diluted is presented below for the years ended December 31, 2005, 2004, and 2003:

| | Income | Shares | EPS |
|---|---|---|---|
| | (in thousands, except per share amounts ) | | |
| **Year ended December 31, 2005** | | | |
| **EPS – basic:** | | | |
| **Income before discontinued operations and cumulative effect of a change in accounting principle** | **$ 490,122** | | **$ 2.47** |
| **Discontinued operations, net of tax** | **2,575** | | **0.01** |
| **Cumulative effect of a change in accounting principle, net of tax** | **(3,044)** | | **(0.01)** |
| **Net income** | **$ 489,653** | **198,199** | **$ 2.47** |
| **Effect of dilutive securities:** | | | |
| **Common stock options** | | **680** | |
| **Directors' compensation plans** | | **158** | |
| **Contingently issuable common stock** | | **63** | |
| **Stock purchase contracts** | | **72** | |
| **EPS – diluted:** | | | |
| **Net income plus assumed conversions** | **$ 489,653** | **199,172** | **$ 2.46** |
| Year ended December 31, 2004 | | | |
| EPS – basic: | | | |
| Income before discontinued operations and cumulative effect of a change in accounting principle | $ 410,399 | | $ 2.27 |
| Discontinued operations, net of tax | (9,531) | | (0.05) |
| Net income | $ 400,868 | 180,965 | $ 2.22 |
| Effect of dilutive securities: | | | |
| Common stock options | | 678 | |
| Directors' compensation plans | | 150 | |
| Contingently issuable common stock | | 605 | |
| Stock purchase contracts | | 1,133 | |
| EPS – diluted: | | | |
| Net income plus assumed conversions | $ 400,868 | 183,531 | $ 2.18 |
| Year ended December 31, 2003 | | | |
| EPS – basic: | | | |
| Income before discontinued operations and cumulative effect of a change in accounting principle | $ 436,969 | | $ 2.47 |
| Discontinued operations, net of tax | 6,341 | | 0.04 |
| Cumulative effect of a change in accounting principle, net of tax | 26,462 | | 0.15 |
| Net income | $ 469,772 | 176,535 | $ 2.66 |
| Effect of dilutive securities: | | | |
| Common stock options | | 746 | |
| Employee Stock Purchase and Savings Plan | | 152 | |
| Directors' compensation plans | | 851 | |
| Contingently issuable common stock | | 189 | |
| EPS – diluted: | | | |
| Net income plus assumed conversions | $ 469,772 | 178,473 | $ 2.63 |

Options to purchase shares of common stock are excluded from the calculation of EPS – diluted, if they are considered to be anti–dilutive. For the years ended December 31, 2005, 2004, and 2003, approximately 0.8 million, 0.9 million, and 1.6 million shares,

respectively, were excluded from the EPS – diluted calculation.

Also excluded from the EPS – diluted calculation for the years ended December 31, 2004 and 2003 are up to 9.7 million and 10.6 million shares, respectively, issuable pursuant to the stock purchase contracts issued by **Cinergy Corp.** in December 2001 associated with the preferred trust securities transaction. In January and February 2005, the stock purchase contracts were settled and holders purchased a total of 9.2 million shares of **Cinergy Corp.** common stock.

**20.** Comprehensive Income

Comprehensive income includes all changes in equity during a period except those resulting from investments by and distributions to shareholders. The major components include net income, foreign currency translation adjustments, minimum pension liability adjustments, unrealized gains and losses on investment trusts and the effects of certain hedging activities.

We translate the assets and liabilities of foreign subsidiaries, whose functional currency (generally, the local currency of the country in which the subsidiary is located) is not the United States dollar, using the appropriate exchange rate as of the end of the year. Foreign currency translation adjustments are unrealized gains and losses on the difference in foreign country currency compared to the value of the United States dollar. The gains and losses are accumulated in comprehensive income. When a foreign subsidiary is substantially liquidated, the cumulative translation gain or loss is removed from comprehensive income and is recognized as a component of the gain or loss on the sale of the subsidiary in our Statements of Income.

We record a minimum pension liability adjustment associated with our defined benefit pension plans when the unfunded accumulated benefit obligation is in excess of our accrued pension liabilities and the unrecognized prior service costs recorded as an intangible asset. The corresponding offset is recorded on the Balance Sheets in *Accrued pension and other postretirement benefit costs*. Details of the pension plans' assets and obligations are explained further in Note 11.

We record unrealized gains and losses on equity investments in trusts we have established for our benefit plans, primarily by **PSI**. See Note 11 for further details.

The changes in fair value of derivatives that qualify as hedges, under Statement 133, are recorded in comprehensive income. The specific hedge accounting and the derivatives that qualify are explained in greater detail in Note 9(a).

The elements of *Comprehensive income* and their related tax effects for the years ended December 31, 2005, 2004, and 2003 are as follows:

| | Comprehensive Income | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2005 | | | 2004 | | | 2003 | | |
| | Before-tax Amount | Tax (Expense) Benefit | Net-of-Tax Amount | Before-tax Amount | Tax (Expense) Benefit | Net-of-Tax Amount | Before-tax Amount | Tax (Expense) Benefit | Net-of-Tax Amount |
| | (dollars in millions) | | | | | | | | |
| **Cinergy(1)** | | | | | | | | | |
| Net income | **$ 588** | **$ (98)** | **$ 490** | $ 505 | $ (104) | $ 401 | $ 626 | $ (156) | $ 470 |
| Other comprehensive income (loss): | | | | | | | | | |
| Foreign currency translation adjustment | **(9)** | **8** | **(1)** | 23 | (8) | 15 | 25 | (8) | 17 |
| Reclassification adjustments | **(50)** | **13** | **(37)** | — | — | — | (9) | 3 | (6) |
| Total foreign currency translation adjustment | **(59)** | **21** | **(38)** | 23 | (8) | 15 | 16 | (5) | 11 |
| Minimum pension liability adjustment | **(60)** | **18** | **(42)** | (53) | 21 | (32) | (56) | 22 | (34) |
| Unrealized gain (loss) on investment trusts | **—** | **—** | **—** | 4 | (2) | 2 | 11 | (4) | 7 |
| Cash flow hedges | **19** | **(8)** | **11** | 8 | (3) | 5 | 2 | (1) | 1 |
| Total other comprehensive income (loss) | **(100)** | **31** | **(69)** | (18) | 8 | (10) | (27) | 12 | (15) |
| Total comprehensive income | **$ 488** | **$ (67)** | **$ 421** | $ 487 | $ (96) | $ 391 | $ 599 | $ (144) | $ 455 |
| **CG&E** and subsidiaries(2) | | | | | | | | | |
| Net income | **$ 484** | **$ (186)** | **$ 298** | $ 415 | $ (158) | $ 257 | $ 529 | $ (198) | $ 331 |
| Other comprehensive income (loss): | | | | | | | | | |
| Minimum pension liability adjustment | **(18)** | **5** | **(13)** | (16) | 6 | (10) | (13) | 5 | (8) |
| Cash flow hedges | **7** | **(3)** | **4** | 7 | (3) | 4 | 2 | (1) | 1 |
| Total other comprehensive income (loss) | **(11)** | **2** | **(9)** | (9) | 3 | (6) | (11) | 4 | (7) |
| Total comprehensive income | **$ 473** | **$ (184)** | **$ 289** | $ 406 | $ (155) | $ 251 | $ 518 | $ (194) | $ 324 |
| **PSI** | | | | | | | | | |
| Net income | **$ 325** | **$ (127)** | **$ 198** | $ 277 | $ (112) | $ 165 | $ 233 | $ (100) | $ 133 |
| Other comprehensive income (loss): | | | | | | | | | |
| Minimum pension liability adjustment | **(17)** | **7** | **(10)** | (21) | 8 | (13) | (18) | 7 | (11) |
| Unrealized gain (loss) on investment trusts | **—** | **—** | **—** | 3 | (1) | 2 | 10 | (4) | 6 |
| Cash flow hedges | **11** | **(5)** | **6** | — | — | — | — | — | — |
| Total other comprehensive income (loss) | **(6)** | **2** | **(4)** | (18) | 7 | (11) | (8) | 3 | (5) |
| Total comprehensive income | **$ 319** | **$ (125)** | **$ 194** | $ 259 | $ (105) | $ 154 | $ 225 | $ (97) | $ 128 |

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

(2) Individual amounts for **ULH&P** are immaterial.

The after–tax components of *Accumulated other comprehensive income (loss)* as of December 31, 2005, 2004, and 2003 are as follows:

| | Accumulated Other Comprehensive Income (Loss) Classification | | | | |
|---|---|---|---|---|---|
| | Foreign Currency Translation Adjustment | Minimum Pension Liability Adjustment | Unrealized Gain (Loss) on Investment Trusts | Cash Flow Hedges | Total Other Comprehensive Income (Loss) |
| | | | (dollars in millions) | | |
| **Cinergy(1)** | | | | | |
| Balance at December 31, 2002 | $ 21 | $ (20) | $ (6) | $ (25) | $ (30) |
| Current–period change | 11 | (34) | 7 | 1 | (15) |
| Balance at December 31, 2003 | $ 32 | $ (54) | $ 1 | $ (24) | $ (45) |
| Current–period change | 15 | (32) | 2 | 5 | (10) |
| Balance at December 31, 2004 | $ 47 | $ (86) | $ 3 | $ (19) | $ (55) |
| **Current–period change** | **(38)** | **(42)** | **—** | **11** | **(69)** |
| **Balance at December 31, 2005** | **$ 9** | **$ (128)** | **$ 3** | **$ (8)** | **$ (124)** |
| **CG&E** and subsidiaries(2) | | | | | |
| Balance at December 31, 2002 | $ — | $ (2) | $ — | $ (24) | $ (26) |
| Current–period change | — | (8) | — | 1 | (7) |
| Balance at December 31, 2003 | $ — | $ (10) | $ — | $ (23) | $ (33) |
| Current–period change | — | (9) | — | 4 | (5) |
| Balance at December 31, 2004 | $ — | $ (19) | $ — | $ (19) | $ (38) |
| **Current–period change** | **—** | **(13)** | **—** | **4** | **(9)** |
| **Balance at December 31, 2005** | **$ —** | **$ (32)** | **$ —** | **$ (15)** | **$ (47)** |
| **PSI** | | | | | |
| Balance at December 31, 2002 | $ — | $ (3) | $ (5) | $ — | $ (8) |
| Current–period change | — | (11) | 6 | — | (5) |
| Balance at December 31, 2003 | $ — | $ (14) | $ 1 | $ — | $ (13) |
| Current–period change | — | (13) | 2 | — | (11) |
| Balance at December 31, 2004 | $ — | $ (27) | $ 3 | $ — | $ (24) |
| **Current–period change** | **—** | **(10)** | **—** | **6** | **(4)** |
| **Balance at December 31, 2005** | **$ —** | **$ (37)** | **$ 3** | **$ 6** | **$ (28)** |

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

(2) Individual amounts for **ULH&P** are immaterial.

**21.** Acquisition of Wheatland Generating Assets

In August 2005, **PSI** acquired 100 percent of the 488 MW Wheatland Generating Facility from Allegheny Energy, Inc. 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. The facility's output will be used to bolster the reserve margins on the **PSI** system.

**22.** Subsequent Event

In January 2006, **ULH&P** completed the transfer from **CG&E** 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. The transaction was effective as of January 1, 2006 at net book value. The final required regulatory approval was received in November 2005 from the SEC under the PUHCA of 1935. The KPSC and the FERC had earlier issued orders approving aspects of the transaction. The transaction will not affect current retail electric rates for **ULH&P's** customers. Updated rates are expected to be implemented January 1, 2007 pursuant to a rate case to be filed in 2006 that incorporates the value of these assets into **ULH&P's** rate base.

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

| | (in millions) |
|---|---|
| Assets Received | |
| Generating Assets | $ 376 |
| Inventory | 24 |
| **Total Assets Received** | $ 400 |
| Liabilities Assumed | |
| Debt | $ 77 |
| Accounts payable to affiliated companies | 90 |
| Deferred tax liabilities | 91 |
| Other | 2 |
| **Total Liabilities Assumed** | $ 260 |
| **Contributed Capital from CG&E** | $ 140 |

As part of this transaction, **CG&E** and **ULH&P** terminated the long–term wholesale power contract under which **CG&E** had previously supplied power to **ULH&P**. Further, **CG&E** also proposed to supply and **ULH&P** agreed to purchase back–up power from **CG&E** for planned and unplanned outages of the three generating plants through December 31, 2009 pursuant to a draft contract. The parties never executed this draft contract and **ULH&P** currently purchases backup power, when needed, through the Midwest ISO energy markets. Given changes in circumstances, including the implementation of the Midwest ISO Energy Markets Tariff, **CG&E** and **ULH&P** are planning to propose an alternative arrangement for supplying back–up power to **ULH&P**. At this time, whether and the conditions under which the **KPSC** may allow **ULH&P** to recover any increased costs for an alternative arrangement for the supply of back–up power are unknown and **CG&E** and **ULH&P** cannot determine the magnitude of any potential increased costs for back–up power.

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

## ITEM 9A. 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 December 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 December 31, 2005 and found no change that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### Management Report on Internal Control over Financial Reporting

Management of Cinergy Corp. (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a–15(f) and 15d–15(f) under the Exchange Act. The Company's internal control over financial reporting is designed 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.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2005. In making this assessment, management used the criteria established in *Internal Control–Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on our assessment and those criteria, management believes that the internal control over financial reporting maintained by the Company, as of December 31, 2005, was effective.

The Company's independent registered public accounting firm has issued an attestation report on management's assessment of the Company's internal control over financial reporting. That report follows.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of Cinergy Corp.
Cincinnati, Ohio

We have audited management's assessment, included in the accompanying Management Report on Internal Control over Financial Reporting, that Cinergy Corp. and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2005 of the Company and our report dated February 17, 2006 expressed an unqualified opinion on those financial statements and financial statement schedule and contained an explanatory paragraph regarding the Company's adoption of a new accounting standard in 2005 for conditional asset retirement obligations.

/s/ Deloitte & Touche LLP
Deloitte & Touche LLP

Cincinnati, Ohio
February 17, 2006

## ITEM 9B. OTHER INFORMATION

None.

## PART III

## ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANTS

### BOARD OF DIRECTORS

#### Cinergy

The names and ages of the directors of **Cinergy**, and all persons nominated or chosen to become directors of **Cinergy**; the positions and offices of **Cinergy** they hold; their term of office and period during which they have served; their principal occupation and business experience for at least the past five years is included in the chart below. Mr. Rogers is the only director who is an employee of Cinergy Services, Inc. (Services), an affiliate of **Cinergy**.

| Director | Principal Occupation and Other Information | Age | Director Since |
|---|---|---|---|
| **Michael G. Browning**<br>Class I<br>Term expires in 2007 | Mr. Browning is Chairman and President of Browning Investments, Inc., which is engaged in real estate development. He is a director of PSI Energy, Inc. (**PSI**) and Standard Management Corporation. He also serves as owner, general partner or managing member of various real estate entities. | 59 | 1994 |
| **Phillip R. Cox**<br>Class III<br>Term expires in 2006 | Mr. Cox is President and Chief Executive Officer of Cox Financial Corporation, a provider of financial and estate planning services. He is Chairman of the Board of Cincinnati Bell Inc. and a director of The Timken Company. | 58 | 1994 |
| **George C. Juilfs**<br>Class I<br>Term expires in 2007 | Mr. Juilfs is Chairman of the Board and Chief Executive Officer of SENCORP, an international holding company with subsidiaries that manufacture and market powered fastening systems. He is also the past Chairman of the Board of the Cincinnati branch of the Federal Reserve Bank of Cleveland. | 66 | 1994 |
| **Thomas E. Petry**<br>Class II<br>Term expires in 2008 | Mr. Petry is retired as Chairman of the Board and Chief Executive Officer of Eagle–Picher Industries, Inc., a diversified manufacturer of industrial and automotive products. | 66 | 1994 |
| **James E. Rogers**<br>Class III<br>Term expires in 2006 | Mr. Rogers is Chairman of the Board and Chief Executive Officer of **Cinergy**. Previously, he served as Vice Chairman, President and Chief Executive Officer. Mr. Rogers also holds, or has held, similar executive officer positions with **Cinergy's** principal subsidiaries. He is a director of Fifth Third Bancorp. | 58 | 1993 |
| **Mary L. Schapiro**<br>Class II<br>Term expires in 2008 | Ms. Schapiro is Vice Chairman of NASD (formerly The National Association of Securities Dealers, Inc.) and President of Regulatory Policy and Oversight. Previously, she was President and a Board member of NASD Regulation, Inc. NASD has responsibility for regulating all member brokerage firms and individual registered representatives and for oversight of The NASDAQ Stock Market. Ms. Schapiro is also a member of the Board of Governors of NASD and serves as a director of Kraft Foods Inc. | 50 | 1999 |
| **John J. Schiff, Jr.** | Mr. Schiff is Chairman of the Board, President and Chief | 62 | 1994 |

| | | | |
|---|---|---|---|
| Class III<br>Term expires in 2006 | Executive Officer of Cincinnati Financial Corporation, an insurance holding company, and The Cincinnati Insurance Company. He is a director of Fifth Third Bancorp and The Standard Register Company. | | |
| **Philip R. Sharp**<br>Class II<br>Term expires in 2008 | Mr. Sharp is President of Resources for the Future, and a Senior Policy Advisor to the law firm of Van Ness Feldman, PC. Previously, Mr. Sharp was a 10–term Congressman from Indiana, where he was a ranking member of the House Energy and Commerce Committee and chairman of the House Energy and Power Subcommittee. He is a director of Distributed Energy Systems Corp. | 63 | 1995 |
| **Dudley S. Taft**<br>Class I<br>Term expires in 2007 | Mr. Taft is President of Taft Broadcasting Company, which holds investments in media–related activities. He is a director of Fifth Third Bancorp and Tribune Company. | 65 | 1994 |

**Cinergy Corp.** has a separately-designated standing audit committee established in accordance with section 3(a)(58)(A) of the Exchange Act. During 2005, the Audit Committee members were Ms. Mary L. Schapiro (Chair), and Messrs. Thomas E. Petry, John J. Schiff, Jr. and Philip R. Sharp. Each of its members is an "independent" director within the meaning of Sections 303.01(B)(2)(a), 303.01(B)(3) and 303A.02 of the New York Stock Exchange's (NYSE) listing standards and Rule 10A-3 of the Exchange Act. This Audit Committee selects and retains a firm of independent public accountants to conduct audits of the accounts of **Cinergy** and its subsidiaries. It also reviews with the independent public accountants the scope and results of their audits, as well as the accounting procedures, internal controls, and accounting and financial reporting policies and practices of **Cinergy** and its subsidiaries, and makes reports and recommendations to the Board as it deems appropriate. The Audit Committee is responsible for approving all audit and permissible non-audit services provided to **Cinergy** by its independent auditors.

**Cinergy's** Board has determined that Ms. Mary L. Schapiro is an "audit committee financial expert" as such term is defined in Item 401(h) of Regulation S-K. See above for a description of Ms. Schapiro's business experience.

Shareholders can communicate with our Chairman, Mr. Rogers, and Co-Lead Directors, Messrs. Browning and Taft, by email at lead.directors@cinergy.com. Messrs. Browning and Taft also preside over non-management executive sessions of our directors. You may also write to any of the committee Chairs or to the outside directors as a group c/o Julia S. Janson, Corporate Secretary and Chief Compliance Officer at Cinergy Corp., 139 East Fourth Street, Cincinnati, Ohio 45202.

Communications are distributed to the Board, or to any individual director or directors as appropriate, depending on the facts and circumstances outlined in the communication. In that regard, the Cinergy Board has requested that certain items that are unrelated to the duties and responsibilities of the Board be excluded, such as: spam; junk mail and mass mailings; service complaints; resumes and other forms of job inquiries; surveys; and business solicitations or advertisements. In addition, material that is unduly hostile, threatening, obscene or similarly unsuitable will be excluded, with the provision that any communication that is filtered out is made available to any director upon request.

**The Cincinnati Gas & Electric Company (CG&E)**

The directors of **CG&E** at January 31, 2006, are as follows:

**Gregory C. Ficke** – Mr. Ficke, age 53, is President of **CG&E**, a position he has held since October 1, 2001. He has served as a director of **CG&E** since June 2005. His current term as director expires May 31, 2006.

**James E. Rogers** – Mr. Rogers, age 58, is Chairman of the Board and Chief Executive Officer of **Cinergy Corp.** and **CG&E**. He has served as a director of **CG&E** since 1994. His current term as director expires May 2, 2006.

**James L. Turner** – Mr. Turner, age 46, is Executive Vice President of **CG&E**, a position he has held since July 2000. He served as a director of **CG&E** from February 15, 1999 to April 30, 2001 and was re-elected, effective October 1, 2001. Mr. Turner's current term as director expires May 2, 2006.

Additional information on each of the directors of **CG&E** is presented in the following "Executive Officers" section.

**PSI**

The directors of **PSI** at January 31, 2006, are as follows:

**Michael G. Browning** – Mr. Browning, age 59, is Chairman and President of Browning Investments, Inc., which is engaged in real estate development. He is a director of **Cinergy Corp.** and Standard Management Corporation. He also serves as owner, general partner or managing member of various real estate entities. He has served on the Board of **PSI** since 1990.

**James E. Rogers** – Mr. Rogers, age 58, is Chairman of the Board and Chief Executive Officer of **Cinergy Corp.** and **PSI**. Previously, he served as Vice Chairman, President and Chief Executive Officer of **Cinergy Corp.**, and as Vice Chairman and Chief Executive Officer of **PSI**. Mr. Rogers also holds, or has held, similar executive officer positions with **Cinergy's** principal subsidiaries. He is a director of **Cinergy Corp.** and Fifth Third Bancorp. He has served on the Board of **PSI** since 1988.

**Kay E. Pashos** – Ms. Pashos, age 46, has served as President of **PSI** since December 2004. Prior to that, since 1995, Ms. Pashos served in various legal capacities for **Cinergy's** Regulated Business Unit including as its General Counsel from 2003 to 2004. She has served on the Board of **PSI** since 2004.

Mr. Rogers and Ms. Pashos are employees of Cinergy Services, Inc., an affiliate of **PSI**. Additional information on each of Mr. Rogers and Ms. Pashos is presented in the following "Executive Officers" section.

## EXECUTIVE OFFICERS

The names and ages of the executive officers of **Cinergy**, **CG&E**, and **PSI** and the positions they hold, held, or have been elected to (as of January 31, 2006), and their business experience during the past five years is included in the chart below.

| | | Positions and Length of Service | | |
|---|---|---|---|---|
| Name | Age | Cinergy Corp. | CG&E | PSI |
| Michael J. Cyrus(1) | 50 | **Executive Vice President**<br>2/01 – present<br>**Chief Executive Officer, Commercial Business Unit (formerly known as the Energy Merchant Business Unit)**<br>2/01 – 9/04<br>8/05 – present<br>**Chief Executive Officer, Regulated Business Unit**<br>9/04 – 8/05<br>**President, Energy Commodities Business Unit**<br>3/99 – 2/01<br>**Vice President**<br>4/98 – 2/01 | **Executive Vice President**<br>2/01 – present<br>**Vice President**<br>4/99 – 2/01 | **Executive Vice President**<br>2/01 – present<br>**Vice President**<br>4/99 – 2/01 |
| Gregory C. Ficke | 53 | **Vice President and Chief Information Officer, Regulated Business Unit**<br>2/01 – 10/01<br>**Vice President and Chief Information Officer, Energy Delivery Business Unit**<br>7/00 – 2/01 | **President**<br>10/01 – present | |
| Lynn J. Good(2) | 46 | **Executive Vice President and Chief Financial Officer**<br>8/05 – present<br>**Vice President, Finance and Controller**<br>11/03 – 8/05<br>**Vice President, Financial Project Strategy**<br>5/03 – 11/03 | **Executive Vice President and Chief Financial Officer**<br>8/05 – present<br>**Vice President, Finance and Controller**<br>11/03 – 8/05<br>**Vice President, Financial Project Strategy**<br>5/03 – 11/03 | **Executive Vice President and Chief Financial Officer**<br>8/05 – present<br>**Vice President, Finance and Controller**<br>11/03 – 8/05<br>**Vice President, Financial Project Strategy**<br>5/03 – 11/03 |
| Julia S. Janson | 41 | **Chief Compliance Officer**<br>10/04 – present<br>**Secretary**<br>7/00 – present | **Chief Compliance Officer**<br>10/04 – present<br>**Secretary**<br>1/03 – 1/06<br>**Assistant Secretary**<br>7/00 – 1/03 | **Chief Compliance Officer**<br>10/04 – present<br>**Secretary**<br>7/00 – present |
| Marc E. Manly(3) | 53 | **Executive Vice President and Chief Legal Officer**<br>11/02 – present<br>**Assistant Secretary**<br>1/03 – present | **Executive Vice President and Chief Legal Officer**<br>11/02 – present<br>**Secretary**<br>1/06 – present | **Executive Vice President and Chief Legal Officer**<br>11/02 – present<br>**Assistant Secretary**<br>1/03 – present |
| Theodore R. Murphy II(4) | 48 | **Senior Vice President and Chief Risk Officer** | **Senior Vice President and Chief Risk Officer** | **Senior Vice President and Chief** |

| | | | | |
|---|---|---|---|---|
| | | 8/02 – present | 8/02 – present | **Risk Officer**<br>8/02 – present |
| Frederick J. Newton III(5) | 50 | **Executive Vice President and Chief Administrative Officer**<br>5/02 – present | **Executive Vice President and Chief Administrative Officer**<br>5/02 – present | **Executive Vice President and Chief Administrative Officer**<br>5/02 – present |

| Name | Age | Positions and Length of Service | | |
|---|---|---|---|---|
| | | Cinergy Corp. | CG&E | PSI |
| Kay E. Pashos | 46 | **Vice President and General Counsel, Regulated Business Unit** 11/03 – 12/04 **Assistant General Counsel** 1/01 – 11/03 **Senior Counsel** 1/95 – 1/01 | | **President** 12/04 – present **Vice President and General Counsel, Regulated Business Unit** 11/03 – 12/04 **Assistant General Counsel** 1/01 – 11/03 **Senior Counsel** 1/95 – 1/01 |
| James E. Rogers | 58 | **Chairman of the Board** 12/00 – present **Chief Executive Officer** 12/95 – present **President** 12/95 – 8/05 **Vice Chairman** 12/95 – 12/00 | **Chairman of the Board** 12/00 – present **Chief Executive Officer** 12/95 – present **Vice Chairman** 12/95 – 12/00 | **Chairman of the Board** 12/00 – present **Chief Executive Officer** 12/95 – present **Vice Chairman** 12/95 – 12/00 |
| James L. Turner(6) | 46 | **President** 8/05 – present **Chief Financial Officer** 9/04 – 8/05 **Executive Vice President** 10/01 – 8/05 **Chief Executive Officer, Regulated Business Unit** 12/01 – 9/04 **President, Regulated Business Unit** 2/01 – 12/01 **President, Energy Delivery Business Unit** 7/00 – 2/01 **Vice President** 4/99 – 12/01 | **Executive Vice President** 7/00 – present **Chief Financial Officer** 9/04 – present **President** 2/99 – 7/00 | **Executive Vice President** 7/00 – present **Chief Financial Officer** 9/04 – present |
| David L. Wozny | 47 | **Vice President and Controller** 8/05 – present **Chief Financial Officer, Commercial Business Unit** 11/03 – 8/05 **Comptroller** 5/03 – 11/03 **Chief Financial Officer, International Business Unit** 2/99 – 5/03 | **Vice President and Controller** 8/05 – present **Comptroller** 5/03 – 11/03 | **Vice President and Controller** 8/05 – present **Comptroller** 5/03 – 11/03 |

None of the officers are related in any manner. Our executive officers hold the offices set opposite their names until the next annual meeting of the Board of Directors and until their successors have been elected and qualified.

---

(1) On December 30, 2005, Mr. Cyrus informed the Company that he does not expect to continue his employment with the Company following completion of the merger.

(2) Prior to joining **Cinergy**, Ms. Good was a partner with the international accounting firm Deloitte & Touche LLP in Cincinnati, Ohio since May 2002. Prior to that, she was a partner with the international accounting firm Arthur Andersen LLP from 1992 to

May 2002. While at Arthur Andersen LLP, she had regional energy responsibilities for risk consulting and internal audit practices.

(3) Prior to joining **Cinergy**, Mr. Manly was Managing Director, Law and Governmental Affairs, General Counsel and Corporate Secretary of NewPower Holdings, Inc. (a non–affiliate of **Cinergy**) from April 2000 to August 2002. On June 11, 2002, NewPower Holdings, Inc. and its affiliates, TNPC Holdings, Inc. and the NewPower Company, filed a petition for relief under Chapter 11 of The United States Bankruptcy Code.

(4) Prior to joining **Cinergy**, Mr. Murphy was Vice President and Chief Risk Officer of Enron Europe, Ltd. (a non–affiliate of **Cinergy**) from January 2001 to July 2002. Prior to that, he was Vice President of Market Risk of Enron Corp. (a non–affiliate of **Cinergy**) from March 1997 to December 2000.

(5) Prior to joining **Cinergy**, Mr. Newton was Senior Vice President, Chief Administrative Officer of LG&E (a non–affiliate of **Cinergy**) from January 1999 to May 2002.

(6) Mr. Turner served as Vice President of Customer Services from January 2000 until July 2000.

**Cinergy Corp.** has adopted both a code of business conduct and ethics applicable to all of its directors, officers, and employees as well as corporate governance guidelines. Both of these documents are available on **Cinergy's** website

at www.cinergy.com. In addition, any amendments to or waivers from the code of business conduct and ethics will be posted on the website. Any such amendment or waiver would require the prior consent of the Board of Directors or an applicable committee thereof.

**NYSE CEO Certification**

**Cinergy Corp.** has filed the certification of its chief executive officer and chief financial officer pursuant to Section 302 of the Sarbanes–Oxley Act of 2002 as exhibits to this Annual Report on Form 10–K for the year ended December 31, 2005. In May 2005, **Cinergy Corp.'s** chief executive officer, as required by Section 303A.12(a) of the NYSE Listed Company Manual, certified to the NYSE that he was not aware of any violation by **Cinergy Corp.** of the NYSE's corporate governance listing standards.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires **Cinergy's** directors and executive officers, and any persons owning more than ten percent of **Cinergy's** common stock, to file with the SEC initial reports of beneficial ownership and certain changes in that beneficial ownership, with respect to the equity securities of **Cinergy**. We prepare and file these reports on behalf of our directors and executive officers. During 2005 one Form 4 for each of Messrs. Browning and Cox was filed after its due date. To our knowledge, all other Section 16(a) reporting requirements applicable to our directors and executive officers were complied with during 2005.

## ITEM 11. EXECUTIVE COMPENSATION

### Compensation Committee Report on Executive Compensation

The executive compensation–related responsibilities of the Compensation Committee include:

- reviewing, approving and overseeing the process and substance of **Cinergy's** executive compensation policy;
- reviewing and approving compensation for **Cinergy's** Chief Executive Officer and other executive officers; and
- reviewing and approving the executive compensation plans and the administration thereof.

*Compensation Policy*

Our executive compensation program is designed to promote the delivery of sustained superior performance for all of **Cinergy's** stakeholders by attracting, retaining and motivating high quality executives. From a financial perspective, superior performance is defined as ranking in the top quartile for total shareholder return (TSR), calculated based on stock price appreciation and dividends, compared to those companies that comprise the S&P Electric Supercomposite Index. Furthermore, in an effort to strengthen the alignment of executive and shareholder interests, our strategy is to compensate executives using, whenever possible, stock–based compensation. The Committee has engaged an independent compensation consultant, reporting directly to the Committee, in order to ensure that our executive compensation program and the individual components thereof are consistent with these policies and competitive with the market.

The Committee, with the assistance of its independent compensation consultant, establishes different components of compensation using information relating to several peer groups in addition to the S&P Electric Supercomposite Index. Compensation for **Cinergy's** executive officers primarily consists of the following components, as well as benefits under the other programs described herein:

- Base salary;
- Annual incentives; and
- Long–Term incentives.

The Committee believes that applying benchmarks relating to different peer groups is the most appropriate method of analyzing these different components of compensation, as below described:

| Compensation Component | Peer Groups | Rationale |
|---|---|---|
| Base Salary and Annual Incentives for Utility Specific Executives | *Energy Industry Peer Group* — The Towers Perrin — Energy Services Survey, which is comprised of domestic utilities and related energy companies, with the relevant compensation data adjusted to reflect the different sizes of the peer group companies. | The Committee believes the direct competitors for utility specific executives are those companies in the energy industry with revenues similar to **Cinergy's**. |

| | | |
|---|---|---|
| Base Salary and Annual Incentives for General Corporate Executives | *General Industry Peer Group* — The Towers Perrin — General Industry Survey, which is comprised of a broad mix of companies, with the relevant compensation data adjusted to reflect the different sizes of the peer group companies. | The Committee believes that general industry firms also compete for general corporate executives. |

| | | |
|---|---|---|
| Long–Term Incentives | *Energy Industry Peer Group* — The Towers Perrin — Energy Services Survey, which is comprised of domestic utilities and related energy companies, with the relevant compensation data adjusted to reflect the different sizes of the peer group companies. | Due to the inherent differences in the risk associated with different industries, the Committee believes the long–term incentive opportunities available to **Cinergy** executive officers should be consistent with the incentive opportunities offered within the energy industry. |
| Total Compensation for Named Executive Officers | *Proxy Peer Group* — The Proxy Peer Group is comprised of 18 large, integrated U.S. utilities that have similar revenues, market capitalization and risk profiles. | The Committee believes the direct competitors for the most experienced senior management talent are the companies in the Proxy Peer Group. |
| Total Compensation for Other Executive Officers | *Energy Industry Peer Group* — The Towers Perrin — Energy Services Survey, which is comprised of domestic utilities and related energy companies, with the relevant compensation data adjusted to reflect the different sizes of the peer group companies. | The Committee believes that the total compensation of **Cinergy's** executive officers should be consistent with the compensation provided by other companies in the energy industry because they are faced with similar opportunities, challenges and risks. |

The significant components of our compensation program are below discussed.

*Base Salaries.* Base salaries for the executive officers are reviewed annually and are targeted at the 50$^{th}$ — 75$^{th}$ percentile of the applicable peer group, as above described.

*Annual and Long–Term Incentives.* As discussed below, our annual and long–term incentive plans are intended to complement base salary and provide executive officers with total compensation targeted at the 50$^{th}$ percentile of the applicable peer group. The Committee believes that annual and long–term incentive opportunities assist in motivating the behavior necessary to manage short– and long–term corporate goals successfully. This pay for performance emphasis results in a compensation mix in which targeted annual and long–term incentives, in the aggregate, make up, on average, at least 50 percent of the total annual compensation opportunity of the Chief Executive Officer and other executive officers. See "Annual Incentive Compensation" and "Long–Term Incentive Compensation" for a description of the annual and long–term incentive plans in which the named executive officers participate.

*Total Compensation.* We provide executive officers a combination of fixed and variable pay, using base salary, short–term incentives and long–term incentives. These components, in the aggregate, are targeted to deliver total compensation at the 50$^{th}$ percentile of the applicable peer group. However, if **Cinergy** delivers superior performance, our compensation program is designed to provide total compensation at the 75$^{th}$ percentile of the applicable peer group, and, conversely, if **Cinergy's** performance should decline, its executive officers' total compensation is designed to decline to a level commensurate with such performance. The Committee monitors each component of executive compensation and regularly compares pay to the performance of **Cinergy's** executive officers using the peer group data described above and the advice of its independent compensation consultant.

*Stock Ownership and Retention Requirements.* In a further effort to align the interests of the shareholders, the directors, the Chief Executive Officer and the other executive officers, **Cinergy** maintains a minimum stock ownership policy. Under this policy, the Chief Executive Officer and the other executive officers are required to maintain a minimum ownership interest in **Cinergy** equal to five times and three times their annual base salaries, respectively, and directors are required to maintain a minimum ownership interest in **Cinergy** equal to two times their annual retainer. The Chief Executive Officer and directors are in compliance with this requirement. The other executive officers have a transition period within which to comply, and **Cinergy** monitors their progress toward the requirement. **Cinergy** also has a policy under which the directors, the Chief Executive Officer and the other executive officers are prohibited from disposing of any shares of **Cinergy** common stock acquired by virtue of the exercise of stock options (except to the extent necessary to pay the exercise price and/or any accompanying tax obligations) until 90 days after their termination from employment or other service with **Cinergy**.

*Annual Incentive Compensation*

Approximately 350 employees, including all executive officers, participated in **Cinergy's** Annual Incentive Plan ("AIP") in 2005. To advance our pay for performance emphasis, participants are eligible to receive annual incentives (i.e., bonuses) under the AIP only to the extent that certain pre–determined corporate, business unit and individual goals are achieved.

Achievement levels for goals under the AIP are based on a scale from 0.0 to 3.0, with target being 2.0. In 2005, the corporate goal was based on the attainment of certain levels of net income. For corporate center and shared services employees, which includes all of the executive officers, the corporate net income goal and the aggregate individual goals were each weighted at 50 percent of the total possible award. For all other employees, the corporate net income goal was weighted at 50 percent of the total possible award, with business unit specific goals and individual goals weighted at 25 percent each. Thus, if, for example, **Cinergy** were to earn a 2.5 for the corporate net income goal and a corporate center employee earned a 1.5 for her aggregate individual goals, the employee's overall score would be a 2.0 and the award would pay out at target. Pursuant to the terms of the AIP as approved by shareholders, in the event of a change in control (as defined in the AIP), all relevant performance criteria would be deemed satisfied at the maximum.

For 2005, target awards ranged from 10 percent to 75 percent of an employee's annual base salary, depending upon the employee's position within **Cinergy**. The target and maximum annual incentive opportunity was 75 percent and 130 percent, respectively, for the Chief Executive Officer and 60 percent and 105 percent, respectively, for each of the other named executive officers. For purposes of this calculation, $1,850,004 was used as the Chief Executive Officer's annual base salary because his employment agreement requires that $600,000 of his performance– based phantom stock award be included in his 2005 AIP award calculation. See "Employment Agreements" for a description of this performance–based phantom stock award.

**Cinergy** earned an achievement level of 2.1 for the 2005 corporate goal. Payouts to the named executive officers for the individual goal component of their 2005 AIP bonuses corresponded to an achievement level of 3.0. The individual goals included a supplier diversity goal, a workforce diversity goal and a corporate governance goal. In connection with Ms. Good's promotion to Executive Vice President and Chief Financial Officer, her annual incentive opportunity was increased from 45 percent to 60 percent effective September 1, 2005, and she was awarded an additional $250,000 bonus.

For 2006, the AIP will be based on a corporate net income goal, business unit goals and individual goals. For the named executive officers, the corporate net income goal and aggregate individual goals are equally weighted. The 2006 annual incentive bonus for other participants in the AIP will be determined based on the corporate net income goal, business unit specific goals and individual goals as appropriate.

*Long–Term Incentive Compensation*

**Cinergy** has a long–term incentive compensation program under the terms of the **Cinergy Corp.** 1996 Long–Term Incentive Compensation Plan ("LTIP"). The LTIP is designed to align the long–term interests of our shareholders and management by providing incentives to increase TSR. The LTIP ties a large portion of the participants' potential total compensation to long–term performance. This pay for performance approach provides an upside potential for outperforming peer companies, and downside risk for underperforming. The LTIP performance period is three years with a new LTIP cycle beginning each January 1st. Our most senior management, consisting of approximately 150 employees, including all executive officers, participated in the LTIP in 2005.

For the LTIP cycle that commenced on January 1, 2005, target awards ranged from 20 percent to 160 percent of the participant's annual base salary, depending on his or her position within **Cinergy**. The target LTIP award opportunities were 160 percent for the Chief Executive Officer and 90 percent for each of the other named executive officers, except Ms. Good, whose target LTIP award opportunity was 75 percent in 2005 (Ms. Good's target LTIP award opportunity increased to 90 percent for the cycle that commenced January 1, 2006). For purposes of this calculation, $1,850,004 was used as the Chief Executive Officer's annual base salary because his employment agreement requires that $600,000 of his performance based phantom stock award be included in his 2005 LTIP annual calculation. See "Employment Agreements" for a description of this performance–based phantom stock award.

Of the target award, stock options comprise 25 percent of the total award value under the cycles that are currently outstanding and performance shares comprise the other 75 percent. A performance share represents the right to receive a share of common stock if certain performance criteria are met. It follows that the number of performance shares that are received depends on **Cinergy's** performance. As discussed in more detail below, our performance criterion is our comparative TSR over the LTIP's three–year period. Earned performance shares are paid in cash or shares of **Cinergy** common stock, as determined annually by **Cinergy**.

For the cycle that ended December 31, 2005, stock options were valued at $4.26 per option using the Black Scholes valuation methodology; performance shares were valued at $23.724 per share using the Hewitt risk assessment methodology. Thus, an LTIP participant with a base salary of $100,000 and a target award of 20 percent would receive a target award with a value of $20,000. Twenty–five percent of this value, or $5,000, would be provided in the form of stock options and 75 percent of the value, or $15,000, would be provided in the form of performance shares.

The stock options have a ten–year life and vest three years form the date of grant. As stated above, the performance shares generally are earned only to the extent that **Cinergy's** TSR targets for the cycle are met as compared with the TSR of a peer group of companies. The peer group for purposes of the TSR calculation under the LTIP consists of the companies in the S&P Electric Supercomposite Index as of the first day of the cycle, adjusted for certain specifically enumerated events that occur during the cycle of the type that could distort the index (*e.g.*, bankruptcies and transactions or potential transactions involving companies included in the index group). The following table illustrates how the performance share payouts directly align participants' pay to **Cinergy's** performance:

| Relative TSR Performance Percentile | Percent Payout of Target Grant of Performance Shares |
|---|---|
| 85th Percentile or above | 200 % |
| 80th Percentile | 185 % |
| 70th Percentile | 150 % |
| 60th Percentile | 115 % |
| 55th Percentile | 100 % |
| 40th Percentile | 40 % |
| 30th Percentile or below | 0 % |

Pursuant to the terms of the LTIP as approved by shareholders, in the event of a change in control (as defined in the LTIP), stock options generally would vest, and the payment of performance shares would accelerate (without proration) with all relevant performance criteria deemed satisfied at the maximum. However, stock options granted after May 5, 2005 vest in accordance with their regular schedule regardless of the occurrence of a change in control, and, although the payment of performance shares granted after this date accelerates upon a change in control, the payment is prorated (except in the event of certain terminations of employment) and is calculated based on the greater of actual or target performance with respect to all applicable performance criteria.

**Cinergy's** TSR performance percentile for the LTIP cycle that ended December 31, 2005 was 36.3, which corresponds to a payout equal to 25.2% of the target grant of performance shares.

*Additional Awards*

The Committee may grant additional short–term or long–term awards to recognize increased responsibilities or special contributions, to attract new hires to **Cinergy**, to retain executives, or to recognize other special circumstances. In 2005, certain performance–based restricted stock awards were granted to the named executive officers as shown in the Summary Compensation Table.

*Other Programs*

**Cinergy** also provides its executive officers with life and medical insurance, pension, savings and compensation deferral programs, perquisites and other benefits that are competitive with market practices. The Committee considers all benefits when reviewing the total compensation of the executive officers.

On December 30, 2005, **Cinergy** entered into agreements with certain executive officers, including Mr. Cyrus, Mr. Turner, Mr. Manly and Ms. Good, to accelerate the payment of a portion of the executive's benefits, otherwise expected to be paid following the closing of the merger by and among **Cinergy** and Duke Energy Corporation (Duke), in order to mitigate **Cinergy's** taxes and related expenses. The new agreements amend the executive officers' employment agreements, and the benefit plans in which they participate, to provide that **Cinergy** will accelerate (into 2005) the payment of certain amounts that they have previously earned or are expected to earn following the closing of the merger. Pursuant to these agreements, **Cinergy** prepaid Mr. Cyrus $9,223,445, Mr. Turner $589,680, Mr. Manly $1,403,664 and Ms. Good $973,137, and the other executive officers as a group $21,877,316 in connection with some or all of the following benefits: (i) performance shares under **Cinergy's** long–term incentive plan, (ii) expected 2006 bonus payment, (iii) estimated severance benefits, (iv) expected and/or earned supplemental executive retirement benefits and (v) restricted stock awards. In the event the executive voluntarily terminates his or her employment prior to the closing of the merger, the executive is obligated to repay all of the payments, and if the merger does not close on or prior to a specified date, the executive is 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 executive has already earned through such date. The balance of the prepaid amounts will reduce the amounts described above that are payable as a result of the closing of the merger. By accelerating these payments, **Cinergy** will mitigate its taxes and related expenses that it would otherwise incur if it had waited until after 2005 to make these payments.

*Chief Executive Officer*

*Philosophy.* The Committee's objective with respect to CEO compensation is to motivate and retain a chief executive officer who is committed to delivering sustained superior performance for all of **Cinergy's** stakeholders. We attempt to compensate the Chief Executive Officer using, whenever possible, stock–based compensation so as to strengthen his alignment with shareholder interest in stock price appreciation and dividend yield. The Chief Executive Officer is also provided perquisites and retirement benefits commensurate with those provided to chief executive officers of comparably–sized general industry companies.

Consistent with our compensation philosophy described above, in early 2004, the Committee approved a new compensation package for Mr. Rogers, including a restated employment agreement. See "Employment Agreements" for a description of Mr. Rogers' restat employment agreement. Mr. Rogers has served as Chairman, and CEO of PSI Energy, Inc. since 1988, as CEO of **Cinergy Corp.** since 1995, and as Chairman since 2000. The Committee determined that the new compensation package was appropriate, and continues to be appropriate, based upon the long-term performance of Mr. Rogers.

*Base Salary.* In 2005, Mr. Rogers did not receive an increase to his base salary.

*Annual Incentive Compensation.* For 2005, Mr. Rogers received a cash award under the Annual Incentive Plan in the amount of $1,947,129. The award was based on the corporate goal achievement discussed above, and a 3.0 with respect to his objective individual goals, which included a customer satisfaction goal, supplier diversity goal, workforce diversity goal, workforce engagement goal and a corporate governance goal.

*Long-Term Incentive Compensation.* Mr. Roger's payout for the performance cycle of the LTIP that ended December 31, 2005, was $959,499.

As stated above, the Committee emphasizes pay for performance. In this regard, approximately 65.0 percent of Mr. Rogers' 2005 compensation listed in the Summary Compensation Table was performance-based.

*Code Section 162(m)*

Internal Revenue Code Section 162(m) generally limits **Cinergy's** annual federal income tax deduction to one million dollars for compensation paid to each of the named executive officers. However, qualifying performance-based compensation is exempted from the deduction limit under certain conditions. The Committee attempts to qualify the named executive officers' compensation for full corporate deductibility, including awards under the shareholder-approved AIP and LTIP; however, in an effort to remain competitive and attract and retain key management employees, certain compensation awarded in 2005 may not qualify for exemption from the deduction limit under Section 162(m) of the Internal Revenue Code.

*Compensation Committee*
Michael G. Browning, Chair
George C. Juilfs
Thomas E. Petry
John J. Schiff, Jr.

## Summary Compensation Table

Included in the following table is, for the past three years, the compensation paid to our Chief Executive Officer and the other four most highly compensated executive officers in 2005. These amounts include payments for services in all capacities to **Cinergy** and its subsidiaries. We sometimes refer to the persons listed below as the "named executive officers."

| | | Annual Compensation | | | Long-Term Compensation | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Awards | | Payouts | |
| Name and Principal Position | Year | Salary | Bonus | Other Annual Compensation | Restricted Stock Awards(1) | Securities Underlying Options/SARs (#) | LTIP Payouts(2) | All Other Compensations(3) |
| James E. Rogers | **2005** | **$ 1,250,004** | **$ 1,947,129** | **$ 72,091(4)** | **$ —** | **137,300** | **$ 959,499** | **$ 245,331** |
| Chairman of the Board | 2004 | 1,250,004 | 1,258,003 | 47,876 | — | 138,600 | 4,935,799 | 214,781 |
| and Chief Executive Officer | 2003 | 1,250,004 | 1,920,854 | 103,441 | — | 145,500 | 4,609,396 | 1,172,311 |
| Michael J. Cyrus | **2005** | **644,028** | **545,814** | **20,562** | **199,241** | **26,000** | **206,207** | **9,275,409** |
| Executive Vice President of **Cinergy** and | 2004 | 622,248 | 224,009 | 107,277 | 207,719 | 25,900 | 1,277,140 | 41,230 |
| Chief Executive Officer of the Regulated Business Unit | 2003 | 589,560 | 493,500 | 3,958 | 142,062 | 31,300 | 1,074,176 | 52,765 |
| James L. Turner | **2005** | **540,000** | **457,650** | **21,164** | **249,072** | **19,800** | **126,706** | **631,181** |
| President | 2004 | 525,008 | 283,504 | 14,689 | 207,719 | 19,800 | 769,562 | 39,174 |
| | 2003 | 435,709 | 366,632 | 6,764 | 142,062 | 19,200 | 614,140 | 22,247 |
| Marc E. Manly | **2005** | **516,528** | **437,757** | **21,164** | **199,241** | **20,800** | **165,413** | **1,454,406** |
| Executive Vice President and | 2004 | 499,056 | 269,490 | 38,182 | 207,719 | 20,800 | 771,311 | 46,478 |
| Chief Legal Officer | 2003 | 479,760 | 395,802 | 221,132 | 142,062 | 25,100 | 381,711 | 22,295 |
| Lynn J. Good | **2005** | **325,236** | **454,288** | **21,164** | **149,452** | **12,000** | **57,793** | **1,017,608** |
| Executive Vice President and | 2004 | 276,750 | 99,638 | 6,859 | — | 9,400 | 233,502 | 19,444 |
| Chief Financial Officer | 2003 | 180,000(5) | 93,600 | 1,060 | 150,916 | 20,500 | 85,604 | 7,978 |

(1) The aggregate value of all restricted stock holdings for Messrs. Rogers, Cyrus, Turner and Manly and Ms. Good, respectively, as of December 31, 2005 are $0, $187,970, $911,871, $610,363 and $338,491. With respect to a portion of the restricted stock, dividends are payable upon vesting and with respect to the remaining portion of the restricted stock, dividends are payable on a current basis in accordance with **Cinergy's** applicable dividend policy.

(2) Amounts appearing in this column reflect payouts relating to the Cinergy Corp. 1996 Long-Term Incentive Plan.

(3) Amounts appearing in this column for 2005 include for Messrs. Rogers, Cyrus, Turner and Manly and Ms. Good, respectively: (i) employer matching contributions under the 401(k) Plan and related 401(k) Excess Plan of $58,719, $30,306, $25,243, $24,155 and $14,441; (ii) insurance premiums paid with respect to executive/group-term life insurance of $637, $3,699, $3,654, $3,086 and $2,189 and (iii) accelerated payments made in order to mitigate **Cinergy's** taxes and related expenses of $0, $9,223,445, $589,680, $1,403,664 and $973,137. For Mr. Rogers, the amount also includes above market interest of $179,136 earned on portions of his base salary deferred from 1992 to 2001 under his Deferred Compensation Agreement. For Mr. Cyrus and Ms. Good, the amount also includes $18,299 and $22,943 of profit sharing contributions under the 401(k) Plan and related Excess Profit Sharing Plan.

(4) This amount includes approximately $17,550 after tax cost to the Company related to a car allowance and approximately $25,682 after tax cost to the Company related to legal expenses.

(5) Ms. Good began employment with **Cinergy Corp.** on May 1, 2003.

## Option/SAR Grants Table

Included in the following table are individual grants of options to purchase **Cinergy** common stock made to the named executive officers during 2005. On January 1, 2003, we began expensing new stock option grants. The fair value of a stock option is expensed over the option's stated vesting period, except for retirement eligible employees for which the grants are expensed immediately because vesting accelerates upon retirement. In 2005, we granted 766,100 stock options with an average fair value of $5.64 per option. In 2005, we recognized approximately $6 million of expense related to stock options granted since January 1, 2003.

| Individual Grants | | | | | Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(3) | |
|---|---|---|---|---|---|---|
| Name | Number of Securities Underlying Options/SARs Granted (#) | % of Total Options/SARs Granted to Employees in Fiscal Year | Exercise or Base Price per Share | Expiration Date | 5% | 10% |
| James E. Rogers | 137,300 (1) | 17.92% | $ 41.79 | 1/1/2015 | $ 3,642,408 | $ 9,231,103 |
| Michael J. Cyrus | 26,000 (1) | 3.39 | 41.79 | 1/1/2015 | 680,652 | 1,724,940 |
| James L. Turner | 19,800 (1) | 2.58 | 41.79 | 1/1/2015 | 688,536 | 1,744,920 |
| Marc E. Manly | 20,800 (1) | 2.72 | 41.79 | 1/1/2015 | 662,256 | 1,678,320 |
| Lynn J. Good | 9,700 (1) | 1.27 | 41.79 | 1/1/2015 | 254,916 | 646,020 |
| Lynn J. Good | 2,300(2) | 0.30 | 41.975 | 12/14/2015 | 60,715 | 153,864 |

(1) Options were granted pursuant to the LTIP effective January 1, 2005 and become exercisable on January 1, 2008, the third anniversary of the grant. In the case of a change-in-control of **Cinergy**, including the pending merger with Duke or the retirement or death of the executive, all stock options become immediately exercisable.

(2) Options were granted on December 14, 2005 and do not vest upon the closing of the pending merger with Duke.

(3) The amounts shown represent hypothetical potential appreciation of **Cinergy** common stock and do not represent either historical performance or, expected future levels of appreciation. The actual values which may be realized, if any, upon the exercise of stock options will depend on the future market price of **Cinergy** common stock, which cannot be forecast with reasonable accuracy.

## Aggregated Option/SAR Exercises and Year End Option/SAR Values Table

Included in the following table is, for each named executive officer, information concerning (i) stock options exercised during 2005, including the value realized (i.e., the spread between the exercise price and the market price on the date of exercise), and (ii) the number of shares covered by options held on December 31, 2005 and the value of the officer's "in the money" options. "In-the-money" value is the positive spread between the closing market price of **Cinergy** common stock on December 31, 2005 ($42.46 per share) and an option's exercise price per share.

| Name | Shares Acquired on Exercise (#) | Value Realized | Number of Securities Underlying Unexercised Options/SARs at Year End (#) Exercisable/ Unexercisable | Value of Unexercised In-The-Money Options/SARs at Year End Exercisable/ Unexercisable |
|---|---|---|---|---|
| James E. Rogers | — | $ — | 970,300/421,400 | $ 7,053,725/1,855,280 |
| Michael J. Cyrus | — | — | 141,799/83,200 | 1,461,681/382,192 |
| James L. Turner | — | — | 101,625/58,800 | 1,418,435/251,559 |
| Marc E. Manly | 40,000 | 341,083 | 71,200/146,700 | 773,232/1,175,366 |
| Lynn J. Good | — | — | -/41,900 | -/218,425 |

## LTIP Awards Table

Both stock option grants and target awards of performance shares were made for the three–year LTIP performance cycle that began January 1, 2005. The stock option grants are reported on the "Option/SAR Grants Table". Included in the following table are potential payouts of performance shares awarded to the named executive officers during 2005.

| Name | Number of Shares, Units or Other Rights (#) | Performance or Other Period Until Maturation or Payout | Estimated Future Payouts under Non–Stock Price–Based Plans(2) | | |
|---|---|---|---|---|---|
| | | | Threshold (#) | Target (#) | Maximum (#) |
| James E. Rogers | (1) | 1/1/05 – 12/31/07 | — | 73,537 | 147,074 |
| Michael J. Cyrus | (1) | 1/1/05 – 12/31/07 | — | 13,913 | 27,826 |
| James L. Turner | (1) | 1/1/05 – 12/31/07 | — | 10,621 | 21,242 |
| Marc E. Manly | (1) | 1/1/05 – 12/31/07 | — | 11,158 | 22,316 |
| Lynn J. Good | (1) | 1/1/05 – 12/31/07 | — | 5,182 | 10,364 |

(1) See "Option/SAR Grants Table."

(2) Payouts of performance shares are tied to **Cinergy's** TSR targets for a cycle as compared with the TSR of a peer group consisting of the companies comprising the Standard & Poor's Electric Supercomposite Index as of the first day of the cycle, adjusted for certain specifically enumerated events that occur during the cycle of the type that could distort the index (e.g., bankruptcies and transactions or potential transactions involving companies included in the index group). If **Cinergy** does not exceed the threshold level of performance equal to the 30th percentile of the peer group's TSR, no performance shares are earned. The target and maximum amounts are earned if **Cinergy's** TSR meets the 55th and meets or exceeds the 85th percentiles, respectively, of the peer group's TSR. Except in the case of a change in control, disability, death or retirement on or after age 50 during the cycle, a participant must be employed on the last day of a cycle to receive an earned award. See "Summary Compensation Table" above for payouts related to the cycle ended December 31, 2005. Performance awards are paid out at the maximum amount in the case of a change–in–control of **Cinergy,** including the pending merger with Duke.

## Pension Benefits

Substantially all non–union employees, including our named executive officers, are entitled to benefits under our Non–Union Employees' Pension Plan (Pension Plan). In addition, eligible employees, including our named executive officers, will receive benefits under our Supplemental Executive Retirement Plan (SERP) and Excess Pension Plan at retirement, and each named executive officer may receive an additional retirement benefit under his or her employment agreement (described below). These plans, which are described in more detail below, are defined benefit pension plans to which the participants do not contribute.

### *Pension Plan and Excess Pension Plan*

At the end of 2002, each active participant in the Pension Plan, including our named executive officers, was provided a one–time election to continue to have his or her pension benefit calculated under a traditional final average pay formula or to earn future benefits under one of two new cash balance programs. All employees hired on or after January 1, 2003 may elect to earn benefits under one of the two cash balance programs but not the traditional final average pay formula. Messrs. Rogers, Turner and Manly elected to continue to earn benefits under the traditional final average pay formula, which calculates pension benefits based on a participant's "highest average earnings" and years of plan participation. Mr. Cyrus elected to participate in the Balanced Program and Ms. Good, who was hired in 2003, elected to participate in the Investor Program. The Excess Pension Plan, which covers employees with eligible earnings in excess of certain tax code limitations, including the named executive officers, is designed primarily to provide those benefits which cannot be paid from the Pension Plan by reason of certain tax code limitations applicable to qualified plan benefits. The following table shows the estimated annual pension benefits payable as a straight–life annuity under the final average pay formula of our Pension Plan and Excess Pension Plan to participants who retire at age 62.

| Compensation | Years of Service 5 | 10 | 15 | 20 | 25 | 30 | 35 | 40 |
|---|---|---|---|---|---|---|---|---|
| $ 500,000 | $ 38,544 | $ 77,088 | $ 115,632 | $ 154,176 | $ 192,721 | $ 231,265 | $ 269,809 | $ 308,55 |
| 750,000 | 58,544 | 117,088 | 175,632 | 234,176 | 292,721 | 351,265 | 409,809 | 467,93 |
| 1,000,000 | 78,544 | 157,088 | 235,632 | 314,176 | 392,721 | 471,265 | 549,809 | 627,309 |
| 1,250,000 | 98,544 | 197,088 | 295,632 | 394,176 | 492,721 | 591,265 | 689,809 | 786,684 |
| 1,500,000 | 118,544 | 237,088 | 355,632 | 474,176 | 592,721 | 711,265 | 829,809 | 946,059 |
| 1,750,000 | 138,544 | 277,088 | 415,632 | 554,176 | 692,721 | 831,265 | 969,809 | 1,105,434 |
| 2,000,000 | 158,544 | 317,088 | 475,632 | 634,176 | 792,721 | 951,265 | 1,109,809 | 1,264,809 |
| 2,250,000 | 178,544 | 357,088 | 535,632 | 714,176 | 892,721 | 1,071,265 | 1,249,809 | 1,424,184 |
| 2,500,000 | 198,544 | 397,088 | 595,632 | 794,176 | 992,721 | 1,191,265 | 1,389,809 | 1,583,559 |
| 2,750,000 | 218,544 | 437,088 | 655,632 | 874,176 | 1,092,721 | 1,311,265 | 1,529,809 | 1,742,934 |
| 3,000,000 | 238,544 | 477,088 | 715,632 | 954,176 | 1,192,721 | 1,431,265 | 1,669,809 | 1,902,309 |
| 3,250,000 | 258,544 | 517,088 | 775,632 | 1,034,176 | 1,292,721 | 1,551,265 | 1,809,809 | 2,061,684 |
| 3,500,000 | 278,544 | 557,088 | 835,632 | 1,114,176 | 1,392,721 | 1,671,265 | 1,949,809 | 2,221,059 |
| 3,750,000 | 298,544 | 597,088 | 895,632 | 1,194,176 | 1,492,721 | 1,791,265 | 2,089,809 | 2,380,434 |
| 4,000,000 | 318,544 | 637,088 | 955,632 | 1,274,176 | 1,592,721 | 1,911,265 | 2,229,809 | 2,539,809 |
| 4,250,000 | 338,544 | 677,088 | 1,015,632 | 1,354,176 | 1,692,721 | 2,031,265 | 2,369,809 | 2,699,184 |

For pension purposes, a participant's "highest average earnings" is generally the employee's average annual earnings (including short–term incentive compensation and, with respect to the Excess Pension Plan, certain non–elective contributions to the 401(k) Excess Plan) during a three consecutive year period within the ten years immediately preceding retirement, that produces the highest average. For purposes of the table, the estimated credited years of service at age 62 for the named executive officers are as follows: Mr. Rogers, 20 years; Mr. Turner, 26 years; and Mr. Manly, 11 years. For purposes of this table, Mr. Rogers' current highest average earnings is $3,518,250. The benefits are not subject to any deduction for social security or other offset amounts.

As stated above, Mr. Cyrus elected to earn benefits under the Balanced Program and Ms. Good elected to receive benefits under the Investor Program, each of which are cash balance programs. The Investor Program provides an annual pay credit equal to two percent of eligible annual earnings to a hypothetical account established for the participant, and the Balanced Program provides an annual pay credit equal to three percent, four percent or five percent (depending on the participant's years of service) of eligible annual earnings to a hypothetical account established for the participant. Each participant's account is also credited with interest credits that are currently based on the 30–year Treasury bond rate. The estimated annual benefit payable upon retirement at age 62 for Mr. Cyrus and Ms. Good, respectively, under the Pension Plan and the Excess Pension Plan is $143,947 and $28,371. These estimates are based on the assumption that: (i) the executive remains employed until age 62; (ii) the executive's compensation increases at an annual rate of three percent; (iii) the executive receives a target annual bonus each year; and (iv) current interest rates remain constant. Participants in the Balanced and Investor Programs also are entitled to receive profit sharing contributions to their accounts under **Cinergy's** 401(k) Plan and Excess Profit Sharing Plan, in an aggregate amount of up to 15 percent of eligible earnings in any one year, based on **Cinergy's** corporate performance.

***SERP***

Our SERP provides selected executive officers, including the named executive officers, with an opportunity to earn a pension benefit that will replace up to 60 percent of their "final average earnings". Benefits payable under the SERP are reduced by the benefits provided under our Pension Plan and Excess Pension Plan, and further reduced by 50 percent of the employee's age 62 social security benefit. Under the SERP, each participant accrues a retirement income replacement percentage at the rate of four percent (Mr. Manly's employment agreement provides for a SERP enhancement equal to the incremental benefit he would receive if his retirement income replacement percentage accrued at a rate of five percent rather than four percent) per year from the date the participant is first classified as a "senior executive employee," up to a maximum of 15 years. For this purpose, "final average earnings" is the greater of (i) the employee's highest average earnings (as defined in our Excess Pension Plan) or (ii) the final 12 months of base pay plus short–term incentive compensation and certain non–elective contributions under the 401(k) Excess Plan. Based on the SERP and applicable employment agreements (discussed below), the estimated retirement income replacement percentage is 65 percent for Mr. Rogers and approximately 60 percent for the other named executive officers, assuming each other named executive officer remains employed until age 62.

*Supplemental Retirement Benefits Under Employment Agreements*

Each named executive officer (other than Ms. Good) has entered into an employment agreement that provides that if he retires after age 55 (age 62 for Mr. Manly), he will be entitled to a supplemental retirement benefit equal to the excess of the maximum potential SERP benefit over his actual total benefit under our Pension Plan, Excess Pension Plan and SERP. The supplemental retirement benefit is payable to the named executive officer's surviving spouse, if any, if the named executive officer dies while employed by **Cinergy** after reaching age 55. Any benefit payable to the surviving spouse will be actuarially adjusted, consistent with the applicable joint and survivorship provisions contained in the Pension Plan. The supplemental retirement benefit provided to Mr. Rogers under his employment agreement differs in two ways: (i) upon attaining age 58, his benefit was increased to 65 percent of his "highest average earnings"; and (ii) his "highest average earnings" includes certain portions of the performance award below discussed. The employment agreements are described below in more detail.

The named executive officers generally may elect to receive the actuarial equivalent of their entire supplemental retirement benefit, and their benefits under the Excess Pension Plan and SERP, in a lump sum if they terminate employment prior to the second anniversary of a change in control. In the absence of a change in control, participants may elect to receive one–half of such benefits in the form of a lump sum payable following their termination of employment.

**Cinergy's** Executive Supplemental Life Insurance Program provides key management personnel, including the named executive officers, with additional life insurance during employment and with post–retirement deferred compensation. If the participant retires after attaining age 50, the life insurance coverage is canceled and, instead, the participant receives the value of the coverage in the form of deferred compensation, payable in ten equal annual installments of $15,000 per year. Mr. Turner, Mr. Manly and Ms. Good also have elected to participate in our Executive Life Insurance Plan, under which **Cinergy** pays the premiums with respect to a whole life insurance policy owned by each executive that provides life insurance coverage in an amount equal to the amount of his or her annual base salary and target annual bonus.

The American Jobs Creation Act of 2004, which was enacted on October 22, 2004, made substantial changes to the administration, design and taxation of deferred compensation arrangements. **Cinergy's** compensation plans will be revised, as necessary, to comply with the new laws.

**Employment Agreements**

We have entered into an employment agreement with each of our named executive officers. The term of the employment agreements expire on December 31, 2008 (December 31, 2007 for Ms. Good). On December 31, 2006, and each year thereafter, the term is automatically extended for one additional year absent notice of earlier termination by either party. The named executive officers will receive the following annual salaries in 2006: $1,250,004 for Mr. Rogers, $666,576 for Mr. Cyrus, $561,600 for Mr. Turner, $537,204 for Mr. Manly and $390,000 for Ms. Good. Each named executive officer is entitled to receive the same perquisites as are provided to other senior executives of **Cinergy** and to participate in the same benefit and retirement plans offered to our other executive officers, including the SERP, Excess Pension Plan, Annual Incentive Plan (AIP) and LTIP, with the target and maximum incentive awards under those plans to be not less than as specified in the employment agreements. We also will reimburse the named executive officers for taxes applicable to certain benefits they receive. The employment agreements (with the exception of Ms. Good's agreement) also provide the supplemental retirement benefits above described.

If we terminate a named executive officer's employment for cause (as defined in the agreement), or if the executive terminates his or her employment other than for good reason (as defined in the agreement), then he or she will be entitled to receive under his or her employment agreement only his or her "accrued benefits," which consist of earned but unpaid compensation and benefits, including a pro rata portion of the executive's projected bonus under the AIP.

Outside the change in control context (i.e., prior to or more than twenty–four months after a change in control), if we terminate a named executive officer's employment without cause or the executive terminates his or her employment

for good reason, then, in addition to his or her accrued benefits, the executive will be entitled to receive the following severance benefits:

- three times (two times for Ms. Good) the sum of his or her annual base salary plus the higher of his or her prior year annual bonus or his or her current year projected bonus (but not less than target); and
- continued medical and welfare benefits through the end of the stated term of the employment agreement or a cash equivalent (reduced by coverage obtained from subsequent employers).

In the change in control context (i.e., within twenty–four months after a change in control), if we terminate a named executive officer's employment without cause or the executive terminates his or her employment for good reason, then the executive will be entitled to receive, in addition to his or her accrued benefits, the following severance benefits:

- three times the sum of the higher of his or her annual base salary and target annual bonus or his or her annual base salary in effect immediately prior to the change in control and annual bonus (based on the higher of his or her prior year annual bonus, his or her annual bonus for the year prior to the change in control, or his or her current year projected bonus (but not less than target));
- the present value of any benefits under our Executive Supplemental Life Program;
- full vesting of his or her accrued benefits under our Pension Plan, Excess Pension Plan and SERP;
- three additional years of age and service credit for purposes of calculating the supplemental retirement benefit and benefits under our Pension Plan, Excess Pension Plan and SERP;
- welfare benefits for a 36–month period following termination of service or a cash equivalent (reduced by coverage obtained from subsequent employers);
- a payment of $50,000 ($35,000 for Ms. Good) in lieu of additional automobile benefits; and
- miscellaneous benefits, including outplacement services.

If the employment of a named executive officer is terminated other than by death, the executive generally will be entitled to reimbursement for reasonable relocation costs (reduced by relocation benefits obtained from subsequent employers). **Cinergy** will pay legal fees incurred by each named executive officer as a result of successfully disputing a termination of employment that entitles him to benefits under his or her employment agreement. In the event any payment made to a named executive officer results in the imposition of the golden parachute excise tax, **Cinergy** must make an additional payment to cover all such excise taxes and any taxes on the additional payments.

Any stock options or stock appreciation rights held by the executives and granted prior to May 8, 2005 become immediately exercisable upon a change in control to the extent not otherwise provided in the applicable documents. If an executive terminates employment for any reason within twenty–four months following the change in control, his or her stock options and stock appreciation rights remain exercisable for at least three months following termination of employment.

Under his employment agreement, Mr. Rogers received a $5 million performance–based phantom stock award that will be credited to his account under the 401(k) Excess Plan on December 31, 2006, provided that performance measures established by the Compensation Committee have been satisfied as of that date. The credit to Mr. Rogers' account will be accelerated (without regard to the achievement of the performance measures) in the event he dies or becomes disabled, we terminate his employment without cause, he terminates his employment for good reason or in the event of a change in control. In order to further align the interests of Mr. Rogers and our shareholders, the credit, if any, to Mr. Rogers' account under the 401(k) Excess Plan will remain invested in phantom shares of **Cinergy** common stock until distributed, in cash, upon his retirement from the Company. Mr. Rogers is paid

dividend equivalents on the $5 million potential award on a current basis; and $600,000 of the potential award will be included in Mr. Rogers' annual base salary for purposes of calculating his LTIP awards, annual bonus and supplemental retirement benefit during 2005 and 2006.

Mr. Rogers is entitled to certain severance benefits in addition to those above described. In particular, in the event that we terminate Mr. Rogers' employment without cause or he terminates his employment for good reason, then Mr. Rogers also will be entitled to (i) a payment of $60,000 (rather than the benefit provided to the other named executive officers) in lieu of additional automobile benefits, and (ii) in the event such termination occurs outside the

change in control context, the aggregate amount that he would have received had he remained employed through the end of the employment term under the performance share awards that he holds on the date of his termination of employment.

**Deferred Compensation Agreement**

In 1992, **PSI** entered into a deferred compensation agreement with Mr. Rogers. Except for earnings on amounts previously deferred, Mr. Rogers is not accruing any additional benefits under this agreement. The agreement provides that upon termination of his employment, for any reason other than death, Mr. Rogers will receive two 15–year annual cash benefits beginning the first January thereafter. Payment of the first annual cash benefit will commence no later than January 2010 and will range from $341,000 if payment begins in January 2007 to $554,000 if payment begins in January 2010. Payment of the second annual cash benefit will commence no earlier than January 2008 and no later than January 2010 and will range from $179,000 to $247,000. Comparable amounts are payable if Mr. Rogers dies before these payments begin.

**Compensation of Cinergy Directors**

In 2005, the fees paid to our non–employee directors consisted of:

| Type of Fee | Amount | |
|---|---|---|
| Annual Board Retainer | $ 60,000 | (payable 50% each in cash and stock) |
| Annual Committee Retainer | $ 8,500 | |
| Annual Committee Chair Retainer | $ 8,500 | |
| Annual Lead Director Retainer | $ 5,000 | |
| Board Meeting Attendance | $ 2,000 | ($1,250 if attended by conference call) |
| Committee Meeting Attendance | $ 2,000 | ($1,250 if attended by conference call) |
| Annual Equity Award | 450 | units of **Cinergy** common stock |

In addition, when a non–employee director is first elected to the Board, he or she is granted a non–qualified stock option to purchase 12,500 shares of **Cinergy** common stock. All such options have exercise prices at least equal to 100 percent of the fair market value of **Cinergy** common stock on the date of the grant, vest at the rate of 20 percent per year over a five–year period and may be exercised over a 10–year term. **Cinergy** also reimburses all non–employee directors for expenses incurred to attend and participate at Board and committee meetings, including the annual off–site strategic retreat. Directors who are employees of **Cinergy** receive no compensation for their service as directors.

The portion of each non–employee director's annual retainer that is payable in cash is paid quarterly in arrears. The portion of each non–employee director's annual retainer that is payable in **Cinergy** common stock, unless voluntarily deferred, is delivered to the director as soon as practicable after January 1 each year. If voluntarily deferred, the shares, along with reinvested dividends, are credited to an individual bookkeeping account maintained by **Cinergy** on behalf of the non–employee director and must remain in the account until he or she ceases to be a director, at which time the units will be distributed to the director.

Under our Directors' Deferred Compensation Plan, each non–employee director of **Cinergy** may choose to defer the portion of his or her fees that is otherwise payable in cash into a bookkeeping account denominated in either cash or units representing shares of **Cinergy** common stock, or in a combination of cash and units. If deferred in units, additional units are credited to the director's account at the same time and rate as dividends are paid to holders of **Cinergy** common stock. Amounts deferred into a cash bookkeeping account earn interest at the annual rate (adjusted quarterly) equal to the interest rate on a one–year certificate of deposit for $100,000 (as quoted in *The Wall Street Journal*) on the first business day of the calendar quarter. Deferred units are distributed as shares of **Cinergy** common stock, and accrued cash accounts are paid in cash, generally commencing in the year immediately following the year in which the director ceases to be a director.

As described in the table above, under **Cinergy's** Directors' Equity Compensation Plan, each non–employee director receives an annual award on December 31 equal to 450 shares of **Cinergy** common stock. Each such award is credited, along with reinvested dividends, to a bookkeeping account maintained on behalf of the non–employee director and is paid beginning when he or she ceases to be a director or upon a change in control. The accrual of future benefits under our

Retirement Plan for Directors was eliminated effective January 1, 1999. Each of our currently serving non–employee directors who had an accrued cash benefit under such plan prior to 1999 converted the benefit to units representing shares of **Cinergy** common stock. These units are payable, along with reinvested dividends, after the director ceases to be a director or upon a change in control.

For 2006, the Board approved the advance payment of the cash portion of the annual retainer as well as the committee meeting fees to those non–employee directors who will not continue to serve on the Board of Directors of the combined company of **Cinergy** and Duke after the closing of the merger.

**Compensation of PSI Directors**

Each non–employee director of **PSI** is eligible to receive an annual retainer fee of $8,000 plus a fee of $1,000 for each Board meeting attended. However, any non–employee director of **PSI** who also serves as a non–employee director of **Cinergy** or any of its affiliates shall not receive the annual retainer fee, or any compensation for attendance at any Board meeting that is held concurrently or consecutively with a meeting of **Cinergy's** Board of Directors. Mr. Browning, a non–employee director of **PSI**, is currently also a non–employee director of **Cinergy**. Directors who are employees of **Cinergy** or any of its subsidiaries (Mr. Rogers and Ms. Pashos) receive no compensation for their services as directors. These cash fees are eligible to be deferred under the Directors' Deferred Compensation Plan above described.

As described above, the accrual of future benefits under **Cinergy's** Retirement Plan for Directors was eliminated effective January 1, 1999. Mr. Browning converted his accrued cash benefit under the plan on that date to units representing shares of **Cinergy** common stock, payable commencing at the time of his retirement from both **PSI's** and **Cinergy's** boards.

All **CG&E** directors currently are employees of **Cinergy** and receive no compensation for their services as directors.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

### Security Ownership of Certain Beneficial Owners and Management

Listed on the following table are the owners of five percent or more of **Cinergy's** outstanding shares of common stock, as of December 31, 2005. This information is based on the most recently available reports filed with the SEC and provided to us by the companies listed.

| Name and Address of Beneficial Owner | Amount and Nature of Beneficial Ownership | Percent of Class |
|---|---|---|
| United States Trust Corporation<br>114 West 47th Street<br>New York, NY 10036 | 11,137,476 shares(1) | 5.6% |
| Franklin Resources, Inc.<br>One Franklin Parkway<br>San Mateo, California 94403 | 12,813,890 shares(2) | 6.4% |

(1) This information was obtained from the beneficial owner's Schedule 13G/A filed with the SEC on February 15, 2006.

(2) This information was obtained from the beneficial owner's Schedule 13G/A filed with the SEC on February 7, 2006.

Listed on the following table is the number of shares of **Cinergy** common stock beneficially owned by each director, each executive officer named in the Summary Compensation Table and all directors and executive officers as a group, as of January 31, 2006.

| Name of Beneficial Owner | Amount and Nature of Beneficial Ownership(1) | Percent of Class |
|---|---|---|
| Michael G. Browning | 125,306 shares | * |
| Phillip R. Cox | 16,586 shares | * |
| Michael J. Cyrus | 283,023 shares | * |
| Lynn J. Good | 11,585 shares | * |
| George C. Juilfs | 49,782 shares | * |
| Marc E. Manly | 132,639 shares | * |
| Thomas E. Petry | 33,425 shares | * |
| James E. Rogers | 1,802,985 shares | * |
| Mary L. Schapiro | 27,380 shares | * |
| John J. Schiff, Jr. | 65,493 shares | * |
| Philip R. Sharp | 9,187 shares | * |
| Dudley S. Taft | 44,214 shares | * |
| James L. Turner | 179,441 shares | * |
| All directors and executive officers as a group (19 persons) | 3,098,649 shares | 1.55% |

* Represents less than 1%.

(1) Includes shares that there is a right to acquire within 60 days of January 31, 2006 in the following amounts: Mr. Browning – 13,386; Mr. Cox – 13,386; Mr. Cyrus – 173,099; Ms. Good – 0; Mr. Juilfs – 13,386; Mr. Manly – 96,300; Mr. Petry – 13,386; Mr. Rogers – 1,115,800; Ms. Schapiro – 25,035; Mr. Schiff – 3,604; Mr. Sharp – 3,386; Mr. Taft – 10,000; Mr. Turner – 120,826; and all directors and executive officers as a group – 1,739,994.

**Cinergy Corp.** owns all outstanding shares of common stock of **CG&E**, **CG&E's** only voting security.

**CG&E's** directors and executive officers did not beneficially own any shares of any class of equity security of **CG&E** as of January 31, 2006. The beneficial ownership of **Cinergy Corp.** common stock by each director and named executive officer of **CG&E** as of January 31, 2006, is set forth in the following table:

| Name of Beneficial Owner | Amount and Nature of Beneficial Ownership(1) | Percent of Class |
|---|---|---|
| Michael J. Cyrus | 283,023 shares | * |
| Gregory C. Ficke | 56,210 shares | * |
| Lynn J. Good | 11,585 shares | * |
| Marc E. Manly | 132,639 shares | * |
| James L. Turner | 179,441 shares | * |
| James E. Rogers | 1,802,985 shares | * |
| All directors and executive officers as a group (10 persons) | 2,702,043 shares | 1.35% |

* Less than 1 percent

(1) Includes shares which there is a right to acquire within 60 days of January 31, 2006 in the following amounts: Mr. Cyrus – 173,099; Mr. Ficke – 31,800; Ms. Good – 0; Mr. Manly – 96,300; Mr. Rogers – 1,115,800; Mr. Turner – 120,826 and all directors and executive officers as a group – 1,667,825.

**Security Ownership of Certain Beneficial Owners and Management**

The following table lists the sole owner of five percent or more of **PSI's** outstanding shares of common stock as of January 31, 2006.

| Name and Address of Beneficial Owner | Amount and Nature of Beneficial Ownership | Percent of Class |
|---|---|---|
| Cinergy Corp.<br>139 East Fourth St.<br>Cincinnati, Ohio 45202 | 53,913,701 | 100% |

Based on the most recently available reports filed with the SEC, to our knowledge there were no owners of five percent or more of **PSI's** outstanding shares of cumulative preferred stock as of December 31, 2005.

Listed on the following table is the number of shares of **Cinergy** common stock beneficially owned by each of **PSI's** director and executive officers named in the Summary Compensation Table, and by all directors and executive officers as a group, as of January 31, 2006. **PSI's** director and named executive officers did not beneficially own any shares of **PSI** cumulative preferred stock as of January 31, 2006.

| Name of Beneficial Owner | Amount and Nature of Beneficial Ownership(1) | Percent of Class |
|---|---|---|
| Michael G. Browning | 125,306 shares | * |
| Michael J. Cyrus | 283,023 shares | * |
| Lynn J. Good | 11,585 shares | * |
| Marc E. Manly | 132,639 shares | * |
| Kay E. Pashos | 25,232 shares | * |
| James E. Rogers | 1,802,985 shares | * |
| James L. Turner | 179,441 shares | * |
| | 2,796,371 shares | 1.40% |

| | |
|---|---|
| All directors and executive officers as a group (11 persons) | |

* Represents less than 1%.

(1) Includes shares that there is a right to acquire within 60 days of January 31, 2006 pursuant to the exercise of stock options in the following amounts: Mr. Browning – 13,386; Mr. Cyrus – 173,099; Ms. Good – 0; Mr. Manly – 96,300; Ms. Pashos – 14,100; Mr. Rogers – 1,115,800; Mr. Turner – 120,826; and all directors and executive officers as a group – 1,663,511.

The following table reflects **Cinergy's** equity compensation plan information as of December 31, 2005:

**Equity Compensation Plan Information**

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) | Weighted-average exercise price of outstanding options, warrants and rights (b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) |
|---|---|---|---|
| **Equity compensation plans approved by security holders** | | | |
| Cinergy Corp. 1996 LTIP | 6,886,596 | $ 34.73 | 2,012,161 |
| Cinergy Corp. Stock Option Plan | 594,500 | $ 34.62 | 1,318,500 |
| Cinergy Corp. Employee Stock Purchase and Savings Plan | — | N/A | 1,482,664 |
| Cinergy Corp. Retirement Plan for Directors | 80,761 | N/A | — |
| Cinergy Corp. Directors' Equity Compensation Plan | 31,648 | N/A | 35,805 |
| Cinergy Corp. Directors' Deferred Compensation Plan | 53,727 | N/A | 92,415 |
| **Equity compensation plans not approved by security holders** | | | |
| Cinergy Corp. UK Sharesave Scheme | — | — | 62,047 |
| Cinergy Corp. 401(k) Excess Plan | 85,243 | N/A | — |

The following information describes the equity compensation plans that have not been approved by shareholders.

**Cinergy Corp. UK Sharesave Scheme**

The Cinergy Corp. UK Sharesave Scheme allows United Kingdom employees working a minimum of 25 hours per week to purchase shares of common stock pursuant to a stock option feature. Under the Cinergy Corp. UK Sharesave Scheme, after-tax funds are withheld from a participant's compensation during a 36-month or 60-month offering period, at the election of the participants, and are deposited in an account. At the end of the offering period, participants may apply amounts deposited in the account toward the purchase of shares of common stock. The purchase price cannot be less than 80 percent of the average market price at date of grant or shortly prior to the grant. Any funds not applied toward the purchase of shares are returned to the participant. No individuals currently participate in the UK Sharesave Scheme and **Cinergy** has no current intention to permit future participation in this scheme.

**Cinergy Corp. 401(k) Excess Plan**

The Cinergy Corp. 401(k) Excess Plan is a non-qualified deferred compensation plan for a select group of **Cinergy** management and other highly compensated employees. It is a means by which these employees can defer additional compensation, and receive additional company matching contributions, when they have already contributed the maximum amount (pursuant to the anti-discrimination rules for highly compensated employees) under the 401(k) Plan. **Cinergy** can also make non-elective contributions to this plan. All funds deferred are held in a rabbi trust administered by an independent trustee.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

### Certain Relationships and Related Transactions

Mr. Benjamin C. Rogers, age 34, is the son of our Chairman and Chief Executive Officer and an employee of Cinergy Services, Inc., a subsidiary of **Cinergy**. For 2005, Mr. Benjamin Rogers received an aggregate of approximately $181,842 in base salary and bonus.

Mr. Schiff serves as an executive officer of certain entities from which **Cinergy** or its affiliates purchase, at competitive rates, certain bond and/or insurance coverage in connection with the Company's or its affiliates' ordinary business needs. In 2005, entities of which Mr. Schiff served as an executive officer received, in the aggregate, approximately $34,407 related to these services.

Mr. Cox serves as chief executive officer of Cox Financial Corporation, a company that acts as a broker with respect to the Company's executive life insurance program. In 2005, Cox Financial Corporation received approximately $28,925 related to these services.

## ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

### Independent Public Accountants

Information on fees billed by Deloitte & Touche LLP for services rendered during 2004 and 2005 follows.

| Category | 2004 Fiscal Year | 2005 Fiscal Year(1) |
|---|---|---|
| Audit Services | $ 3,000,075 | $ 2,690,883 |
| Audit–Related Services | 356,700 | 410,798 |
| Tax Services | 2,069,067 | 471,961 |
| All Other Services | — | — |

(1) The Audit–Related Services included audits of our benefit plans and certain types of consultation. The Tax Services included international, federal and state preparations and compliance, as well as tax consultation. Tax compliance services accounted for approximately $320,000 of all Tax Services.

The Audit Committee is responsible for approving all audit and permissible non–audit services provided to **Cinergy** by its independent auditors. Pursuant to this responsibility, the Audit Committee adopted the Auditor Independence Pre–Approval Policy which provides that the Audit Committee will annually establish detailed services and related fee levels that may be provided by the independent auditors. Under the Policy, detailed audit services, audit–related services and tax services have been specifically pre–approved up to certain fee limits. In the event that the cost of any of these services may exceed the pre–approved limits, the Audit Committee must pre–approve the service. All other services that are not prohibited pursuant to the SEC's or other applicable regulatory bodies' rules or regulations must be specifically pre–approved by the Audit Committee. Any request for services that requires Audit Committee pre–approval will be submitted to the Audit Committee by the Chief Financial Officer or Controller and a representative of **Cinergy's** Legal Department. The request must include a joint statement, in writing, (a) describing (i) the scope of the service, the fee structure for the engagement, and any side letter or other amendment to the engagement letter, or any other agreement (whether oral, written, or otherwise) between the independent auditor and the Company, relating to the service; and (ii) any compensation arrangement or other agreement, such as a referral agreement, a referral fee or fee–sharing arrangement, between the independent auditor (or an affiliate of the independent auditor) and any person (other than the Company) with respect to the

promoting, marketing, or recommending of a transaction covered by the service; and (b) discussing the potential effects of the services on the independence of the independent auditor. Under the Policy, the Audit Committee may delegate specific pre–approval authority to one or more of its members but it may not delegate its responsibilities to pre–approve services performed by the independent auditors to management. The Auditor Independence Pre–Approval Policy is available on our website at www.cinergy.com/governance.

## PART IV

## ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

### FINANCIAL STATEMENTS AND SCHEDULES

Refer to the page captioned "Index to Financial Statements and Financial Statement Schedules" for an index of the financial statements and financial statement schedules included in this report.

### EXHIBITS

The documents listed below are being filed or have previously been filed on behalf of **Cinergy Corp.**, **CG&E**, **PSI**, and The Union Light, Heat and Power Company (**ULH&P**) 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(s)(1) | Nature of Exhibit | Previously Filed as Exhibit to: |
|---|---|---|---|
| **Plan of acquisition, reorganization, arrangement, liquidation or succession** | | | |
| 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 | **Cinergy Corp.** June 30, 2005 Form 10–Q |
| 2–c | **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 |
| **Articles of Incorporation /By–laws** | | | |
| 3–a | **Cinergy Corp.** | Certificate of Incorporation of **Cinergy Corp.**, a Delaware corporation, as amended May 10, 2001. | **Cinergy Corp.** March 31, 2001, Form 10–Q |
| 3–b | **Cinergy Corp.** | By–Laws of **Cinergy Corp.**, as amended on July 23, 2003. | **Cinergy Corp.** June 30, 2003, Form 10–Q |
| 3–c | **CG&E** | Amended Articles of Incorporation of **CG&E** effective October 23, 1996. | **CG&E** September 30, 1996, Form 10–Q |
| 3–d | **CG&E** | Regulations of **CG&E**, as amended on July 23, 2003. | **CG&E** June 30, 2003, Form 10–Q |
| 3–e | **PSI** | Amended Articles of Consolidation of **PSI**, as amended April 20, 1995. | **PSI** June 30, 1995, Form 10–Q |
| 3–f | **PSI** | Amendment to Article D of the Amended Articles of Consolidation of **PSI**, effective July 10, 1997. | **PSI** 1997 Form 10–K |
| 3–g | **PSI** | By–Laws of **PSI**, as amended on July 23, 2003. | **PSI** June 30, 2003, Form 10–Q |
| 3–h | **ULH&P** | Restated Articles of Incorporation made effective May 7, 1976. | **ULH&P** Form 8–K, May 1976 |
| 3–i | **ULH&P** | By–Laws of **ULH&P**, as amended on July 23, 2003. | |

| | | | |
|---|---|---|---|
| 3–j | **ULH&P** | Amendment to Restated Articles of Incorporation of **ULH&P** (Article Third) and Amendment to the By–Laws of **ULH&P** (Article 1), both effective July 24, 1997. | **ULH&P** June 30, 2003, Form 10–Q<br>**ULH&P** 1997 Form 10–K |
| **Instruments defining the rights of holders, incl. Indentures** | | | |
| 4–a | **Cinergy Corp.**<br>**PSI** | Original Indenture (First Mortgage Bonds) dated September 1, 1939, between **PSI** and The First National Bank of Chicago, as Trustee, and LaSalle National Bank, as Successor Trustee. | Exhibit A–Part 3 in File No. 70–258 Supplemental Indenture dated March 30, 1984 |
| 4–b | **Cinergy Corp.**<br>**PSI** | Twenty–fifth Supplemental Indenture between **PSI** and The First National Bank of Chicago dated September 1, 1978. | File No. 2–62543 |
| 4–c | **Cinergy Corp.**<br>**PSI** | Thirty–fifth Supplemental Indenture between **PSI** and The First National Bank of Chicago dated March 30, 1984. | **PSI** 1984 Form 10–K |
| 4–d | **Cinergy Corp.**<br>**PSI** | Forty–second Supplemental Indenture between **PSI** and LaSalle National Bank dated August 1, 1988. | **PSI** 1988 Form 10–K |
| 4–e | **Cinergy Corp.**<br>**PSI** | Forty–fourth Supplemental Indenture between **PSI** and LaSalle National Bank dated March 15, 1990. | **PSI** 1990 Form 10–K |
| 4–f | **Cinergy Corp.**<br>**PSI** | Forty–fifth Supplemental Indenture between **PSI** and LaSalle National Bank dated March 15, 1990. | **PSI** 1990 Form 10–K |
| 4–g | **Cinergy Corp.**<br>**PSI** | Forty–sixth Supplemental Indenture between **PSI** and LaSalle National Bank dated June 1, 1990. | **PSI** 1991 Form 10–K |
| 4–h | **Cinergy Corp.**<br>**PSI** | Forty–seventh Supplemental Indenture between **PSI** and LaSalle National Bank dated July 15, 1991. | **PSI** 1991 Form 10–K |

| | | | |
|---|---|---|---|
| 4–i | **Cinergy Corp.**<br>**PSI** | Forty–eighth Supplemental Indenture between **PSI** and LaSalle National Bank dated July 15, 1992. | **PSI** 1992 Form 10–K |
| 4–j | **Cinergy Corp.**<br>**PSI** | Forty–ninth Supplemental Indenture between **PSI** and LaSalle National Bank dated February 15, 1993. | **PSI** 1992 Form 10–K |
| 4–k | **Cinergy Corp.**<br>**PSI** | Fiftieth Supplemental Indenture between **PSI** and LaSalle National Bank dated February 15, 1993. | **PSI** 1992 Form 10–K |
| 4–l | **Cinergy Corp.**<br>**PSI** | Fifty–first Supplemental Indenture between **PSI** and LaSalle National Bank dated February 1, 1994. | **PSI** 1993 Form 10–K |
| 4–m | **Cinergy Corp.**<br>**PSI** | Fifty–second Supplemental Indenture between **PSI** and LaSalle National Bank, as Trustee, dated as of April 30, 1999. | **PSI** March 31, 1999, Form 10–Q |
| 4–n | **Cinergy Corp.**<br>**PSI** | Fifty–third Supplemental Indenture between **PSI** and LaSalle National Bank dated June 15, 2001. | **PSI** June 30, 2001, Form 10–Q |
| 4–o | **Cinergy Corp.**<br>**PSI** | Fifty–fifth Supplemental Indenture between **PSI** and LaSalle National Bank dated February 15, 2003. | **PSI** September 30, 2003, Form 10–Q |
| 4–p | **Cinergy Corp.**<br>**PSI** | Indenture (Secured Medium–term Notes, Series A), dated July 15, 1991, between **PSI** and LaSalle National Bank, as Trustee. | **PSI** Form 10–K/A, Amendment No. 2, dated July 15, 1993 |
| 4–q | **Cinergy Corp.**<br>**PSI** | Indenture (Secured Medium–term Notes, Series B), dated July 15, 1992, between **PSI** and LaSalle National Bank, as Trustee. | **PSI** Form 10–K/A, Amendment No. 2, dated July 15, 1993 |
| 4–r | **Cinergy Corp.**<br>**PSI** | Loan Agreement between **PSI** and the City of Princeton, Indiana dated as of November 7, 1996. | **PSI** September 30, 1996, Form 10–Q |
| 4–s | **Cinergy Corp.**<br>**PSI** | Loan Agreement between **PSI** and the City of Princeton, Indiana dated as of February 1, 1997. | **PSI** 1996 Form 10–K |
| 4–t | **Cinergy Corp.**<br>**PSI** | Indenture dated November 15, 1996, between **PSI** and The Fifth Third Bank, as Trustee. | **PSI** 1996 Form 10–K |
| 4–u | **Cinergy Corp.**<br>**PSI** | First Supplemental Indenture dated November 15, 1996, between **PSI** and The Fifth Third Bank, as Trustee. | **PSI** 1996 Form 10–K |
| 4–v | **Cinergy Corp.**<br>**PSI** | Third Supplemental Indenture dated as of March 15, 1998, between **PSI** and The Fifth Third Bank, as Trustee. | **PSI** 1997 Form 10–K |
| 4–w | **Cinergy Corp.**<br>**PSI** | Fourth Supplemental Indenture dated as of August 5, 1998, between **PSI** and The Fifth Third Bank, as Trustee. | **PSI** June 30, 1998, Form 10–Q |
| 4–x | **Cinergy Corp.**<br>**PSI** | Fifth Supplemental Indenture dated as of December 15, 1998, between **PSI** and The Fifth Third Bank, as Trustee. | **PSI** 1998 Form 10–K |
| 4–y | **Cinergy Corp.**<br>**PSI** | Sixth Supplemental Indenture dated as of April 30, 1999, between **PSI** and The Fifth Third Bank, as Trustee. | **PSI** March 31, 1999, Form 10–Q |
| 4–z | **Cinergy Corp.**<br>**PSI** | Seventh Supplemental Indenture dated as of October 20, 1999, between **PSI** and The Fifth Third Bank, as Trustee. | **PSI** September 30, 1999, Form 10–Q |
| 4–aa | **Cinergy Corp.**<br>**PSI** | Eighth Supplemental Indenture dated as of September 23, 2003, between **PSI** and The Fifth Third Bank, as Trustee. | **PSI** September 30, 2003, Form 10–Q |
| 4–bb | **Cinergy Corp.**<br>**PSI** | Unsecured Promissory Note dated October 14, 1998, between **PSI** and the Rural Utilities Service. | **PSI** 1998 Form 10–K |
| 4–cc | **Cinergy Corp.**<br>**PSI** | Loan Agreement between **PSI** and the Indiana Development Finance Authority dated as of July 15, 1998. | **PSI** June 30, 1998, Form 10–Q |
| 4–dd | **Cinergy Corp.**<br>**PSI** | Loan Agreement between **PSI** and the Indiana Development Finance Authority dated as of May 1, 2000. | **PSI** June 30, 2000, Form 10–Q |
| 4–ee | **Cinergy Corp.**<br>**CG&E** | Original Indenture (First Mortgage Bonds) between **CG&E** and The Bank of New York (as Trustee) dated as of August 1, 1936. | **CG&E** Registration Statement No. 2–2374 |
| 4–ff | **Cinergy Corp.**<br>**CG&E** | Fourteenth Supplemental Indenture between **CG&E** and The Bank of New York dated as of November 2, 1972. | **CG&E** Registration Statement No. 2–60961 |
| 4–gg | **Cinergy Corp.**<br>**CG&E** | Thirty–third Supplemental Indenture between **CG&E** and The Bank of New York dated as of September 1, 1992. | **CG&E** Registration Statement No. 33–53578 |
| 4–hh | **Cinergy Corp.**<br>**CG&E** | Thirty–fourth Supplemental Indenture between **CG&E** and The Bank of New York dated as of October 1, 1993. | **CG&E** September 30, 1993, Form 10–Q |
| 4–ii | **Cinergy Corp.**<br>**CG&E** | Thirty–fifth Supplemental Indenture between **CG&E** and The Bank of New York dated as of January 1, 1994. | **CG&E** Registration Statement No. 33–52335 |
| 4–jj | | | |

| | | | |
|---|---|---|---|
| | **Cinergy Corp.**<br>**CG&E** | Thirty–sixth Supplemental Indenture between **CG&E** and The Bank of New York dated as of February 15, 1994. | **CG&E** Registration Statement No. 33–52335 |
| 4–kk | **Cinergy Corp.**<br>**CG&E** | Thirty–seventh Supplemental Indenture between **CG&E** and The Bank of New York dated as of October 14, 1996. | **CG&E** 1996 Form 10–K |
| 4–ll | **Cinergy Corp.**<br>**CG&E** | Thirty–eighth Supplemental Indenture between **CG&E** and The Bank of New York dated as of February 1, 2001. | **CG&E** March 31, 2001, Form 10–Q |
| 4–mm | **Cinergy Corp.**<br>**CG&E** | Loan Agreement between **CG&E** and the County of Boone, Kentucky dated as of February 1, 1985. | **CG&E** 1984 Form 10–K |
| 4–nn | **Cinergy Corp.**<br>**CG&E** | Repayment Agreement between **CG&E** and The Dayton Power and Light Company dated as of December 23, 1992. | **CG&E** 1992 Form 10–K |
| 4–oo | **Cinergy Corp.**<br>**CG&E** | Loan Agreement between **CG&E** and the County of Boone, Kentucky dated as of January 1, 1994. | **CG&E** 1993 Form 10–K |
| 4–pp | **Cinergy Corp.**<br>**CG&E** | Loan Agreement between **CG&E** and the State of Ohio Air Quality Development Authority dated as of December 1, 1985. | **CG&E** 1985 Form 10–K |
| 4–qq | **Cinergy Corp.**<br>**CG&E** | Loan Agreement between **CG&E** and the State of Ohio Air Quality Development Authority dated as of September 13, 1995. | **CG&E** September 30, 1995, Form 10–Q |

| | | | |
|---|---|---|---|
| 4–rr | **Cinergy Corp.**<br>**CG&E** | Loan Agreement between **CG&E** and the State of Ohio Water Development Authority dated as of January 1, 1994. | **CG&E** 1993 Form 10–K |
| 4–ss | **Cinergy Corp.**<br>**CG&E** | Loan Agreement between **CG&E** and the State of Ohio Air Quality Development Authority dated as of January 1, 1994. | **CG&E** 1993 Form 10–K |
| 4–tt | **CG&E** | Loan Agreement between **CG&E** and the State of Ohio Air Quality Development Authority dated August 1, 2001. | **CG&E** September 30, 2001, Form 10–Q |
| 4–uu | **Cinergy Corp.**<br>**CG&E** | Original Indenture (Unsecured Debt Securities) between **CG&E** and The Fifth Third Bank dated as of May 15, 1995. | **CG&E** Form 8–A dated July 24, 1995 |
| 4–vv | **Cinergy Corp.**<br>**CG&E** | First Supplemental Indenture between **CG&E** and The Fifth Third Bank dated as of June 1, 1995. | **CG&E** June 30, 1995, Form 10–Q |
| 4–ww | **Cinergy Corp.**<br>**CG&E** | Second Supplemental Indenture between **CG&E** and The Fifth Third Bank dated as of June 30, 1995. | **CG&E** Form 8–A dated July 24, 1995 |
| 4–xx | **Cinergy Corp.**<br>**CG&E** | Third Supplemental Indenture between **CG&E** and The Fifth Third Bank dated as of October 9, 1997. | **CG&E** September 30, 1997, Form 10–Q |
| 4–yy | **Cinergy Corp.**<br>**CG&E** | Fourth Supplemental Indenture between **CG&E** and The Fifth Third Bank dated as of April 1, 1998. | **CG&E** March 31, 1998, Form 10–Q |
| 4–zz | **Cinergy Corp.**<br>**CG&E** | Fifth Supplemental Indenture between **CG&E** and The Fifth Third Bank dated as of June 9, 1998. | **CG&E** June 30, 1998, Form 10–Q |
| 4–aaa | **Cinergy Corp.**<br>**CG&E** | Seventh Supplemental Indenture between **CG&E** and The Fifth Third Bank dated as of June 15, 2003. | **CG&E** June 30, 2003, Form 10–Q |
| 4–bbb | **Cinergy Corp.**<br>**CG&E**<br>**ULH&P** | Original Indenture (First Mortgage Bonds) between **ULH&P** and The Bank of New York dated as of February 1, 1949. | **ULH&P** Registration Statement No. 2–7793 |
| 4–ccc | **Cinergy Corp.**<br>**CG&E**<br>**ULH&P** | Fifth Supplemental Indenture between **ULH&P** and The Bank of New York dated as of January 1, 1967. | **CG&E** Registration Statement No. 2–60961 |
| 4–ddd | **Cinergy Corp.**<br>**CG&E**<br>**ULH&P** | Thirteenth Supplemental Indenture between **ULH&P** and The Bank of New York dated as of August 1, 1992. | **ULH&P** 1992 Form 10–K |
| 4–eee | **Cinergy Corp.**<br>**CG&E**<br>**ULH&P** | Original Indenture (Unsecured Debt Securities) between **ULH&P** and The Fifth Third Bank dated as of July 1, 1995. | **ULH&P** June 30, 1995, Form 10–Q |
| 4–fff | **Cinergy Corp.**<br>**CG&E**<br>**ULH&P** | First Supplemental Indenture between **ULH&P** and The Fifth Third Bank dated as of July 15, 1995. | **ULH&P** June 30, 1995, Form 10–Q |
| 4–ggg | **Cinergy Corp.**<br>**CG&E**<br>**ULH&P** | Second Supplemental Indenture between **ULH&P** and The Fifth Third Bank dated as of April 30, 1998. | **ULH&P** March 31, 1998, Form 10–Q |
| 4–hhh | **Cinergy Corp.**<br>**CG&E**<br>**ULH&P** | Third Supplemental Indenture between **ULH&P** and The Fifth Third Bank dated as of December 8, 1998. | **ULH&P** 1998 Form 10–K |
| 4–iii | **Cinergy Corp.**<br>**CG&E**<br>**ULH&P** | Fourth Supplemental Indenture between **ULH&P** and The Fifth Third Bank, as Trustee, dated as of September 17, 1999. | **ULH&P** September 30, 1999, Form 10–Q |
| 4–jjj | **Cinergy Corp.** | Base Indenture dated as of October 15, 1998, between Cinergy Global Resources, Inc. (Global Resources) and The Fifth Third Bank, as Trustee. | **Cinergy Corp.** September 30, 1998, Form 10–Q |
| 4–kkk | **Cinergy Corp.** | First Supplemental Indenture dated as of October 15, 1998, between Global Resources and The Fifth Third Bank, as Trustee. | **Cinergy Corp.** September 30, 1998, Form 10–Q |
| 4–lll | **Cinergy Corp.** | Indenture dated as of December 16, 1998, between **Cinergy Corp.** and The Fifth Third Bank. | **Cinergy Corp.** 1998 Form 10–K |
| 4–mmm | **Cinergy Corp.** | Indenture between **Cinergy Corp.** and The Fifth Third Bank, as Trustee, dated as of April 15, 1999. | **Cinergy Corp.** March 31, 1999, Form 10–Q |
| 4–nnn | **Cinergy Corp.** | Indenture between **Cinergy Corp.** and The Fifth Third Bank, as Trustee, dated September 12, 2001. | **Cinergy Corp.** September 30, 2001, Form 10–Q |
| 4–ooo | **Cinergy Corp.** | First Supplemental Indenture between **Cinergy Corp.** and The Fifth Third Bank, as Trustee, dated September 12, 2001. | **Cinergy Corp.** September 30, 2001, Form 10–Q |
| 4–ppp | **Cinergy Corp.** | | |

| | | | |
|---|---|---|---|
| | | Second Supplemental Indenture, dated December 18, 2001, between **Cinergy Corp.** and The Fifth Third Bank, as Trustee. | **Cinergy Corp.** Form 8–K, December 19, 2001 |
| 4–qqq | **Cinergy Corp.** | Rights Agreement between **Cinergy Corp.** and The Fifth Third Bank, as Rights Agent, dated October 16, 2000. | **Cinergy Corp.** Registration Statement on Form 8–A, dated October 16, 2000 |
| 4–rrr | **Cinergy Corp.** | Purchase Contract Agreement, dated December 18, 2001, between **Cinergy Corp.** and The Bank of New York, as Purchase Contract Agent. | **Cinergy Corp.** Form 8–K, December 19, 2001 |
| 4–sss | **Cinergy Corp.** | Pledge Agreement, dated December 18, 2001, among **Cinergy Corp.**, JP Morgan Chase Bank, as Collateral Agent, Custodial Agent and Securities Intermediary, and The Bank of New York, as Purchase Contract Agent. | **Cinergy Corp.** Form 8–K, December 19, 2001 |
| 4–ttt | **Cinergy Corp.** **CG&E** | Thirty–ninth Supplemental Indenture dated as of September 1, 2002, between **CG&E** and The Bank of New York, as Trustee. | **Cinergy Corp.** September 30, 2002, Form 10–Q |
| 4–uuu | **Cinergy Corp.** **PSI** | Fifty–fourth Supplemental Indenture dated as of September 1, 2002, between **PSI** and LaSalle Bank National Association, as Trustee. | **Cinergy Corp.** September 30, 2002, Form 10–Q |
| 4–vvv | **Cinergy Corp.** **CG&E** | Sixth Supplemental Indenture between **CG&E** and The Fifth Third Bank dated as of September 15, 2002. | **Cinergy Corp.** September 30, 2002, Form 10–Q |

| | | | |
|---|---|---|---|
| 4–www | **Cinergy Corp.**<br>**PSI** | Loan Agreement between **PSI** and the Indiana Development Finance Authority dated as of September 1, 2002. | **Cinergy Corp.** September 30, 2002, Form 10–Q |
| 4–xxx | **Cinergy Corp.**<br>**PSI** | Loan Agreement between **PSI** and the Indiana Development Finance Authority dated as of September 1, 2002. | **Cinergy Corp.** September 30, 2002, Form 10–Q |
| 4–yyy | **Cinergy Corp.**<br>**CG&E** | Loan Agreement between **CG&E** and the Ohio Air Quality Development Authority dated as of September 1, 2002. | **Cinergy Corp.** September 30, 2002, Form 10–Q |
| 4–zzz | **Cinergy Corp.** | First Amendment to Rights Agreement, dated August 28, 2002, effective September 16, 2002, between **Cinergy Corp.** and The Fifth Third Bank, as Rights Agent. | **Cinergy Corp.** Form 8–A/A, Amendment No. 1, filed September 16, 2002 |
| 4–aaaa | **PSI** | Loan Agreement between **PSI** and the Indiana Development Finance Authority dated as of February 15, 2003. | **PSI** March 31, 2003, Form 10–Q |
| 4–bbbb | **PSI** | 6.302% Subordinated Note between **PSI** and **Cinergy Corp.**, dated February 5, 2003. | **PSI** March 31, 2003, Form 10–Q |
| 4–cccc | **PSI** | 6.403% Subordinated Note between **PSI** and **Cinergy Corp.**, dated February 5, 2003. | **PSI** March 31, 2003, Form 10–Q |
| 4–dddd | **CG&E** | Loan Agreement between **CG&E** and the Ohio Air Quality Development Authority dated as of November 1, 2004, relating to Series A. | **CG&E** Form 8–K, filed November 19, 2004 |
| 4–eeee | **CG&E** | Loan Agreement between **CG&E** and the Ohio Air Quality Development Authority dated as of November 1, 2004, relating to Series B. | **CG&E** Form 8–K, filed November 19, 2004 |
| 4–ffff | **PSI** | Loan Agreement between **PSI** and the Indiana Development Finance Authority dated as of December 1, 2004, relating to Series 2004B. | **PSI** Form 8–K, filed December 9, 2004 |
| 4–gggg | **PSI** | Loan Agreement between **PSI** and the Indiana Development Finance Authority dated as of December 1, 2004, relating to Series 2004C. | **PSI** Form 8–K, filed December 9, 2004 |
| 4–hhhh | **Cinergy Corp.**<br>**PSI** | Fifty–Sixth Supplemental Indenture dated as of December 1, 2004, between **PSI** and LaSalle Bank National Association, as Trustee. | **Cinergy Corp.** 2004 Form 10–K |
| 4–iiii | **Cinergy Corp.**<br>**ULH&P** | Indenture between **ULH&P** and Deutsch Bank dated as of December 1, 2004, between **ULH&P** and Deutsch Bank Trust Company Americas, as Trustee. | **Cinergy Corp.** 2004 Form 10–K |
| **Material contracts** | | | |
| 10–b* | **Cinergy Corp.**<br>**CG&E**<br>**PSI** | Employment Agreement dated February 4, 2004, among **Cinergy Corp.**, **CG&E**, and **PSI**, and James E. Rogers. | **Cinergy Corp.** 2003 Form 10–K |
| 10–c* | **Cinergy Corp.**<br>**CG&E**<br>**PSI** | Amended and Restated Employment Agreement dated October 11, 2002, among **Cinergy Corp.**, Services, **CG&E**, and **PSI**, and William J. Grealis. | **Cinergy Corp.** 2002 Form 10–K |
| 10–d* | **Cinergy Corp.**<br>**CG&E**<br>**PSI** | Amended Employment Agreement effective December 17, 2003 to Employment Agreement dated October 11, 2002, among **Cinergy Corp.**, Services, **CG&E**, and **PSI**, and William J. Grealis. | **Cinergy Corp.** 2003 Form 10–K |
| 10–e* | **Cinergy Corp.**<br>**CG&E**<br>**PSI** | Amended and Restated Employment Agreement dated October 1, 2002, among **Cinergy Corp.**, Services, **CG&E**, and **PSI**, and Donald B. Ingle, Jr. | **Cinergy Corp.** 2002 Form 10–K |
| 10–f* | **Cinergy Corp.**<br>**CG&E**<br>**PSI** | Amended and Restated Employment Agreement dated September 12, 2002, among **Cinergy Corp.**, Services, **CG&E**, and **PSI**, and Michael J. Cyrus. | **Cinergy Corp.** 2002 Form 10–K |
| 10–g* | **Cinergy Corp.**<br>**CG&E**<br>**PSI** | Amended Employment Agreement effective December 17, 2003 to Employment Agreement dated September 12, 2002, among **Cinergy Corp.**, Services, **CG&E**, and **PSI**, and Michael J. Cyrus. | **Cinergy Corp.** 2003 Form 10–K |
| 10–h* | **Cinergy Corp.**<br>**CG&E**<br>**PSI** | Amended and Restated Employment Agreement dated September 24, 2002, among **Cinergy Corp.**, Services, **CG&E**, and **PSI**, and James L. Turner. | **Cinergy Corp.** 2002 Form 10–K |
| 10–i* | **Cinergy Corp.**<br>**CG&E** | Amended Employment Agreement effective December 17, 2003 to Employment Agreement dated September 24, | **Cinergy Corp.** 2003 Form 10–K |

| | | | |
|---|---|---|---|
| | **PSI** | 2002, among **Cinergy Corp.**, Services, **CG&E**, and **PSI**, and James L. Turner. | |
| 10–l* | **Cinergy Corp.**<br>**CG&E**<br>**PSI** | Employment Agreement dated November 15, 2002, among **Cinergy Corp.**, **CG&E**, and **PSI** and Marc E. Manly. | **Cinergy Corp.** 2003 Form 10–K |
| 10–m* | **Cinergy Corp.**<br>**CG&E**<br>**PSI** | Amended Employment Agreement effective December 17, 2003 to Employment Agreement dated November 15, 2002, among **Cinergy Corp.**, **CG&E**, and **PSI**, and Marc E. Manly. | **Cinergy Corp.** 2003 Form 10–K |

| | | | |
|---|---|---|---|
| 10–n* | **Cinergy Corp.** | Amended and Restated Separation and Retirement Agreement and Waiver and Release of Liability dated February 15, 2002, between **Cinergy Corp.**, and Larry E. Thomas. | **Cinergy Corp.** 2001 Form 10–K |
| 10–o* | **Cinergy Corp.** | Separation and Retirement Agreement and Waiver and Release of Liability dated October 8, 2002 between **Cinergy Corp.** and Donald B. Ingle, Jr. | **Cinergy Corp.** 2002 Form 10–K |
| 10–p* | **Cinergy Corp.** **PSI** | Deferred Compensation Agreement, effective as of January 1, 1992, between **PSI** and James E. Rogers. | **PSI** Form 10–K/A, Amendment No. 1, dated April 29, 1993 |
| 10–q* | **Cinergy Corp.** **PSI** | Split Dollar Life Insurance Agreement, effective as of January 1, 1992, between **PSI** and James E. Rogers. | **PSI** Form 10–K/A, Amendment No. 1, dated April 29, 1993 |
| 10–r* | **Cinergy Corp.** **PSI** | First Amendment to Split Dollar Life Insurance Agreement between **PSI** and James E. Rogers dated December 11, 1992. | **PSI** Form 10–K/A, Amendment No. 1, dated April 29, 1993 |
| 10–s* | **Cinergy Corp.** **CG&E** | Deferred Compensation Agreement between **CG&E** and Jackson H. Randolph dated January 1, 1992. | **CG&E** 1992 Form 10–K |
| 10–t* | **Cinergy Corp.** **CG&E** | Split Dollar Insurance Agreement, effective as of May 1, 1993, between **CG&E** and Jackson H. Randolph. | **CG&E** 1994 Form 10–K |
| 10–u* | **Cinergy Corp.** **CG&E** | Amended and Restated Supplemental Retirement Income Agreement between **CG&E** and Jackson H. Randolph dated January 1, 1995. | **CG&E** 1995 Form 10–K |
| 10–v* | **Cinergy Corp.** **CG&E** | Amended and Restated Supplemental Executive Retirement Income Agreement between **CG&E** and certain executive officers. | **CG&E** 1997 Form 10–K |
| 10–w* | **Cinergy Corp.** | **Cinergy Corp.** Supplemental Executive Retirement Plan amended and restated effective January 1, 1999, adopted October 15, 1998. | **Cinergy Corp.** 1999 Form 10–K |
| 10–x* | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Supplemental Executive Retirement Plan, effective January 1, 2003, adopted October 10, 2003. | **Cinergy Corp.** 2003 Form 10–K |
| 10–y* | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Supplemental Executive Retirement Plan, effective January 1, 2003, adopted December 15, 2003. | **Cinergy Corp.** 2003 Form 10–K |
| 10–z* | **Cinergy Corp.** | 1997 Amendments to Various Compensation and Benefit Plans of **Cinergy Corp.**, adopted January 30, 1997. | **Cinergy Corp.** 1997 Form 10–K |
| 10–aa* | **Cinergy Corp.** | **Cinergy Corp.** Stock Option Plan, adopted October 18, 1994, effective October 24, 1994. | **Cinergy Corp.** Form S–8, filed October 19, 1994 |
| 10–bb* | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Stock Option Plan, amended October 22, 1996, effective November 1, 1996. | **Cinergy Corp.** September 30, 1996, Form 10–Q |
| 10–cc* | **Cinergy Corp.** | Amended and Restated **Cinergy Corp.** AIP, effective January 25, 2002. | **Cinergy Corp.** 2001 Form 10–K |
| 10–dd* | **Cinergy Corp.** | **Cinergy Corp.** Employee Stock Purchase and Savings Plan, adopted October 18, 1994, effective October 24, 1994. | **Cinergy Corp.** Form S–8, filed October 19, 1994 |
| 10–ee* | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Employee Stock Purchase and Savings Plan, adopted April 26, 1996, effective January 1, 1996. | **Cinergy Corp.** June 30, 1996, Form 10–Q |
| 10–ff* | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Employee Stock Purchase and Savings Plan, adopted October 22, 1996, effective November 1, 1996. | **Cinergy Corp.** September 30, 1996, Form 10–Q |
| 10–gg* | **Cinergy Corp.** | **Cinergy Corp.** UK Sharesave Scheme, adopted and effective December 16, 1999. | **Cinergy Corp.** 1999 Form 10–K |
| 10–hh* | **Cinergy Corp.** | **Cinergy Corp.** Directors' Deferred Compensation Plan, adopted October 18, 1994, effective October 24, 1994. | **Cinergy Corp.** Form S–8, filed October 19, 1994 |
| 10–ii* | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Directors' Deferred Compensation Plan, adopted October 22, 1996. | **Cinergy Corp.** September 30, 1996, Form 10–Q |
| 10–jj* | **Cinergy Corp.** | **Cinergy Corp.** Retirement Plan for Directors, amended and restated effective January 1, 1999, adopted October 15, 1998. | **Cinergy Corp.** Schedule 14A Definitive Proxy Statement filed March 12, 1999 |
| 10–kk* | **Cinergy Corp.** | | |

| | | | |
|---|---|---|---|
| | | **Cinergy Corp.** Directors' Equity Compensation Plan adopted October 15, 1998, effective January 1, 1999. | **Cinergy Corp.** Schedule 14A Definitive Proxy Statement filed March 12, 1999 |
| 10–ll* | **Cinergy Corp.** | **Cinergy Corp.** Executive Supplemental Life Insurance Program adopted October 18, 1994, effective October 24, 1994, consisting of Defined Benefit Deferred Compensation Agreement, Executive Supplemental Life Insurance Program Split Dollar Agreement I, and Executive Supplemental Life Insurance Program Split Dollar Agreement II. | **Cinergy Corp.** 1994 Form 10–K |
| 10–mm* | **Cinergy Corp.** | **Cinergy Corp.** Executive Life Insurance Plan, effective as of January 1, 2004, adopted December 18, 2003. | **Cinergy Corp.** 2003 Form 10–K |
| 10–nn* | **Cinergy Corp.** | Amended and Restated **Cinergy Corp.** 1996 LTIP, effective January 25, 2002. | **Cinergy Corp.** 2001 Form 10–K |
| 10–oo* | **Cinergy Corp.** | **Cinergy Corp.** 401(k) Excess Plan, effective January 1, 1997, adopted December 17, 1996. | **Cinergy Corp.** 1996 Form 10–K |
| 10–pp* | **Cinergy Corp.** | Amendment to **Cinergy Corp.** 401(k) Excess Plan, adopted January 24, 2002, effective January 1, 2002. | **Cinergy Corp.** Form S–8, filed January 31, 2002 |
| 10–qq* | **Cinergy Corp.** | Amendment to **Cinergy Corp.** 401(k) Excess Plan, adopted December 18, 2002, effective January 1, 2003. | **Cinergy Corp.** 2002 Form 10–K |
| 10–rr* | **Cinergy Corp.** | Amendment to **Cinergy Corp.** 401(k) Excess Plan, adopted March 31, 2004, effective January 1, 2004. | **Cinergy Corp.** March 31, 2004 Form 10–Q |
| 10–ss* | **Cinergy Corp.** | **Cinergy Corp.** Nonqualified Deferred Incentive Compensation Plan, effective January 1, 1997, adopted December 17, 1996. | **Cinergy Corp.** 1996 Form 10–K |
| 10–tt* | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Nonqualified Deferred Incentive Compensation Plan, adopted December 18, 2002, effective January 1, 2002. | **Cinergy Corp.** 2002 Form 10–K |

| | | | |
|---|---|---|---|
| 10–vv* | **Cinergy Corp.** | **Cinergy Corp.** Non–Union Employees' Pension Plan adopted December 18, 2002, amended and restated effective January 1, 2003. | **Cinergy Corp.** 2002 Form 10–K |
| 10–ww* | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Non–Union Employees' Pension Plan, effective May 1, 2003, adopted October 10, 2003. | **Cinergy Corp.** 2003 Form 10–K |
| 10–xx* | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Non–Union Employees' Pension Plan, effective December 1, 2003, adopted October 10, 2003. | **Cinergy Corp.** 2003 Form 10–K |
| 10–yy* | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Non–Union Employees' Pension Plan, effective January 1, 2005, adopted December 17, 2004. | **Cinergy Corp.** 2004 Form 10–K |
| 10–zz* | **Cinergy Corp.** | **Cinergy Corp.** Non–Union Employees' Severance Opportunity Plan as amended and restated effective June 1, 2001, adopted May 30, 2001. | **Cinergy Corp.** June 30, 2001, Form 10–Q |
| 10–aaa* | **Cinergy Corp.** | Amendment to the Amended and Restated Separation and Retirement Agreement and Waiver and Release of Liability, between **Cinergy Corp.** and Larry E. Thomas. | **Cinergy Corp.** March 31, 2002,Form 10–Q |
| 10–bbb* | **Cinergy Corp.** | Second Amendment to the Amended and Restated Separation and Retirement Agreement and Waiver and Release of Liability, between **Cinergy Corp.** and Larry E. Thomas. | **Cinergy Corp.** June 30, 2002, Form 10–Q |
| 10–ccc* | **Cinergy Corp.** | Amended and Restated **Cinergy Corp.** Non–Union Employees' 401(k) Plan, adopted December 18, 2002, effective January 1, 2003. | **Cinergy Corp.** 2002 Form 10–K |
| 10–ddd* | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Non–Union Employees' 401(k) Plan, effective December 1, 2003, adopted October 10, 2003. | **Cinergy Corp.** 2003 Form 10–K |
| 10–eee* | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Non–Union Employees' 401(k) Plan, effective January 1, 2004, adopted December 16, 2003. | **Cinergy Corp.** 2003 Form 10–K |
| 10–fff* | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Non–Union Employees' 401(k) Plan, effective January 1, 2005, adopted December 17, 2004. | **Cinergy Corp.** 2004 Form 10–K |
| 10–ggg* | **Cinergy Corp.** | **Cinergy Corp.** Union Employees' 401(k) Plan as amended and restated effective January 1, 1998, adopted December 18, 1997. | **Cinergy Corp.** 1999 Form 10–K |
| 10–hhh* | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Union Employees' 401(k) Plan, adopted December 1, 1999, effective December 10, 1999. | **Cinergy Corp.** 1999 Form 10–K |
| 10–iii* | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Union Employees' 401(k) Plan, effective January 1, 2004, adopted December 16, 2003. | **Cinergy Corp.** 2003 Form 10–K |
| 10–jjj* | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Union Employees' 401(k) Plan, effective January 1, 2005, adopted December 17, 2004. | **Cinergy Corp.** 2004 Form 10–K |
| 10–kkk* | **Cinergy Corp.** | **Cinergy Corp.** Union Employees' Savings Incentive Plan as amended and restated effective January 1, 1998, adopted December 18, 1997. | **Cinergy Corp.** 1999 Form 10–K |
| 10–lll* | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Union Employees' Savings Incentive Plan, effective December 1, 1999, adopted December 10, 1999. | **Cinergy Corp.** 1999 Form 10–K |
| 10–mmm* | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Union Employees' Savings Incentive Plan, effective January 1, 2004, adopted December 16, 2003. | **Cinergy Corp.** 2003 Form 10–K |
| 10–nnn* | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Union Employees' Savings Incentive Plan, effective January 1, 2005, adopted December 17, 2004. | **Cinergy Corp.** 2004 Form 10–K |
| 10–ooo* | **Cinergy Corp.** | **Cinergy Corp.** Excess Profit Sharing Plan, effective as of January 1, 2003, adopted December 20, 2002. | **Cinergy Corp.** 2003 Form 10–K |
| 10–ppp* | **Cinergy Corp.** | **Cinergy Corp.** Excess Pension Plan, as amended and restated, effective as of January 1, 1998. | **Cinergy Corp.** 2003 Form 10–K |
| 10–qqq* | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Excess Pension Plan, effective as of August 29, 2002. | **Cinergy Corp.** 2003 Form 10–K |
| 10–rrr* | **Cinergy Corp.** | | |

| | | | |
|---|---|---|---|
| | | Amendment to **Cinergy Corp.** Excess Pension Plan, effective as of January 1, 2003, adopted October 10, 2003. | **Cinergy Corp.** 2003 Form 10–K |
| 10–sss* | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Excess Pension Plan, effective as of December 15, 2003. | **Cinergy Corp.** 2003 Form 10–K |
| 10–ttt* | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Excess Pension Plan, effective as of January 1, 2004, adopted December 16, 2003. | **Cinergy Corp.** 2003 Form 10–K |
| 10–uuu* | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Excess Pension Plan, effective as of January 1, 2005, adopted December 17, 2004. | **Cinergy Corp.** 2004 Form 10–K |
| 10–vvv | **PSI** | Asset Purchase Agreement by and among Cinergy Capital & Trading, Inc. (Capital & Trading), CinCap Madison, LLC and **PSI** dated as of February 5, 2003. | **PSI** March 31, 2003 Form 10–Q |
| 10–www | **PSI** | Asset Purchase Agreement by and among Capital & Trading., CinCap VII, LLC and **PSI** dated as of February 5, 2003. | **PSI** March 31, 2003 Form 10–Q |
| 10–xxx* | **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–yyy* | **Cinergy Corp.** | Employment Agreement Term Sheet, James E. Rogers, dated May 8, 2005, by Duke, **Cinergy Corp.**, Deer Holding Corp., and James E. Rogers | **Cinergy Corp.** Form 8–K, filed May 10, 2005 |
| 10–zzz* | **Cinergy Corp.** | Form of Amendment to Employment Agreement | **Cinergy Corp.** Form 8–K, filed May 10, 2005 |
| 10–aaaa* | **Cinergy Corp.** | Separation Agreement and Waiver and Release Agreement, dated July 8, 2005, between Services and R. Foster Duncan | **Cinergy Corp.** Form 8–K, filed July 8, 2005 |
| 10–bbbb* | **Cinergy Corp.** | Amendment to Employment Agreement, effective May 24, 2005, between Services and Michael J. Cyrus | **Cinergy Corp.** Form 8–K, filed July 8, 2005 |
| 10–cccc | **CG&E PSI** | Asset Purchase Agreement by and among **PSI** and **CG&E** 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 | **Cinergy Corp.** June 30, 2005 Form 10–Q |
| 10–dddd* | **Cinergy Corp.** | Employment Agreement dated May 1, 2003, between **Cinergy Corp.** and Lynn J. Good. | **Cinergy Corp.** 2004 Form 10–K |
| 10–eeee | **Cinergy Corp.** | Form of incentive stock option grant agreement. | **Cinergy Corp.** September 30, 2005 Form 10–Q |
| 10–ffff | **Cinergy Corp.** | Form of non–qualified stock option grant agreement. | **Cinergy Corp.** September 30, 2005 Form 10–Q |
| 10–gggg | **Cinergy Corp.** | Form of restricted stock grant agreement. | **Cinergy Corp.** September 30, 2005 Form 10–Q |
| 10–hhhh | **Cinergy Corp.** | Form of performance share grant agreement. | **Cinergy Corp.** September 30, 2005 Form 10–Q |
| 10–iiii | **Cinergy Corp.** | Form of phantom stock grant agreement. | **Cinergy Corp.** September 30, 2005 Form 10–Q |
| 10–jjjj | **Cinergy Corp.** | Summary Sheet of Compensation Arrangement between **Cinergy Corp.** and its Non–Employee Directors. | **Cinergy Corp.** 2004 Form 10–K |
| 10–kkkk | **Cinergy Corp.** | Form of Stock Award Agreement by and between **Cinergy Corp.** and its Directors. | **Cinergy Corp.** Form 8–K, filed December 14, 2004 |

| | | | |
|---|---|---|---|
| 10–llll | **Cinergy Corp.** | Form of Deferred Compensation Agreement by and between **Cinergy Corp.** and its Directors. | **Cinergy Corp.** Form 8–K, filed December 14, 2004 |
| 10–mmmm | **Cinergy Corp.** | Amendment to **Cinergy Corp.** 401(k) Excess Plan, adopted and effective December 14, 2005. | **Cinergy Corp.** Form 8–K, filed December 20, 2005 |
| 10–nnnn | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Nonqualified Deferred Incentive Compensation Plan, adopted and effective December 14, 2005. | **Cinergy Corp.** Form 8–K, filed December 20, 2005 |
| 10–oooo | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Excess Profit Sharing Plan, adopted and effective December 14, 2005. | **Cinergy Corp.** Form 8–K, filed December 20, 2005 |
| 10–pppp | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Excess Pension Plan, adopted and effective December 14, 2005. | **Cinergy Corp.** Form 8–K, filed December 20, 2005 |
| 10–qqqq | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Supplemental Executive Retirement Plan, adopted and effective December 14, 2005. | **Cinergy Corp.** Form 8–K, filed December 20, 2005 |
| 10–rrrr | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Supplemental Executive Retirement Plan, adopted and effective December 14, 2005. | **Cinergy Corp.** Form 8–K, filed December 20, 2005 |
| 10–ssss | **Cinergy Corp.** | Form of amendment to employment agreement, adopted and effective December 14, 2005, between Services and each of Michael J. Cyrus and James L. Turner. | **Cinergy Corp.** Form 8–K, filed December 20, 2005 |
| 10–tttt | **PSI** | Underwriting Agreement in connection with **PSI** issuance and sale of $350,000,000 aggregate principal amount of its 6.12% Debentures due 2035. | **PSI** Form 8–K, filed October 25, 2005 |
| 10–uuuu* | **Cinergy Corp.** | Form of Accelerated Payment Agreement | |
| **Subsidiaries of the registrant** | | | |
| 21 | **Cinergy Corp.**<br>**CG&E**<br>**PSI** | Subsidiaries of **Cinergy Corp.**, **CG&E**, and **PSI** | |
| **Consent of experts and counsel** | | | |
| 23 | **Cinergy Corp.**<br>**CG&E**<br>**PSI**<br>**ULH&P** | Independent Auditors' Consent | |
| **Power of attorney** | | | |
| 24 | **Cinergy Corp.**<br>**CG&E**<br>**PSI**<br>**ULH&P** | Power of Attorney | |
| **Certifications** | | | |
| 31–a | **Cinergy Corp.**<br>**CG&E**<br>**PSI**<br>**ULH&P** | Certification by James E. Rogers pursuant to Rule 13a–14(a)/15d–14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes–Oxley Act of 2002. | |
| 31–b | **Cinergy Corp.**<br>**CG&E**<br>**PSI**<br>**ULH&P** | Certification by Lynn J. Good pursuant to Rule 13a–14(a)/15d–14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes–Oxley Act of 2002. | |
| 32–a | **Cinergy Corp.**<br>**CG&E**<br>**PSI**<br>**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.**<br>**CG&E**<br>**PSI**<br>**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. | |

(1) Regulation S–K 229.10(d) requires Registrants to identify the physical location, by SEC file number reference, of all documents that are incorporated by reference and have been on file with the SEC for more than five years. The SEC file number references for **Cinergy** and its subsidiaries, which are registrants are provided below:

**Cinergy Corp.** in file number 1–11377

**CG&E** in file number 1–1232

**PSI** in file number 1–3543

**ULH&P** in file number 2–7793

* Denotes a management contract or compensatory plan or arrangement.

Each registrant hereby undertakes to furnish to the SEC upon request a copy of any long–term debt instrument not previously listed.

## FINANCIAL STATEMENT SCHEDULES

## SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS

## FOR THE THREE YEARS ENDED DECEMBER 31, 2005

*(in thousands)*

| Col. A | Col. B | Col. C | | Col. D | | Col. E |
|---|---|---|---|---|---|---|
| | | Additions | | Deductions | | |
| Description | Balance at Beginning of Period | Charged to Expenses | Charged to Other Accounts | For Purposes for Which Reserves Were Created | Other | Balance at Close of Period |
| **Cinergy Corp.** and subsidiaries | | | | | | |
| **Accumulated Provisions Deducted from Applicable Assets** | | | | | | |
| Allowance for Doubtful Accounts | | | | | | |
| **2005** | **$ 5,059(1)** | **$ 3,260** | **$ 571** | **$ 4,123** | **$ —** | **$ 4,767** |
| 2004 | $ 7,884 | $ 1,317 | $ 153 | $ 3,840 | $ — | $ 5,514 |
| 2003 | $ 16,368 | $ 3,256 | $ 302 | $ 12,042 | $ — | $ 7,884 |
| **CG&E** and subsidiaries | | | | | | |
| **Accumulated Provisions Deducted from Applicable Assets** | | | | | | |
| Allowance for Doubtful Accounts | | | | | | |
| **2005** | **$ 722** | **$ 3,263** | **$ 525** | **$ 992** | **$ —** | **$ 3,518** |
| 2004 | $ 1,602 | $ 570 | $ 114 | $ 1,564 | $ — | $ 722 |
| 2003 | $ 5,942 | $ 2,900 | $ 256 | $ 7,496 | $ — | $ 1,602 |
| **PSI** | | | | | | |
| **Accumulated Provisions Deducted from Applicable Assets** | | | | | | |
| Allowance for Doubtful Accounts | | | | | | |
| **2005** | **$ 171** | **$ 55** | **$ 30** | **$ 119** | **$ —** | **$ 137** |
| 2004 | $ 1,110 | $ 21 | $ — | $ 960 | $ — | $ 171 |
| 2003 | $ 5,656 | $ — | $ — | $ 4,546 | $ — | $ 1,110 |
| **ULH&P** | | | | | | |
| **Accumulated Provisions Deducted from Applicable Assets** | | | | | | |
| Allowance for Doubtful Accounts | | | | | | |
| **2005** | **$ 13** | **$ 40** | **$ 133** | **$ 24** | **$ —** | **$ 162** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 2004 | $ 192 | $ — | $ — | $ 179 | $ — | $ — | 13 |
| 2003 | $ 84 | $ — | $ 108 | $ — | $ — | $ — | 192 |

(1) The beginning balance for 2005 is not equal to the ending balance for 2004 due to the 2005 reclassification of the provision related to discontinued operations. See Note 16 in "Item 8. Notes to Financial Statements – Discontinued Operations."

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Cinergy Corp., The Cincinnati Gas & Electric Company, PSI Energy, Inc., and The Union Light, Heat and Power Company each 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: February 28, 2006

By /s/ James E. Rogers
James E. Rogers
Chief Executive Officer

Pursuant to the requirements of the Exchange Act, this report has been signed by the following persons on behalf of the indicated registrants and in the capacities and on the dates indicated:

| Signature | Title | Date |
|---|---|---|
| **Cinergy Corp.** | | |
| Michael G. Browning* | Director | February 28, 2006 |
| Phillip R. Cox* | Director | February 28, 2006 |
| George C. Juilfs* | Director | February 28, 2006 |
| Thomas E. Petry* | Director | February 28, 2006 |
| /s/ James E. Rogers<br>James E. Rogers | Director and Chief Executive Officer (principal executive officer) | February 28, 2006 |
| Mary L. Schapiro* | Director | February 28, 2006 |
| John J. Schiff, Jr.* | Director | February 28, 2006 |
| Philip R. Sharp* | Director | February 28, 2006 |
| Dudley S. Taft* | Director | February 28, 2006 |
| /s/ Lynn J. Good<br>Lynn J. Good | Chief Financial Officer (principal financial officer) | February 28, 2006 |
| /s/ David L. Wozny<br>David L. Wozny | Vice President and Controller (principal accounting officer) | February 28, 2006 |
| **CG&E** | | |
| Gregory C. Ficke* | Director | February 28, 2006 |
| /s/ James E. Rogers<br>James E. Rogers | Director and Chief Executive Officer (principal executive officer) | February 28, 2006 |
| James L. Turner* | Director | February 28, 2006 |
| /s/ Lynn J. Good<br>Lynn J. Good | Chief Financial Officer (principal financial officer) | February 28, 2006 |
| /s/ David L. Wozny<br>David L. Wozny | Vice President and Controller (principal accounting officer) | February 28, 2006 |
| **PSI** | | |
| Michael G. Browning* | Director | February 28, 2006 |
| Kay E. Pashos* | Director | February 28, 2006 |
| /s/ James E. Rogers<br>James E. Rogers | Director and Chief Executive Officer (principal executive officer) | February 28, 2006 |
| /s/ Lynn J. Good<br>Lynn J. Good | Chief Financial Officer (principal financial officer) | February 28, 2006 |
| /s/ David L. Wozny<br>David L. Wozny | Vice President and Controller (principal accounting officer) | February 28, 2006 |
| **ULH&P** | | |
| Gregory C. Ficke* | Director | February 28, 2006 |
| /s/ James E. Rogers<br>James E. Rogers | Director and Chief Executive Officer (principal executive officer) | February 28, 2006 |
| James L. Turner* | Director | February 28, 2006 |

| | | |
|---|---|---|
| /s/ Lynn J. Good<br>Lynn J. Good | Chief Financial Officer (principal financial officer) | February 28, 2006 |
| /s/ David L. Wozny<br>David L. Wozny | Vice President and Controller (principal accounting officer) | February 28, 2006 |

* The undersigned, by signing his or her name hereto, does hereby execute this Form 10–K on behalf of the officers and directors of the registrant previously indicated by asterisks, pursuant to powers of attorney duly executed by such officers and directors and incorporated by reference as an exhibit to this Form 10–K.

/s/ James E. Rogers
James E. Rogers
*Attorney–In–Fact*
February 28, 2006

/s/ Lynn J. Good
Lynn J. Good
*Attorney–In–Fact*
February 28, 2006

# EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT is made and entered into as of the 1st day of May, 2003 (the "Effective Date"), by and between Cinergy and Lynn J. Good (the "Executive"). This Agreement replaces and supersedes any and all prior employment agreements between Cinergy and the Executive. The capitalized words and terms used throughout this Agreement are defined in Section 11.

## Recitals

A. The Executive is currently serving as Vice President, Financial Project Strategy & Oversight. Cinergy desires to secure the continued employment of the Executive in accordance with this Agreement.

B. The Executive is willing to continue to remain in the employ of Cinergy on the terms and conditions set forth in this Agreement.

C. The parties intend that this Agreement will replace and supersede any and all prior employment agreements between Cinergy (or any component company or business unit of Cinergy) and the Executive.

## Agreement

In consideration of the mutual promises, covenants and agreements set forth below, the parties agree as follows:

**1. Employment and Term.**

a. Cinergy agrees to employ the Executive, and the Executive agrees to remain in the employ of Cinergy, in accordance with the terms and provisions of this Agreement, for the Employment Period set forth in Section 1b. The parties agree that the Company will be responsible for carrying out all of the promises, covenants, and agreements of Cinergy set forth in this Agreement.

b. The Employment Period of this Agreement will commence as of the Effective Date and continue until December 31, 2004; provided that, commencing on December 31, 2003, and on each subsequent December 31, the Employment Period will be extended for one (1) additional year unless either party gives the other party written notice not to extend this Agreement at least ninety (90) days before the extension would otherwise become effective.

2. **Duties and Powers of Executive.**

a. Position. The Executive will serve Cinergy as Vice President, Financial Project Strategy & Oversight, or such other position (including Vice President, Controller) as Cinergy may determine from time to time, and she will have such responsibilities, duties, and authority as are customary for someone of that position and such additional duties, consistent with her position, as may be assigned to her from time to time during the Employment Period by the Board of Directors, the Chief Executive Officer, or the senior executive officer to whom she directly reports. Executive shall devote substantially all of Executive's business time, efforts and attention to the performance of Executive's duties under this Agreement; provided, however, that this requirement shall not preclude Executive from reasonable participation in civic, charitable or professional activities or the management of Executive's passive investments, so long as such activities do not materially interfere with the performance of Executive's duties under this Agreement.

b. Place of Performance. In connection with the Executive's employment, the Executive will be based at the principal executive offices of Cinergy, 221 East Fourth Street, Cincinnati, Ohio. Except for required business travel to an extent substantially consistent with the present business travel obligations of Cinergy executives who have positions of authority comparable to that of the Executive, the Executive will not be required to relocate to a new principal place of business that is more than thirty (30) miles from such location.

3. **Compensation.** The Executive will receive the following compensation for her services under this Agreement.

a. Salary. The Executive's Annual Base Salary, payable in pro-rata installments not less often than semi-monthly, will be at the annual rate of not less than $270,000. Any increase in the Annual Base Salary will not serve to limit or reduce any other obligation of Cinergy under this Agreement. The Annual Base Salary will not be reduced except for across-the-board salary reductions similarly affecting all Cinergy management personnel. If Annual Base Salary is increased or reduced during the Employment Period, then such adjusted salary will thereafter be the Annual Base Salary for all purposes under this Agreement.

b. Retirement, Incentive, Welfare Benefit Plans and Other Benefits.

(i) During the Employment Period, the Executive will be eligible, and Cinergy will take all necessary action to cause the Executive to become eligible, to participate in short-term and long-term incentive, stock option, restricted stock, performance unit, savings, retirement and welfare plans, practices, policies and programs applicable generally to other senior executives of Cinergy at her level in the organization, except with respect

to any plan, practice, policy or program to which the Executive has waived her rights in writing. The Executive will be a participant in the Senior Executive Supplement portion of the Cinergy Corp. Supplemental Executive Retirement Plan. The Executive acknowledges and agrees that, except in the event of a Change in Control, she will not be entitled to receive her benefits (if any) in the form of a lump sum payment under the Cinergy Corp. Supplemental Executive Retirement Plan and/or the Cinergy Corp. Excess Pension Plan.

(ii) Upon her retirement on or after having attained age 50, the Executive will be eligible for comprehensive medical and dental benefits which are not materially different from the benefits provided to retirees under the Cinergy Corp. Welfare Benefits Program or any similar program or successor to that program. For purposes of determining the amount of the monthly premiums due from the Executive, the Executive will receive from Cinergy the maximum subsidy available as of the date of her retirement to an active Cinergy employee with the same medical benefits classification/eligibility as the Executive's medical benefits classification/eligibility on the date of her retirement.

(iii) The Executive will be a participant in the Annual Incentive Plan and will be paid pursuant to the terms and conditions of that plan, subject to the following: (1) The maximum annual bonus shall be not less than seventy percent (70%) of the Executive's Annual Base Salary (the "Maximum Annual Bonus"); and (2) The target annual bonus shall be not less than forty percent (40%) of the Executive's Annual Base Salary (the "Target Annual Bonus").

(iv) The Executive will be a participant in the Long–Term Incentive Plan (the "LTIP"), and the Executive's annualized target award opportunity under the LTIP will be equal to no less than seventy–five percent (75%) of her Annual Base Salary (the "Target LTIP Bonus").

(v) For purposes of Sections 3b(iii) and 3b(iv), the Executive's Annual Base Salary for any calendar year shall be increased by the amount of any Nonelective Employer Contributions made on behalf of the Executive during such calendar year under the 401(k) Excess Plan.

(vi) Cinergy will recommend to the compensation committee of the Board (the "Committee") that, no later than the first Committee meeting following the Effective Date, the Executive be granted the number of restricted shares of Cinergy Corp. Common Stock, par value of $0.01 per share ("Common Stock") that has an aggregate value of $150,000 as of the date of grant, which number of shares shall be determined as if such shares were fully vested and not subject to any restrictions (the "Restricted Shares"). Except

as otherwise provided in the applicable Stock Related Documents and this Agreement, the Restricted Shares will be substantially nonvested (within the meaning of Section 83 of the Code) until the third anniversary of the date of grant, subject to the Executive's continued employment with Cinergy until that time. Notwithstanding the foregoing and Section 5d, upon the occurrence of a Change in Control, any Restricted Shares then held by the Executive shall, to the extent not otherwise provided in the applicable Stock Related Documents, become immediately vested. The Restricted Shares will be subject to the terms, definitions and provisions of the applicable Stock Related Documents.

c. Fringe Benefits and Perquisites. During the Employment Period, the Executive will be entitled to the following additional fringe benefits in accordance with the terms and conditions of Cinergy's policies and practices for such fringe benefits:

(i) Cinergy will furnish to the Executive an automobile cash allowance at least comparable to that received by other Cinergy executives at her level in the organization.

(ii) Cinergy will pay the initiation fee and the annual dues, assessments, and other membership charges of the Executive for membership in a country club selected by the Executive.

(iii) Cinergy will provide paid vacation for four (4) weeks per year (or such longer period for which Executive is otherwise eligible under Cinergy's policy).

(iv) Cinergy will furnish to the Executive annual financial planning and tax preparation services, provided, however, that the cost to Cinergy of such services shall not exceed $15,000 during any thirty–six (36) consecutive month period. Notwithstanding the preceding sentence, any payment to the Executive pursuant to this Section 3c(iv) will be grossed–up to cover all applicable federal, state and local income and employment taxes, calculated after assuming that the Executive pays such taxes for the year in which the payment occurs at the highest marginal tax rate applicable.

(v) Cinergy will provide other fringe benefits in accordance with Cinergy plans, practices, programs, and policies in effect from time to time, commensurate with her position and at least comparable to those received by other Cinergy executives at her level in the organization.

d. Expenses. Cinergy agrees to reimburse the Executive for all expenses, including those for travel and entertainment, properly incurred by her in the performance of her duties under this Agreement in accordance with the policies established from time to time by the Board of Directors.

e. Stock Options and Stock Appreciation Rights. Notwithstanding Section 5d, upon the occurrence of a Change in Control, any stock options or stock appreciation rights then held by the Executive pursuant to the LTIP or Cinergy Corp. Stock Option Plan shall, to the extent not otherwise provided in the applicable Stock Related Documents, become immediately exercisable. If the Executive terminates employment for any reason during the twenty–four (24) month period commencing upon the occurrence of a Change in Control, notwithstanding Section 5d, any stock options or stock appreciation rights then held by the Executive pursuant to the LTIP or Cinergy Corp. Stock Option Plan shall, to the extent not otherwise provided in the applicable Stock Related Documents, remain exercisable in accordance with their terms but in no event for a period less than the lesser of (i) three months following such termination of employment or (ii) the remaining term of such stock option or stock appreciation right (which remaining term shall be determined without regard to such termination of employment).

**4. Termination of Employment.**

a. Death. The Executive's employment will terminate automatically upon the Executive's death during the Employment Period.

b. By Cinergy for Cause. Cinergy may terminate the Executive's employment during the Employment Period for Cause. For purposes of this Employment Agreement, "Cause" means the following:

(i) The willful and continued failure by the Executive to substantially perform the Executive's duties with Cinergy (other than any such failure resulting from the Executive's incapacity due to physical or mental illness) that, if curable, has not been cured within 30 days after the Board of Directors or the Chief Executive Officer has delivered to the Executive a written demand for substantial performance, which demand specifically identifies the manner in which the Executive has not substantially performed her duties. This event will constitute Cause even if the Executive issues a Notice of Termination for Good Reason pursuant to Section 4d after the Board of Directors or Chief Executive Officer delivers a written demand for substantial performance.

(ii) The breach by the Executive of the confidentiality provisions set forth in Section 9.

(iii) The conviction of the Executive for the commission of a felony, including the entry of a guilty or nolo contendere plea, or any willful or grossly negligent action or inaction by the Executive that has a materially adverse effect on Cinergy. For purposes of this definition of Cause, no act, or failure to act, on the Executive's part will be deemed "willful" unless it is

done, or omitted to be done, by the Executive in bad faith and without reasonable belief that the Executive's act, or failure to act, was in the best interest of Cinergy.

c. By Cinergy Without Cause. Cinergy may, upon at least 30 days advance written notice to the Executive, terminate the Executive's employment during the Employment Period for a reason other than Cause, but the obligations placed upon Cinergy in Section 5 will apply.

d. By the Executive for Good Reason. The Executive may terminate her employment during the Employment Period for Good Reason. For purposes of this Agreement, "Good Reason" means the following:

(i) (1) A reduction in the Executive's Annual Base Salary, except for across-the-board salary reductions similarly affecting all Cinergy management personnel, or (2) a reduction in any other benefit or payment described in Section 3 of this Agreement, except for changes to the employee benefits programs generally affecting Cinergy management personnel, provided that those changes, in the aggregate, will not result in a material adverse change with respect to the benefits to which the Executive was entitled as of the Effective Date.

(ii) (1) The material reduction without her consent of the Executive's title, authority, duties, or responsibilities from those in effect immediately prior to the reduction, or (2) a material adverse change in the Executive's reporting responsibilities.

(iii) Any breach by Cinergy of any other material provision of this Agreement (including but not limited to the place of performance as specified in Section 2b).

(iv) The Executive's disability due to physical or mental illness or injury that precludes the Executive from performing any job for which she is qualified and able to perform based upon her education, training or experience.

(v) A failure by the Company to require any successor entity to the Company specifically to assume in writing all of the Company's obligations to the Executive under this Agreement.

For purposes of determining whether Good Reason exists with respect to a Qualifying Termination occurring on or within 24 months following a Change in Control, any claim by the Executive that Good Reason exists shall be presumed to be correct unless the Company establishes to the Board by clear and convincing evidence that Good Reason does not exist.

e. By the Executive Without Good Reason. The Executive may terminate her employment without Good Reason upon prior written notice to the Company.

f. Notice of Termination. Any termination of the Executive's employment by Cinergy or by the Executive during the Employment Period (other than a termination due to the Executive's death) will be communicated by a written Notice of Termination to the other party to this Agreement in accordance with Section 12b. For purposes of this Agreement, a "Notice of Termination" means a written notice that specifies the particular provision of this Agreement relied upon and that sets forth in reasonable detail the facts and circumstances claimed to provide a basis for terminating the Executive's employment under the specified provision. The failure by the Executive or Cinergy to set forth in the Notice of Termination any fact or circumstance that contributes to a showing of Good Reason or Cause will not waive any right of the Executive or Cinergy under this Agreement or preclude the Executive or Cinergy from asserting that fact or circumstance in enforcing rights under this Agreement.

g. Sale of Company Stock. The Executive acknowledges and agrees that she shall not sell or otherwise dispose of any shares of Company stock acquired pursuant to the exercise of a stock option, other than shares sold in order to pay an option exercise price or the related tax withholding obligation, until 90 days after the Date of Termination. Notwithstanding the foregoing, Cinergy, in its sole discretion, may waive the restrictions contained in the previous sentence.

**5. Obligations of Cinergy Upon Termination.**

a. Certain Terminations.

(i) If a Qualifying Termination occurs during the Employment Period, Cinergy will pay to the Executive a lump sum amount, in cash, equal to the sum of the following Accrued Obligations:

(1) the pro-rated portion of the Executive's Annual Base Salary payable through the Date of Termination, to the extent not previously paid.

(2) any amount payable to the Executive under the Annual Incentive Plan in respect of the most recently completed fiscal year, to the extent not theretofore paid.

(3) an amount equal to the AIP Benefit for the fiscal year that includes the Date of Termination multiplied by a fraction, the numerator of which is the number of days from the beginning of that fiscal year to and including the Date of Termination and the denominator of which is three hundred and sixty-five (365). The AIP Benefit component of the calculation will be equal to the annual bonus that

would have been earned by the Executive pursuant to any annual bonus or incentive plan maintained by Cinergy in respect of the fiscal year in which occurs the Date of Termination, determined by projecting Cinergy's performance and other applicable goals and objectives for the entire fiscal year based on Cinergy's performance during the period of such fiscal year occurring prior to the Date of Termination, and based on such other assumptions and rates as Cinergy deems reasonable.

(4) the Accrued Obligations described in this Section 5a(i) will be paid within thirty (30) days after the Date of Termination. These Accrued Obligations are payable to the Executive regardless of whether a Change in Control has occurred.

(ii) In the event of a Qualifying Termination either prior to the occurrence of a Change in Control, or more than twenty–four (24) months following the occurrence of a Change in Control, Cinergy will pay the Accrued Obligations, and Cinergy will have the following additional obligations described in this Section 5a(ii); provided, however, that each of the benefits described below in this Section 5a(ii) shall only be provided to the Executive if, upon presentation to the Executive following a Qualifying Termination, the Executive timely executes and does not timely revoke the Waiver and Release.

(1) Cinergy will pay to the Executive a lump sum amount, in cash, equal to two (2) times the sum of the Annual Base Salary and the Annual Bonus. For this purpose, the Annual Base Salary will be at the rate in effect at the time Notice of Termination is given (without giving effect to any reduction in Annual Base Salary, if any, prior to the termination, other than across–the–board reductions), and shall include the amount of any Nonelective Employer Contributions made on behalf of the Executive under the 401(k) Excess Plan during the fiscal year in which the Executive's Qualifying Termination occurs, and the Annual Bonus will be the higher of (A) the annual bonus earned by the Executive pursuant to any annual bonus or incentive plan maintained by Cinergy in respect of the year ending immediately prior to the fiscal year in which occurs the Date of Termination, and (B) the annual bonus that would have been earned by the Executive pursuant to any annual bonus or incentive plan maintained by Cinergy in respect of the fiscal year in which occurs the Date of Termination, calculated by projecting Cinergy's performance and other applicable goals and objectives for the entire fiscal year based on Cinergy's performance during the period of such fiscal year occurring prior to the Date of Termination, and based on such other assumptions and rates as Cinergy deems reasonable; provided, however that for purposes of

this Section 5a(ii)(1)(B), the Annual Bonus shall not be less than the Target Annual Bonus, nor greater than the Maximum Annual Bonus for the year in which the Date of Termination occurs. This lump sum will be paid within thirty (30) days after the expiration of the revocation period contained in the Waiver and Release.

(2) Subject to Clauses (A), (B) and (C) below, Cinergy will provide, until the end of the Employment Period, medical and dental benefits to the Executive and/or the Executive's dependents at least equal to those that would have been provided if the Executive's employment had not been terminated (excluding benefits to which the Executive has waived her rights in writing). The benefits described in the preceding sentence will be in accordance with the medical and welfare benefit plans, practices, programs, or policies of Cinergy (the "M&W Plans") as then currently in effect and applicable generally to other Cinergy senior executives and their families. In the event that any medical or dental benefits, or payments pursuant to Section 5a(ii)(2)(B), are subject to federal, state or local income taxes, Cinergy shall provide the Executive with an additional payment in the amount necessary such that after payment by the Executive of all such taxes, including the taxes imposed on the additional payment, the Executive retains an amount equal to the medical or dental benefits or payments pursuant to Section 5a(ii)(2)(B).

(A) If, as of the Executive's Date of Termination, the Executive meets the eligibility requirements for Cinergy's retiree medical and welfare benefit plans, the provision of those retiree medical and welfare benefit plans to the Executive will satisfy Cinergy's obligation under this Section 5a(ii)(2).

(B) If, as of the Executive's Date of Termination, the provision to the Executive of the M&W Plan benefits described in this Section 5a(ii)(2) would either (1) violate the terms of the M&W Plans (or any related insurance policies) or (2) violate any of the Code's nondiscrimination requirements applicable to the M&W Plans, then Cinergy, in its sole discretion, may elect to pay the Executive, in lieu of the M&W Plan benefits described under this Section 5a(ii)(2), a lump sum cash payment equal to the total monthly premiums (or in the case of a self funded plan, the cost of COBRA continuation coverage) that would have been paid by Cinergy for the Executive under the M&W Plans from the Date of Termination through the end of the Employment Period. Nothing in this Clause will affect the

Executive's right to elect COBRA continuation coverage under a M&W Plan in accordance with applicable law, and Cinergy will make the payment described in this Clause whether or not the Executive elects COBRA continuation coverage, and whether or not the Executive receives health coverage from another employer.

(C) If the Executive becomes employed by another employer and is eligible to receive medical or other welfare benefits under another employer–provided plan, any benefits provided to the Executive under the M&W Plans will be secondary to those provided under the other employer–provided plan during the Executive's applicable period of eligibility.

(3) Cinergy will pay the Executive a lump sum amount, in cash, equal to $15,000 in order to cover tax counseling services through an agency selected by the Executive, which amount will be grossed–up to cover all applicable federal, state and local income and employment taxes, calculated after assuming that the Executive pays such taxes for the year in which her Date of Termination occurs at the highest marginal tax rate applicable. Such payment will be transferred to the Executive within thirty (30) days of the expiration of the revocation period contained in the Waiver and Release.

(iii) In the event of a Qualifying Termination during the twenty–four (24) month period beginning upon the occurrence of a Change in Control, Cinergy will pay the Accrued Obligations listed in Sections 5a(i)(1) and (2), Cinergy will pay the Accrued Obligations listed in Section 5a(i)(3) (but only if such Qualifying Termination occurs after the calendar year in which occurs such Change in Control) and Cinergy will have the following additional obligations described in this Section 5a(iii); provided, however, that each of the benefits described below in this Section 5a(iii) shall only be provided to the Executive if, upon presentation to the Executive following a Qualifying Termination, the Executive timely executes and does not timely revoke the Waiver and Release.

(1) Cinergy will pay to the Executive a lump sum severance payment, in cash, equal to three (3) times the higher of (x) the sum of the Executive's current Annual Base Salary and Target Annual Bonus and (y) the sum of the Executive's Annual Base Salary in effect immediately prior to the Change in Control and the Change in Control Bonus. For purposes of the preceding sentence, the Executive's Annual Base Salary on any given date shall include the amount of any Nonelective Employer Contributions made on

behalf of the Executive under the 401(k) Excess Plan during the fiscal year in which such date occurs. For purposes of this Agreement, the Change in Control Bonus shall mean the higher of (A) the annual bonus earned by the Executive pursuant to any annual bonus or incentive plan maintained by Cinergy in respect of the year ending immediately prior to the fiscal year in which occurs the Date of Termination or, if higher, immediately prior to the fiscal year in which occurs the Change in Control, and (B) the annual bonus that would have been earned by the Executive pursuant to any annual bonus or incentive plan maintained by Cinergy in respect of the year in which occurs the Date of Termination, calculated by projecting Cinergy's performance and other applicable goals and objective for the entire fiscal year based on Cinergy's performance during the period of such fiscal year occurring prior to the Date of Termination, and based on such other assumptions and rates as Cinergy deems reasonable, provided, however, that for purposes of this Section 5a(iii)(1)(B), such Change in Control Bonus shall not be less than the Target Annual Bonus, nor greater than the Maximum Annual Bonus. This lump sum will be paid within thirty (30) days of the expiration of the revocation period contained in the Waiver and Release. Nothing in this Section 5a(iii)(1) shall preclude the Executive from receiving the amount, if any, to which she is entitled in accordance with the terms of the Annual Incentive Plan for the fiscal year that includes the Date of Termination.

(2) Cinergy will pay to the Executive the lump sum present value of any benefits under the Executive Supplemental Life Program under the terms of the applicable plan or program as of the Date of Termination, calculated as if the Executive was fully vested as of the Date of Termination. The lump sum present value, assuming commencement at age 50 or the Executive's age as of the Date of Termination if later, will be determined using the interest rate applicable to lump sum payments in the Cinergy Corp. Non–Union Employees' Pension Plan or any successor to that plan for the plan year that includes the Date of Termination. To the extent no such interest rate is provided therein, the annual interest rate applicable under Section 417(e)(3) of the Code, or any successor provision thereto, for the second full calendar month preceding the first day of the calendar year that includes the Date of Termination will be used. This lump sum will be paid within thirty (30) days of the expiration of the revocation period contained in the Waiver and Release.

(3) The Executive shall be fully vested in her accrued benefits as of the Date of Termination under the Executive Retirement Plans, and her

aggregate accrued benefits thereunder will be calculated, and she will be treated for all purposes, as if she was credited with three (3) additional years of age and service as of the Date of Termination, provided, however, that to the extent a calculation is made regarding the actuarial equivalent amount of any alternate form of benefit, the Executive will not be credited with three additional years of age for purposes of such calculation. However, Cinergy will not commence payment of such benefits prior to the date that the Executive has attained, or is treated (after taking into account the preceding sentence) as if she had attained, age 50.

(4) For a thirty–six (36) month period after the Date of Termination, Cinergy will arrange to provide to the Executive and/or the Executive's dependents life, disability, accident, and health insurance benefits substantially similar to those that the Executive and/or the Executive's dependents are receiving immediately prior to the Notice of Termination at a substantially similar cost to the Executive (without giving effect to any reduction in those benefits subsequent to a Change in Control that constitutes Good Reason), except for any benefits that were waived by the Executive in writing. If Cinergy arranges to provide the Executive and/or the Executive's dependents with life, disability, accident, and health insurance benefits, those benefits will be reduced to the extent comparable benefits are actually received by or made available to the Executive and/or the Executive's dependents during the thirty–six (36) month period following the Executive's Date of Termination. The Executive must report to Cinergy any such benefits that she or her dependents actually receives or that are made available to her or her dependents. In lieu of the benefits described in the preceding sentences, Cinergy, in its sole discretion, may elect to pay to the Executive a lump sum cash payment equal to thirty–six (36) times the monthly premiums (or in the case of a self funded plan, the cost of COBRA continuation coverage) that would have been paid by Cinergy to provide those benefits to the Executive and/or the Executive's dependents. Nothing in this Section 5a(iii)(4) will affect the Executive's right to elect COBRA continuation coverage in accordance with applicable law, and Cinergy will provide the benefits or make the payment described in this Clause whether or not the Executive elects COBRA continuation coverage, and whether or not the Executive receives health coverage from another employer. In the event that any benefits or payments provided pursuant to this Section 5a(iii)(4) are subject to federal, state or local income taxes, Cinergy shall provide the Executive with an additional payment in the amount necessary such that after payment by the Executive of

all such taxes, including taxes imposed on the additional payment, the Executive retains an amount equal to the benefit or payments provided in this Section 5a(iii)(4).

(5) In lieu of any and all other rights with respect to the automobile assigned by Cinergy to the Executive, Cinergy will provide the Executive with a lump sum payment in the amount of $35,000, which amount will be grossed-up to cover all applicable federal, state and local income and employment taxes, calculated after assuming that the Executive pays such taxes for the year in which her Date of Termination occurs at the highest marginal tax rate applicable. Such payment will be transferred to the Executive within thirty (30) days of the expiration of the revocation period contained in the Waiver and Release.

(6) Cinergy will pay the Executive a lump sum amount, in cash, equal to $15,000 in order to cover tax counseling services through an agency selected by the Executive, which amount will be grossed-up to cover all applicable federal, state and local income and employment taxes, calculated after assuming that the Executive pays such taxes for the year in which her Date of Termination occurs at the highest marginal tax rate applicable. Such payment will be transferred to the Executive within thirty (30) days of the expiration of the revocation period contained in the Waiver and Release.

(7) Cinergy will provide annual dues and assessments of the Executive for membership in a country club selected by the Executive until the end of the Employment Period.

(8) Cinergy will provide outplacement services suitable to the Executive's position until the end of the Employment Period or, if earlier, until the first acceptance by the Executive of an offer of employment. At the Executive's discretion, 15% of Annual Base Salary may be paid in lieu of outplacement services, which payment will be transferred to the Executive within thirty (30) days of the expiration of the revocation period contained in the Waiver and Release.

For purposes of this Section 5a(iii), the Executive will be deemed to have incurred a Qualifying Termination upon a Change in Control if the Executive's employment is terminated prior to a Change in Control, without Cause at the direction of a Person who has entered into an agreement with Cinergy, the consummation of which will constitute a Change in Control, or if the Executive terminates her employment for Good Reason prior to a Change in Control if the circumstances or event that constitutes Good Reason occurs at the direction of such a Person.

b. Termination by Cinergy for Cause or by the Executive Other Than for Good Reason. Subject to the provisions of Section 7, and notwithstanding any other provisions of this Agreement, if the Executive's employment is terminated for Cause during the Employment Period, or if the Executive terminates employment during the Employment Period other than a termination for Good Reason, Cinergy will have no further obligations to the Executive under this Agreement other than the obligation to pay to the Executive the Accrued Obligations, plus any other earned but unpaid compensation, in each case to the extent not previously paid.

c. Certain Tax Consequences.

(i) In the event that any benefits paid or payable to the Executive or for her benefit pursuant to the terms of this Agreement or any other plan or arrangement in connection with, or arising out of, her employment with Cinergy or a change in ownership or effective control of Cinergy or of a substantial portion of its assets (a "Payment" or "Payments") would be subject to any Excise Tax, 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.

(ii) Subject to the provisions of Section 5c, all determinations required to be made under this Section 5c, including whether and when a Gross–Up Payment is required and the amount of such Gross–Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by the Accounting Firm, which shall provide detailed supporting calculations both to the Company and the Executive within fifteen (15) business days of the receipt of notice from the Executive that there has been a Payment, or such earlier time as is requested by the Company. If the Accounting Firm determines that no Excise Tax is payable by the Executive, it shall, at the same time as it makes such determination, furnish the Executive with an opinion that she has substantial authority not to report any Excise Tax on her federal income tax return. All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross–Up Payment, as determined pursuant to this Section 5c, shall be paid by Cinergy to the Executive within five (5) days of the receipt of the Accounting Firm's determination. Any determination by the Accounting Firm shall be binding upon Cinergy and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross–Up Payments which will not have been made by Cinergy should have been made ("Underpayment"), consistent with the

calculations required to be made hereunder. In the event of any Underpayment, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by Cinergy to or for the benefit of the Executive, and Cinergy shall indemnify and hold harmless the Executive for any such Underpayment, on an after–tax basis, including interest and penalties with respect thereto. In the event that the Excise Tax is subsequently determined to be less than the amount taken into account hereunder at the time of termination of the Executive's employment, the Executive shall repay to the Company, at the time that the amount of such reduction in Excise Tax is finally determined, the portion of the Gross–Up Payment attributable to such reduction (plus that portion of the Gross–Up Payment attributable to the Excise Tax and federal, state and local income and employment tax imposed on the Gross–Up Payment being repaid by the Executive to the extent that such repayment results in a reduction in Excise Tax and/or a federal, state or local income or employment tax deduction) plus interest on the amount of such repayment at the rate provided in Code Section 1274(b)(2)(B).

(iii) The value of any non–cash benefits or any deferred payment or benefit paid or payable to the Executive will be determined in accordance with the principles of Code Sections 280G(d)(3) and (4). For purposes of determining the amount of the Gross–Up Payment, the Executive will be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the Gross–Up Payment is to be made and applicable state and local income taxes at the highest marginal rate of taxation in the state and locality of the Executive's residence on the Date of Termination, net of the maximum reduction in federal income taxes that would be obtained from deduction of those state and local taxes.

(iv) Notwithstanding anything contained in this Agreement to the contrary, in the event that, according to the Accounting Firm's determination, an Excise Tax will be imposed on any Payment or Payments, Cinergy will pay to the applicable government taxing authorities as Excise Tax withholding, the amount of the Excise Tax that Cinergy has actually withheld from the Payment or Payments in accordance with law.

d. Value Creation Plan and Stock Options. Upon the Executive's termination of employment for any reason, the Executive's entitlement to restricted shares and performance shares under the Value Creation Plan and any stock options granted under the Cinergy Corp. Stock Option Plan, the LTIP or any other stock option plan will be determined under the terms of the appropriate plan and any applicable administrative guidelines and written agreements, provided, however, that following the occurrence of a Change in Control the terms of any such plan,

administrative guideline or written agreement shall not be amended in a manner that would adversely affect the Executive with respect to awards granted to the Executive prior to the Change in Control.

e. Benefit Plans in General. Upon the Executive's termination of employment for any reason, the Executive's entitlements, if any, under all benefit plans of Cinergy, including but not limited to the Deferred Compensation Plan, 401(k) Excess Plan, Cinergy Corp. Supplemental Executive Retirement Plan, Cinergy Corp. Excess Profit Sharing Plan and any vacation policy, shall be determined under the terms of such plans, policies and any applicable administrative guidelines and written agreements, provided, however, that following the occurrence of a Change in Control the terms of such plans and policies and any applicable administrative guidelines and written agreements shall not be amended in a manner that would adversely affect the Executive with respect to benefits earned by the Executive prior to the Change in Control.

f. Other Fees and Expenses. Cinergy will also reimburse the Executive for all reasonable legal fees and expenses incurred by the Executive (i) in successfully disputing a Qualifying Termination that entitles the Executive to Severance Benefits or (ii) in reasonably disputing whether or not Cinergy has terminated her employment for Cause. Payment will be made within five (5) business days after delivery of the Executive's written request for payment accompanied by such evidence of fees and expenses incurred as Cinergy reasonably may require.

**6.** **Non–Exclusivity of Rights**. Nothing in this Agreement will prevent or limit the Executive's continuing or future participation in any benefit, plan, program, policy, or practice provided by Cinergy and for which the Executive may qualify, except with respect to any benefit to which the Executive has waived her rights in writing or any plan, program, policy, or practice that expressly excludes the Executive from participation. In addition, nothing in this Agreement will limit or otherwise affect the rights the Executive may have under any other contract or agreement with Cinergy entered into after the Effective Date. Amounts that are vested benefits or that the Executive is otherwise entitled to receive under any benefit, plan, program, policy, or practice of, or any contract or agreement entered into after the Effective Date with Cinergy, at or subsequent to the Date of Termination, will be payable in accordance with that benefit, plan, program, policy or practice, or that contract or agreement, except as explicitly modified by this Agreement. Notwithstanding the above, in the event that the Executive receives Severance Benefits under Section 5a(ii) or 5a(iii), (a) the Executive shall not be entitled to any benefits under any severance plan of Cinergy, including but not limited to the Severance Opportunity Plan for Non–Union Employees of Cinergy Corp. and (b) if the Executive receives such Severance Benefits as a result of her termination for Good Reason, as that term is defined in Section 4d(iv), Cinergy's obligations under Sections 5a(ii) and 5a(iii) shall be reduced by the amount of any benefits payable to the Executive under any short–term or long–term disability plan of Cinergy, the amount of which shall be determined by Cinergy in good faith.

7. **Full Settlement: Mitigation**. Except as otherwise provided herein, Cinergy's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations under this Agreement will not be affected by any set-off, counterclaim, recoupment, defense, or other claim, right, or action that Cinergy may have against the Executive or others. In no event will the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts (including amounts for damages for breach) payable to the Executive under any of the provisions of this Agreement and, except as provided in Sections 5a(ii)(2) and 5a(iii)(4), those amounts will not be reduced simply because the Executive obtains other employment. If the Executive finally prevails on the substantial claims brought with respect to any dispute between Cinergy and the Executive as to the interpretation, terms, validity, or enforceability of (including any dispute about the amount of any payment pursuant to) this Agreement, Cinergy agrees to pay all reasonable legal fees and expenses that the Executive may reasonably incur as a result of that dispute.

8. **Arbitration**. Any dispute between the parties under this Agreement, or any dispute between the parties relating to the breach of this Agreement, the Executive's employment with Cinergy, or the termination thereof, will 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 will be conducted in that location under the rules of said Association, to the extent they do not conflict with this Agreement. Within 30 days of the notice of a demand for arbitration, both parties will exchange with one another documents in their respective possession that are relevant to the dispute. There will 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 will file a written statement explaining his, her or its claim, including relevant documentation, within 45 days of the notice for arbitration; the opposing party will respond within 30 days thereafter; and the grieving party may reply within 15 days of the response. After this period of limited discovery, a live hearing before the arbitrator will occur. The arbitrator will 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 will be conclusive and binding upon the parties and judgment upon the same may be entered in any court having jurisdiction thereof. The arbitrator will give written notice to the parties stating his, her or its determination, and will furnish to each party a signed copy of such determination. Except as provided in Sections 7 and 5(f) hereof, the expenses of arbitration will be borne equally by the Executive and Cinergy, 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 or her 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. Notwithstanding the foregoing, Cinergy will not be required to seek or participate in arbitration regarding any breach by the Executive of his or her obligations under Section 9 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 8 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.

**9.** **Confidential Information.** The Executive will hold in a fiduciary capacity for the benefit of Cinergy, as well as all of Cinergy's successors and assigns, all secret, confidential information, knowledge, or data relating to Cinergy, and its affiliated businesses, that the Executive obtains during the Executive's employment by Cinergy or any of its affiliated companies, and that has not been or subsequently becomes public knowledge (other than by acts by the Executive or representatives of the Executive in violation of this Agreement). During the Employment Period and thereafter, the Executive will not, without Cinergy's prior written consent or as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge, or data to anyone other than Cinergy and those designated by it. The Executive understands that during the Employment Period, Cinergy may be required from time to time to make public disclosure of the terms or existence of the Executive's employment relationship to comply with various laws and legal requirements. In addition to all other remedies available to Cinergy in law and equity, this Agreement is subject to termination by Cinergy for Cause under Section 4b in the event the Executive violates any provision of this Section.

**10.** **Successors.**

a. This Agreement is personal to the Executive and, without Cinergy's prior written consent, cannot be assigned by the Executive other than Executive's designation of a beneficiary of any amounts payable hereunder after the Executive's death. This Agreement will inure to the benefit of and be enforceable by the Executive's legal representatives.

b. This Agreement will inure to the benefit of and be binding upon Cinergy and its successors and assigns.

c. Cinergy will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of Cinergy to assume expressly and agree to perform this Agreement in the same manner and to the same extent that Cinergy would be required to perform it if no succession had taken place. Cinergy's failure to obtain such an assumption and agreement prior to the effective date of a succession will be a breach of this Agreement and will entitle the Executive to compensation from

Cinergy in the same amount and on the same terms as if the Executive were to terminate her employment for Good Reason upon a Change in Control, except that, for purposes of implementing the foregoing, the date on which any such succession becomes effective will be deemed the Date of Termination.

**11. Definitions.** As used in this Agreement, the following terms, when capitalized, will have the following meanings:

a. Accounting Firm. "Accounting Firm" means Cinergy's independent auditors.

b. Accrued Obligations. "Accrued Obligations" means the accrued obligations described in Section 5a(i).

c. Agreement. "Agreement" means this Employment Agreement between Cinergy and the Executive.

d. AIP Benefit. "AIP Benefit" means the Annual Incentive Plan benefit described in Section 5a(i).

e. Annual Base Salary. "Annual Base Salary" means, except where otherwise specified herein, the annual base salary payable to the Executive pursuant to Section 3a.

f. Annual Bonus. "Annual Bonus" has the meaning set forth in Section 5a(ii)(1).

g. Annual Incentive Plan. "Annual Incentive Plan" means the Cinergy Corp. Annual Incentive Plan or any similar plan or successor to the Annual Incentive Plan.

h. Board of Directors or Board. "Board of Directors" or "Board" means the board of directors of the Company.

i. COBRA. "COBRA" means the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended.

j. Cause. "Cause" has the meaning set forth in Section 4b.

k. Change in Control. A "Change in Control" will be deemed to have occurred if any of the following events occur, after the Effective Date:

(i) Any Person is or becomes the beneficial owner (as defined in Rule 13d–3 under the Securities Exchange Act of 1934, as amended ("1934 Act"), directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired

directly from the Company or its affiliates) representing more than twenty percent (20%) of the combined voting power of the Company's then outstanding securities, excluding any Person who becomes such a beneficial owner in connection with a transaction described in Clause (1) of Paragraph (ii) below; or

(ii) There is consummated a merger or consolidation of the Company or any direct or indirect subsidiary of the Company with any other corporation, partnership or other entity, other than (1) a merger or consolidation that would result in the voting securities of the Company outstanding immediately prior to that merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least sixty percent (60%) of the combined voting power of the securities of the Company or the surviving entity or its parent outstanding immediately after the merger or consolidation, or (2) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person is or becomes the beneficial owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such a Person any securities acquired directly from the Company or its affiliates other than in connection with the acquisition by the Company or its affiliates of a business) representing twenty percent (20%) or more of the combined voting power of the Company's then outstanding securities; or

(iii) During any period of two (2) consecutive years, individuals who at the beginning of that period constitute the Board of Directors and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company) whose appointment or election by the Company's stockholders was approved or recommended by a vote of at least two–thirds (2/3) of the directors then still in office who either were directors at the beginning of that period or whose appointment, election, or nomination for election was previously so approved or recommended cease for any reason to constitute a majority of the Board of Directors; or

(iv) The stockholders of the Company approve a plan of complete liquidation or dissolution of the Company or there is consummated a sale or disposition by the Company of all or substantially all of the Company's assets, other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity, at least sixty percent (60%) of the combined voting power of the voting securities of which are owned by stockholders of the Company in substantially the same

proportions as their ownership of the Company immediately prior to the sale.

l. Change in Control Bonus. "Change in Control Bonus" has the meaning set forth in Section 5a(iii)(1).

m. Chief Executive Officer. "Chief Executive Officer" means the individual who, at any relevant time, is then serving as the chief executive officer of the Company.

n. Cinergy. "Cinergy" means the Company, its subsidiaries, and/or its affiliates, and any successors to the foregoing.

o. Code. "Code" means the Internal Revenue Code of 1986, as amended, and interpretive rules and regulations.

p. Company. "Company" means Cinergy Corp.

q. Date of Termination. "Date of Termination" means:

(i) if the Executive's employment is terminated by Cinergy for Cause, or by the Executive with Good Reason, the date of receipt of the Notice of Termination or any later date specified in the notice, as the case may be

(ii) if the Executive's employment is terminated by the Executive without Good Reason, thirty (30) days after the date on which the Executive notifies Cinergy of the termination;

(iii) if the Executive's employment is terminated by Cinergy other than for Cause, thirty (30) days after the date on which Cinergy notifies the Executive of the termination; and

(iv) if the Executive's employment is terminated by reason of death, the date of death.

r. Deferred Compensation Plan. "Deferred Compensation Plan" means the Cinergy Corp. Non–Qualified Deferred Incentive Compensation Plan or any similar plan or successor to that plan.

s. Effective Date. "Effective Date" has the meaning given to that term in the first paragraph of this Agreement.

t. Employment Period. "Employment Period" has the meaning set forth in Section 1b.

u. Excise Tax. "Excise Tax" means any excise tax imposed by Code section 4999, together with any interest, penalties, additional tax or similar items that are incurred by the Executive with respect to the excise tax imposed by Code section 4999.

v. Executive. "Executive" has the meaning given to that term in the first paragraph of this Agreement.

w. Executive Retirement Plans. "Executive Retirement Plans" means the Pension Plan, the Cinergy Corp. Supplemental Executive Retirement Plan and the Cinergy Corp. Excess Pension Plan or any similar plans or successors to those plans.

x. Executive Supplemental Life Program. "Executive Supplemental Life Program" means the Cinergy Corp. Executive Supplemental Life Insurance Program or any similar program or successor to the Executive Supplemental Life Program.

y. 401(k) Excess Plan. "401(k) Excess Plan" means the Cinergy Corp. 401(k) Excess Plan, or any similar plan or successor to that plan.

z. Good Reason. "Good Reason" has the meaning set forth in Section 4d.

aa. Gross–Up Payment. "Gross–Up Payment" has the meaning set forth in Section 5c.

bb. Long–Term Incentive Plan or LTIP. "Long–Term Incentive Plan" or "LTIP" means the long–term incentive plan implemented under the Cinergy Corp. 1996 Long–Term Incentive Compensation Plan or any successor to that plan.

cc. M&W Plans. "M&W Plans" has the meaning set forth in Section 5a(ii)(2).

dd. Maximum Annual Bonus. "Maximum Annual Bonus" has the meaning set forth in Section 3b.

ee. Nonelective Employer Contribution. "Nonelective Employer Contribution" has the meaning set forth in the 401(k) Excess Plan.

ff. Notice of Termination. "Notice of Termination" has the meaning set forth in Section 4f.

gg. Payment or Payments. "Payment" or "Payments" has the meaning set forth in Section 5c.

hh. Pension Plan. "Pension Plan" means the Cinergy Corp. Non–Union Employees' Pension Plan or any successor to that plan.

ii. Person. "Person" has the meaning set forth in paragraph 3(a)(9) of the 1934 Act, as modified and used in subsections 13(d) and 14(d) of the 1934 Act; however, a Person will not include the following:

(i) Cinergy or any of its subsidiaries or affiliates;

(ii) A trustee or other fiduciary holding securities under an employee benefit plan of Cinergy or its subsidiaries or affiliates;

(iii) An underwriter temporarily holding securities pursuant to an offering of those securities; or

(iv) A corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company.

jj. Qualifying Termination. "Qualifying Termination" means (i) the termination by Cinergy of the Executive's employment with Cinergy during the Employment Period other than a termination for Cause or (ii) the termination by the Executive of the Executive's employment with Cinergy during the Employment Period for Good Reason.

kk. Relocation Program. "Relocation Program" means the Cinergy Corp. Relocation Program, or any similar program or successor to that program, as in effect on the date of the Executive's termination of employment.

ll. Severance Benefits. "Severance Benefits" means the payments and benefits payable to the Executive pursuant to Section 5.

mm. Stock Related Documents. "Stock Related Documents" means the LTIP, the Cinergy Corp. Stock Option Plan, and the Value Creation Plan and any applicable administrative guidelines and written agreements relating to those plans.

nn. Target Annual Bonus. "Target Annual Bonus" has the meaning set forth in Section 3b.

oo. Target LTIP Bonus. "Target LTIP Bonus" has the meaning set forth in Section 3b.

pp. Value Creation Plan. "Value Creation Plan" means the Value Creation Plan or any similar plan, or successor plan of the LTIP.

qq. Waiver and Release. "Waiver and Release" means a waiver and release, in substantially the form attached to this Agreement as Exhibit A.

**12. Miscellaneous.**

a. This Agreement will be governed by and construed in accordance with the laws of the State of Ohio, without reference to principles of conflict of laws. The captions of this Agreement are not part of its provisions and will have no force or effect. This Agreement may not be amended, modified, repealed, waived, extended, or discharged except by an agreement in writing signed by the party against whom enforcement of the amendment, modification, repeal, waiver, extension, or discharge is sought. Only the Chief Executive Officer or his designee will have authority on behalf of Cinergy to agree to amend, modify, repeal, waive, extend, or discharge any provision of this Agreement.

b. All notices and other communications under this Agreement will be in writing and will be given by hand delivery to the other party or by Federal Express or other comparable national or international overnight delivery service, addressed in the name of such party at the following address, whichever is applicable:

If to the Executive:
Cinergy Corp.
221 East Fourth Street
Cincinnati, Ohio 45201–0960

If to Cinergy:
Cinergy Corp.
221 East Fourth Street
Cincinnati, Ohio 45201–0960
Attn: Chief Executive Officer

or to such other address as either party has furnished to the other in writing in accordance with this Agreement. All notices and communications will be effective when actually received by the addressee.

c. The invalidity or unenforceability of any provision of this Agreement will not affect the validity or enforceability of any other provision of this Agreement.

d. Cinergy may withhold from any amounts payable under this Agreement such federal, state, or local taxes as are required to be withheld pursuant to any applicable law or regulation.

e. The Executive's or Cinergy's failure to insist upon strict compliance with any provision of this Agreement or the failure to assert any right the Executive or Cinergy may have under this Agreement, including without limitation the right of the Executive to terminate employment for Good Reason pursuant to Section 4d or the right of Cinergy to terminate the Executive's employment for Cause pursuant to Section 4b, will not be deemed to be a waiver of that provision or right or any other provision or right of this Agreement.

f. References in this Agreement to the masculine include the feminine unless the context clearly indicates otherwise.

g. This instrument contains the entire agreement of the Executive and Cinergy with respect to the subject matter of this Agreement; and subject to any agreements evidencing stock option or restricted stock grants described in Section 3b and the Stock Related Documents, all promises, representations, understandings, arrangements, and prior agreements are merged into this Agreement and accordingly superseded.

h. This Agreement may be executed in counterparts, each of which will be deemed to be an original but all of which together will constitute one and the same instrument.

i. Cinergy and the Executive agree that Cinergy Services, Inc. will be authorized to act for Cinergy with respect to all aspects pertaining to the administration and interpretation of this Agreement.

IN WITNESS WHEREOF, the Executive and the Company have caused this Agreement to be executed as of the Effective Date.

CINERGY SERVICES INC.

By: _____
James E. Rogers
Chairman and
Chief Executive Officer

EXECUTIVE

_____
Lynn J. Good

**EXHIBIT A**

*****

**WAIVER AND RELEASE AGREEMENT**

**THIS WAIVER AND RELEASE AGREEMENT** (this "Waiver and Release") is entered into by and between Lynn J. Good (the "Executive") and Cinergy Corp. ("Cinergy") (collectively, the "Parties").

**WHEREAS**, the Parties have entered into the Employment Agreement dated _____ (the "Employment Agreement");

**WHEREAS**, the Executive's employment has been terminated in accordance with the terms of the Employment Agreement;

**WHEREAS**, the Executive is required to sign this Waiver and Release in order to receive the payment of certain compensation under the Employment Agreement following termination of employment; and

**WHEREAS**, Cinergy 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 Section 5 of the Employment Agreement (the "Severance Benefits"), which the Executive acknowledges are in addition to payment and benefits to which the Executive would be entitled to but for the Employment Agreement, the Executive, on behalf of herself, her heirs, representatives, agents and assigns 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 subsidiary or affiliated entities, (iii) all of their present or former directors, officers, employees, shareholders, and agents as well as (iv) all predecessors, successors and assigns thereof (the persons listed in clauses (i) through (iv) hereof shall be referred to collectively as the "Company") from any and all actions, charges, claims, demands, damages or liabilities of any kind or character whatsoever, known or unknown, which Executive now has or may have had through the effective date of this Waiver and Release. Executive acknowledges and understands that she is not hereby prevented from filing a charge of discrimination with the Equal Employment Opportunity Commission or any state–equivalent agency or otherwise participate in any proceedings before such Commissions. Executive also acknowledges and understands that in the event she does

file such a charge, she shall be entitled to no remuneration, damages, back pay, front pay, or compensation whatsoever from the Company as a result of such charge.

3. Without limiting the generality of the foregoing release, it shall include: (i) all claims or potential claims arising under any federal, state or local laws relating to the Parties' employment relationship, including any claims Executive may have under the Civil Rights Acts 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, as amended, 29 U.S.C. §§ 621 et seq.; the Americans with Disabilities Act of 1990, as amended, 42 U.S.C. §§ 12,101 et seq.; the Fair Labor Standards Act, 29 U.S.C. §§ 201 et seq.; the Worker Adjustment and Retraining Notification Act, 29 U.S.C. §§ 2101, et seq.; the Ohio Civil Rights Act, Chapter 4112 et seq.; and any other federal, state or local law governing the Parties' employment relationship; (ii) any claims on account of, arising out of or in any way connected with Executive's employment with the Company or leaving of that employment; (iii) any claims alleged or which could have been alleged in any charge or complaint against the Company; (iv) any claims relating to the conduct of any employee, officer, director, agent or other representative of the Company; (v) any claims of discrimination or harassment on any basis; (vi) any claims arising from any legal restrictions on an employer's right to separate its employees; (vii) any claims for personal injury, compensatory or punitive damages or other forms of relief; and (viii) all other causes of action sounding in contract, tort or other common law basis, including: (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; or (g) negligent or intentional infliction of emotional distress.

4. The Parties acknowledge that it is their mutual and specific intent that the above waiver fully complies with the requirements of the Older Workers Benefit Protection Act (29 U.S.C. § 626) and any similar law governing release of claims. Accordingly, Executive hereby acknowledges that:

(a) She has carefully read and fully understands all of the provisions of this Waiver and Release and that she has entered into this Waiver and Release knowingly and voluntarily after extensive negotiations and having consulted with her counsel;

(b) The Severance Benefits offered in exchange for Executive's release of claims exceed in kind and scope that to which she would have otherwise been legally entitled;

(c) Prior to signing this Waiver and Release, Executive had been advised in writing by this Waiver and Release as well as other writings to seek counsel from, and has in fact had an opportunity to consult with, an attorney of her choice concerning its terms and conditions; and

(d) She has been offered at least twenty–one (21) days within which to review and consider this Waiver and Release.

5. 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 Executive, whichever is later. Executive may revoke this Waiver and Release for any reason by providing written notice of such intent to Cinergy within seven (7) days after she has signed this Waiver and Release, thereby forfeiting Executive's right to receive any Severance Benefits provided hereunder and rendering this Waiver and Release null and void in its entirety.

6. The Executive hereby affirms and acknowledges her continued obligations to comply with the post–termination covenants contained in her Employment Agreement, including but not limited to, the Confidential Information provisions of Section 9 of the Employment Agreement. Executive acknowledges that the restrictions contained therein are valid and reasonable in every respect, are necessary to protect the Company's legitimate business interests and hereby affirmatively waives any claim or defense to the contrary.

7. Executive specifically agrees and understands that the existence and terms of this Waiver and Release are strictly CONFIDENTIAL and that such confidentiality is a material term of this Waiver and Release. Accordingly, except as required by law or unless authorized to do so by Cinergy in writing, Executive agrees that she shall not communicate, display or otherwise reveal any of the contents of this Waiver and Release to anyone other than her spouse, primary legal counsel or financial advisor, provided, however, that they are first advised of the confidential nature of this Waiver and Release and Executive obtains their agreement to be bound by the same. Cinergy agrees that Executive may respond to legitimate inquiries regarding her employment with Cinergy by stating that she voluntarily resigned to pursue other opportunities, that the Parties terminated their relationship on an amicable basis and that the Parties have entered into a confidential Waiver and Release that prohibits her from further discussing the specifics of her separation. Nothing contained herein shall be construed to prevent Executive from discussing or otherwise advising subsequent employers of the existence of any obligations as set forth in her Employment Agreement. Further, nothing contained herein shall be construed to limit or otherwise restrict the Company's ability to disclose the terms and conditions of this Waiver and Release as may be required by business necessity.

8. In the event that Executive breaches or threatens to breach any provision of this Waiver and Release, she 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. Executive hereby waives any claim that Cinergy has an adequate remedy at law. In addition, and to the extent not prohibited by law, 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. 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 Executive pursues any claims against the Company subject to the foregoing Waiver and Release, Executive agrees to

immediately reimburse the Company for the value of all benefits received under this Waiver and Release to the fullest extent permitted by law.

9. Cinergy hereby releases the Executive, her 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 her employment with Cinergy provided such act or omission was committed in good faith and occurred within the scope of her normal duties and responsibilities.

10. 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 Executive have expressly denied any such liability or wrongdoing.

11. 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.

12. 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.

13. 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.

14. Executive represents and acknowledges that in signing this Waiver and Release she 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.

15. This Waiver and Release represents the entire agreement between the Parties concerning the subject matter hereof, shall supercede 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 any existing Employment Agreement or other legally–binding document), and shall not be altered, amended, modified or otherwise changed except by a writing executed by both Parties.

16. Cinergy Corp. and the Executive agree that Cinergy Services, Inc. will be authorized to act for Cinergy Corp. with respect to all aspects pertaining to the administration and interpretation of this Waiver and Release.

**PLEASE READ CAREFULLY. WITH RESPECT TO THE EXECUTIVE, 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.

| EXECUTIVE | | CINERGY SERVICES, INC. | |
|---|---|---|---|
| Signed: | /s/ Lynn J. Good | By: | /s/ James E. Rogers |
| Printed: | Lynn J. Good | Title: | James E. Rogers |
| Dated: | May 1, 2003 | Dated | May 1, 2003 |

# AGREEMENT

In connection with the anticipated merger (the "Merger") by and among Cinergy Corp., a Delaware corporation ("Cinergy"), Duke Energy Corporation, a North Carolina corporation ("Duke") and their respective affiliates as contemplated by the Agreement and Plan of Merger (the "Merger Agreement") dated as of May 8, 2005, originally by and among Duke, Cinergy, Deer Holding Corp., a Delaware corporation, Deer Acquisition Corp., a North Carolina corporation, and Cougar Acquisition Corp., a Delaware corporation, Cinergy and the individual listed on Exhibit A hereto (the "Executive") (collectively, the "Parties") hereby enter into this agreement (this "Agreement"). The Parties are entering into this Agreement in order to accelerate the payment of certain amounts that are expected to become payable following 2005. Capitalized terms used but not otherwise defined in this Agreement shall have the meaning set forth in the Merger Agreement.

1. Annual Incentive Plan. Notwithstanding any deferral election to the contrary, the Parties hereby agree that Cinergy shall pay to the Executive, prior to December 31, 2005, in satisfaction of his or her expected payment under the Cinergy Corp. Annual Incentive Plan ("AIP") for the 2006 performance period, which payment would otherwise be expected to be made during the thirty–day period following the Effective Time, the amount (if any) set forth on Exhibit A hereto.

a. Within thirty days following the Effective Time, Cinergy hereby agrees to provide the Executive with an additional payment equal to the excess, if any, of (i) the payment to which the Executive would be entitled in accordance with the terms of the AIP for the 2006 performance period (calculated without regard to this Agreement), over (ii) the amount provided to the Executive during 2005 pursuant to this Section 1. The Executive hereby agrees and acknowledges that, after such payments are made to him or her, Cinergy and its affiliates shall have no further payment obligations to the Executive under the AIP for the 2006 performance period and his or her participation, or right to participate, in the AIP with respect to the 2006 performance period shall cease immediately.

b. For the avoidance of doubt, and notwithstanding anything herein to the contrary, the payments described in this Section shall not be taken into account in computing any benefits under any other plan, program or arrangement of Cinergy or its affiliates; provided, however, that when determining the Executive's "Highest Average Earnings" under the Cinergy Corp. Non–Union Employees' Pension Plan, as amended, and any other plan or arrangement that references such definition (collectively, the "Pension Plan"), the Executive shall be treated as if he or she had received, at the Effective Time and under the terms of the AIP, the payment(s) provided under this Section; further, provided, however, that for the avoidance of doubt, the Parties acknowledge and agree that the Pension Plan has been amended to specify that the amount of the AIP

payments taken into account in determining the Executive's Highest Average Earnings for the 2006 calendar year shall not exceed the greater of (i) the payments made in 2006 under the AIP with respect to the 2005 performance period and (ii) the payments made (or treated hereunder as having been made) in 2006 under the AIP with respect to the 2006 performance period.

2. LTIP Performance Shares

a. Cinergy hereby agrees to pay to the Executive, prior to December 31, 2005, in connection with the performance share agreements, if any, that have been granted to him or her under the Cinergy Corp. 1996 Long–Term Incentive Compensation Plan ("LTIP") for performance cycle VIII (covering the 2004–2006 performance period), performance cycle IX (covering the 2005–2007 performance period) and performance cycle X (covering the 2006–2008 performance period) (collectively, his or her "Performance Shares"), under which payment would otherwise be expected to be made during the thirty–day period following the Effective Time, the amount (if any) set forth on Exhibit A hereto. Within thirty days following the Effective Time, Cinergy hereby agrees to provide the Executive with an additional payment equal to the excess, if any, of (i) the amount to which the Executive would be entitled in accordance with the terms of his or her Performance Shares as a result of the Merger (calculated without regard to this Agreement), over (ii) the amount provided to the Executive during 2005 pursuant to this Section 2(a).

b. Cinergy hereby agrees to pay to the Executive, prior to December 31, 2005, the additional amount set forth on Exhibit A hereto in connection with his or her Performance Shares for performance cycle X (covering the 2006–2008 performance period), which payment would otherwise be expected to be made only in the event of the Executive's qualifying termination of employment during the two–year period following the Effective Time. Notwithstanding the foregoing, however, the Executive shall have a contingent right to an additional payment in the event of his or her qualifying termination of employment in accordance with Section 8(a)(iii) of the performance share agreement, if any, that has been granted to him or her under the LTIP for performance cycle X (covering the 2006–2008 performance period), the amount of which shall be reduced by the amount, if any, provided in 2005 pursuant to this Section 2(b).

c. The Executive hereby acknowledges and agrees that, after the payments described in this Section are made to him or her, Cinergy and its affiliates shall have no further payment obligations to the Executive or his or her beneficiaries under the LTIP with respect to his or her Performance Shares, and his or her participation, or right to participate, in the LTIP for such cycles shall cease.

3. Miscellaneous Benefits. Cinergy hereby agrees to pay to the Executive, prior to December 31, 2005, in satisfaction of his or her rights with respect to (a) outplacement benefits, (b) a vehicle allowance, (c) a perk pool allowance, (d) tax and

financial planning services, (e) continued welfare benefit coverage, (f) executive life insurance coverage, and (g) relocation benefits (collectively, the "Miscellaneous Benefits"), which payments would otherwise be expected to be made to him or her after 2005, the amounts (if any) set forth on Exhibit A hereto. The Executive hereby agrees and acknowledges that, after such payments are made to him or her, Cinergy and its affiliates shall have no further payment obligations to the Executive, under his or her employment agreement or otherwise, and whether in connection with his or her termination of employment or otherwise, with respect to each of the Miscellaneous Benefits for which an amount is set forth on Exhibit A hereto; provided, however, that Cinergy hereby agrees to provide the Executive with an additional payment equal to the excess, if any, of (I) the relocation benefits to which the Executive would be entitled in accordance with the terms of its applicable plans and arrangements (calculated without regard to this Agreement), over (II) the benefits provided to the Executive during 2005 in lieu of relocation benefits pursuant to this Section 3.

4. Restricted/Phantom Stock. Cinergy hereby agrees to waive any restrictions otherwise applicable to the restricted and/or phantom stock granted to the Executive on the dates set forth on Exhibit A hereto, under which vesting and/or payment would otherwise be expected to occur on or following the Effective Time, and Cinergy hereby agrees to transfer and/or pay to the Executive in connection with the waiver of such restrictions the number of shares of Cinergy common stock and/or amount in cash set forth on Exhibit A hereto, such that all income from such transfer shall be included in the Executive's taxable income in 2005. The Executive hereby agrees and acknowledges that, after such restrictions are released and/or such payments are made, Cinergy and its affiliates shall have no further payment obligations to the Executive with respect to such restricted and/or phantom stock grant (or the portion thereof identified on Exhibit A hereto).

5. Severance. Cinergy hereby agrees to pay to the Executive, prior to December 31, 2005, in satisfaction of all (or a portion) of the severance benefits to which he or she otherwise might become entitled, the amount (if any) set forth on Exhibit A hereto. Within thirty days following a qualifying termination of employment pursuant to which the Executive otherwise would be entitled to severance benefits, Cinergy hereby agrees to provide the Executive with an additional payment equal to the excess, if any, of (i) the severance benefits to which the Executive would be entitled in connection with his or her qualifying termination of employment (calculated without regard to this Agreement), over (ii) the amount provided to the Executive during 2005 pursuant to this Section 5. The Executive hereby agrees and acknowledges that, after such payments are made to him or her, Cinergy and its affiliates shall have no further payment obligations to the Executive, under his or her employment agreement or otherwise, with respect to severance benefits. For purposes of clarity, the Parties acknowledge and agree that the term "severance benefits" where used herein shall mean any cash payment otherwise provided under the terms of the Executive's employment agreement, as amended and as currently effective, or any severance plan sponsored by Cinergy or its affiliates, where the amount of such payment is based on a multiple of the Executive's salary and/or bonus or bonus opportunity.

6. Nonqualified Pension Plan. To the extent that the Executive is or may become entitled to benefits under the Cinergy Corp. Excess Pension Plan, Cinergy Corp. Supplemental Executive Retirement Plan and/or a supplemental retirement benefi under his or her employment agreement (collectively, the "Nonqualified Pension Plan"), the Parties agree that the Nonqualified Pension Plan is hereby amended (but only with respect to the Executive) to provide for the payment by Cinergy to the Executive, prior to December 31, 2005, of the amount specified on Exhibit A hereto and is further amended to reduce the actuarial equivalent (determined using the applicable actuarial factors contained in the Nonqualified Pension Plan) of the Executive's accrued benefits thereunder (or right to additional benefits thereunder) by such amount. In all other respects the Nonqualified Pension Plan shall remain in full force and effect.

7. Nonqualified Account Plan. To the extent that the Executive is entitled to benefits under the Cinergy Corp. 401(k) Excess Plan, Cinergy Corp. Nonqualified Deferred Incentive Compensation Plan and/or the Cinergy Corp. Excess Profit Sharing Plan (collectively, the "Nonqualified Account Plan"), the Parties agree that the Nonqualified Account Plan is hereby amended (but only with respect to the Executive) to provide for the payment by Cinergy to the Executive, prior to December 31, 2005, of the amount specified on Exhibit A hereto and is further amended to reduce the Executive's benefits thereunder by such amount. In all other respects the Nonqualified Account Plan shall remain in full force and effect.

8. Tax Matters. Cinergy shall withhold and deposit all federal, state and local income and employment taxes that are owed with respect to all amounts paid or benefits provided pursuant to this Agreement. The Parties agree that none of the payments and benefits payable or provided hereunder and in connection with the Merger are expected to constitute "excess parachute payments" within the meaning of Section 280G of the Code. In the event that any amounts payable or benefits provided hereunder become subject to the excise tax under Section 4999 of the Code, the Executive shall continue to have the rights, if any, that are provided to him or her under his or her employment agreement with respect to excise tax gross–up payments. In the event that the highest marginal Ohio income tax rate is higher in 2005 than in 2006, Cinergy shall provide the Executive with an additional payment in 2006 equal to the incremental tax obligation resulting from such higher 2005 rate so that the Executive is in the same position, for Ohio income tax purposes, as if he or she had received the payments made under this Agreement in 2006 rather than in 2005.

9. Assignment; Governing Law. Neither this Agreement nor any of the rights, obligations or interests arising hereunder may be assigned by the Executive, otherwise than by will or the laws of descent and distribution. This Agreement shall be binding upon the Company and its successors and assigns. This Agreement shall be interpreted, enforced and governed under the laws of the State of Ohio without regard to any applicable state's choice of law provisions. Any dispute between the Parties under this Agreement shall be resolved through informal arbitration by an arbitrator selected under the rules of the American Arbitration Association and the arbitration shall be conducted in Cincinnati, Ohio.

10. Entire Agreement. This Agreement shall supersede any and all prior oral or written representations, understandings and agreements of the Parties with respect to the matters contained herein, and it contains the entire agreement of the Parties with respect to those matters. Once signed by the Parties hereto, no provision of this Agreement may be modified or amended unless agreed to in a writing signed by the Parties. Any notice required by this Agreement shall be sent in writing and delivered by first class mail to the last known address of the Party to whom it is sent. This Agreement may be executed by the Parties hereto in counterparts, and each of which shall be considered an original for all purposes.

11. Miscellaneous

a. The Executive acknowledges and agrees that Cinergy (and/or any of its authorized officers and/or employees) is authorized to act for each of its subsidiaries and affiliates, including Duke and its subsidiaries and affiliates following the Merger, with respect to all aspects of the administration and interpretation of this Agreement, and that with respect to employment matters references herein to Cinergy shall include Cinergy Services, Inc. or such other affiliate that employs the Executive.

b. Notwithstanding any other provision of this Agreement, this Agreement shall be administered in a manner that complies with the provisions of Section 409A of the Code, so as to prevent the inclusion in gross income of any amount in a taxable year that is prior to the taxable year or years in which such amount would otherwise actually be distributed or made available to or on behalf of the Executive.

c. The Executive acknowledges and agrees that no action taken in connection with this Agreement shall give him the right to terminate his or her employment for "Good Reason" or shall otherwise provide him or her with rights under his or her employment agreement or any other compensation agreement or arrangement.

d. The Executive acknowledges and agrees that, within 45 days following his or her termination of employment with Cinergy and its affiliates, he or she shall be required to execute (and not timely revoke) a waiver and release of all claims that he or she might assert against Cinergy and its affiliates and successors, on a form provided by Cinergy (which form shall be substantially in the form of the waiver and release attached to the Executive's employment agreement, if applicable).

12. Repayment Obligation. This Section shall apply with respect to the Executive only to the extent it is not unlawful under the Sarbanes–Oxley Act of 2002 or any related rule, regulation or interpretation.

a. In the event that the Executive voluntarily terminates employment with Cinergy and its affiliates prior to the Effective Time, the Executive shall be

required to repay 100% of any benefits or payments provided hereunder within ten days following his or her termination of employment.

b. The Parties acknowledge and agree that (i) payments provided hereunder in 2005 might not otherwise be payable in the event that the Merger does not occur, (ii) the receipt of such amounts will be includible in the Executive's taxable income in 2005 and (iii) the Executive's ability to recover the taxes paid in connection with such amounts is limited under current tax laws. Accordingly, in the event that the Effective Time does not occur prior to December 15, 2006, the Executive shall be required to repay 50% of any benefits or payments provided hereunder no later than December 31, 2006.

c. Notwithstanding anything herein to the contrary, (i) the Executive shall not be required to repay any amount which, without regard to this Agreement, Cinergy determines in good faith the Executive has earned prior to the date on which repayment would otherwise be required, (ii) in the event of repayment, the Executive shall not be treated as having waived his or her rights to earn, after the date of repayment, the repaid amounts as a result of satisfying the eligibility criteria for such amounts in accordance with the terms of Cinergy's applicable plans and arrangements, (iii) no repayment shall be required with respect to any amount provided pursuant to Section 7, and (iv) this Section 12 shall be administered in a manner that complies with the provisions of Section 409A of the Code, so as to prevent the inclusion in gross income of any amount in a taxable year that is prior to the taxable year or years in which such amount would otherwise actually be distributed or made available to or on behalf of the Executive.

13. Affect on Other Arrangements. Except as otherwise provided in Section 1, for the avoidance of doubt, and notwithstanding anything herein to the contrary, the Parties acknowledge and agree that payments made under this Agreement shall not be taken into account in computing any benefits under any plan, program or arrangement of Cinergy or its affiliates.

IN WITNESS WHEREOF, the Parties have signed, or caused a duly authorized agent thereof to sign, this Agreement on their behalf and thereby acknowledge their intent to be bound by its terms and conditions.

| EXECUTIVE | CINERGY CORP. |
|---|---|
| Signed: _____ | Signed: _____ |
| Printed: _____ | Printed: _____ |
| Date: _____ | Date: _____ |

EXHIBIT A

Executive: _____

| | | | | |
|---|---|---|---|---|
| 1. | Annual Incentive Plan (§ 1) | | | $_____ |
| 2. | LTIP Performance Shares (§ 2) | | | |
| | a. | Cycle VIII (2004–2006) | | $_____ |
| | b. | Cycle IX (2005–2007) | | $_____ |
| | c. | Cycle X (2006–2008 (§ 2(a)) | | $_____ |
| | d. | Cycle X (2006–2008 (§ 2(b)) | | $_____ |
| 3. | Miscellaneous Benefits (§ 3) | | | |
| | a. | Outplacement Benefits | | $_____ |
| | b. | Vehicle Allowance | | $_____ |
| | c. | Perk Pool Allowance | | $_____ |
| | d. | Tax and Financial Planning | | $_____ |
| | e. | Continued Welfare Benefits | | $_____ |
| | f. | Executive Life Insurance | | $_____ |
| | g. | Relocation Benefits | | |
| 4. | Restricted and/or Phantom Stock (§ 4) | | | |
| | a. | Date of Grant: _____ | Payment or number of shares: | _____ |
| | b. | Date of Grant: _____ | Payment or number of shares: | _____ |
| 5. | Severance Benefits (Employment Agreement) (§ 5) | | | $_____ |
| 6. | Nonqualified Pension Plan (§ 6) | | | |
| | a. | Excess Pension Plan | | $_____ |
| | b. | Supplemental Executive Retirement Plan | | $_____ |
| | c. | Supplemental Retirement Benefit (Employment Agreement) | | $_____ |
| 7. | Nonqualified Account Plan (§ 7) | | | |
| | a. | 401(k) Excess Plan | | $_____ |
| | b. | Nonqualified Deferred Incentive Compensation Plan | | $_____ |
| | c. | Excess Profit Sharing Plan | | $_____ |

## Subsidiary Listing

As of December 31, 2005, the following is a listing of the subsidiaries of each registrant in which Cinergy Corp. has a greater than 10% ownership interest in and their state or country of incorporation or organization indented to show degree of remoteness from registrant.

| Name of Company (Indentation indicates subsidiary relationship) | State or Country of Organization or Incorporation |
|---|---|
| **Cinergy Corp. (1)** | Delaware |
| **Cinergy Services, Inc.** | Delaware |
| **CC Funding Trust I** | Delaware |
| **CC Funding Trust II** | Delaware |
| **Cinergy Receivables Company LLC** | Delaware |
| **Cinergy Risk Solutions Ltd.** | Vermont |
| **The Cincinnati Gas & Electric Company (1)** | Ohio |
| Cinergy Power Investments, Inc. | Ohio |
| The Union Light, Heat and Power Company (1) | Kentucky |
| Tri-State Improvement Company | Ohio |
| Miami Power Corporation | Indiana |
| KO Transmission Company | Kentucky |
| **PSI Energy, Inc. (1)** | Indiana |
| South Construction Company, Inc. | Indiana |
| **Cinergy Investments, Inc.** | Delaware |
| **Cinergy-Cadence, Inc.** | Indiana |
| Cadence Network, Inc. | Delaware |
| **Cinergy Capital & Trading, Inc.** | Indiana |
| Brownsville Power I, LLC | Delaware |
| Caledonia Power I, LLC | Delaware |
| CinPower I, LLC | Delaware |
| Cinergy Canada, Inc. | Canada |
| Cinergy Climate Change Investments, LLC | Delaware |
| **Cinergy Limited Holdings, LLC** | Delaware |
| **Cinergy Marketing & Trading, LP** | Delaware |
| Ohio River Valley Propane, LLC | Delaware |
| Cinergy General Holdings, LLC | Delaware |
| **Cinergy Mexico Limited, LLC** | Delaware |
| **Cinergy Mexico Holdings, L.P.** | Delaware |
| Cinergy Mexico Marketing & Trading, LLC | Delaware |
| Cinergy Mexico General, LLC | Delaware |
| **Cinergy Retail Power Limited, Inc.** | Delaware |
| Cinergy Retail Power, L.P. | Delaware |
| Cinergy Retail Power General, Inc. | Texas |
| Cinergy Retail Sales, LLC | Delaware |
| CinFuel Resources, Inc. | Delaware |
| **LH1, LLC** | Delaware |

(1) Companies indicated are registrants with the Securities and Exchange Commission.

| Name of Company (Indentation indicates subsidiary relationship) | State or Country of Organization or Incorporation |
|---|---|
| Oak Mountain Products, LLC | Delaware |
| **Pine Mountain Investments, LLC** | Delaware |
| Pine Mountain Products, LLC | Delaware |
| SYNCAP II, LLC | Delaware |
| **Cinergy Telecommunications Holding Company, Inc.** | Delaware |
| **Q–Comm Corporation** | Nevada |
| QCC, Inc. | Nevada |
| Cinergy Communications Company | Kentucky |
| Cinergy MetroNet, Inc. | Indiana |
| **Kentucky Data Link, Inc.** | Kentucky |
| Chattanooga Data Link, Inc. | Tennessee |
| Cincinnati Data Link, Inc. | Ohio |
| Cinergy Telecommunication Networks – Indiana, Inc. | Indiana |
| Cinergy Telecommunication Networks – Ohio, Inc. | Ohio |
| Indianapolis Data Link, Inc. | Indiana |
| KDL Holdings, LLC | Delaware |
| Knoxville Data Link, Inc. | Tennessee |
| Lexington Data Link, Inc. | Kentucky |
| Louisville Data Link, Inc. | Kentucky |
| Memphis Data Link, Inc. | Tennessee |
| Nashville Data Link, Inc. | Tennessee |
| **Lattice Communications, LLC** | Delaware |
| LB Tower Company, LLC | Delaware |
| Cinergy Engineering, Inc. | Ohio |
| Cinergy–Centrus, Inc. | Delaware |
| Cinergy–Centrus Communications, Inc. | Delaware |
| **Cinergy Solutions Holding Company, Inc.** | Delaware |
| **3036243 Nova Scotia Company** | Canada |
| Cinergy Solutions Limited Partnership | Canada |
| 1388368 Ontario Inc. | Canada |
| **Cinergy Solutions – Demand, Inc.** | Delaware |
| **Cinergy Solutions – Demand, Ltd.** | Canada |
| Keen Rose Technology Group Limited | Canada |
| Optimira Controls, Inc. | Canada |
| Cinergy EPCOM College Park, LLC | Delaware |
| **Cinergy Solutions, Inc.** | Delaware |
| **BSPE Holdings, LLC** | Delaware |
| **BSPE Limited, LLC** | Delaware |
| BSPE, L.P. | Delaware |
| BSPE General, LLC | Texas |
| Bullard Energy Center, LLC | Delaware |
| **Cinergy Energy Solutions, Inc.** | Delaware |
| **U.S. Energy Biogas Corp.** | Delaware |
| **Biogas Financial Corporation** | Connecticut |
| **ZFC Energy Inc.** | Delaware |
| **Power Generation (Suffolk), Inc.** | Delaware |
| Suffolk Energy Partners, L.P. | Virginia |
| Suffolk Biogas, Inc. | Delaware |
| Lafayette Energy Partners, L.P. | New Jersey |
| Taylor Energy Partners, L.P. | Pennsylvania |
| **Resources Generating Systems, Inc.** | New York |
| Hoffman Road Energy Partners, LLC | Delaware |
| **Illinois Electrical Generation Partners, L.P.** | Delaware |
| Zapco Illinois Energy, Inc. | Delaware |
| Avon Energy Partners, L.L.C. | Illinois |
| Devonshire Power Partners, L.L.C. | Illinois |
| Riverside Resource Recovery, L.L.C. | Illinois |

| Name of Company (Indentation indicates subsidiary relationship) | State or Country of Organization or Incorporation |
|---|---|
| **Illinois Electrical Generation Partners II L.P.** | Delaware |
| **BMC Energy, LLC** | Delaware |
| Brookhaven Energy Partners, LLC | New York |
| Countryside Genco, L.L.C. | Delaware |
| Morris Genco, L.L.C. | Delaware |
| Brickyard Energy Partners, LLC | Delaware |
| Dixon/Lee Energy Partners, LLC | Delaware |
| Roxanna Resource Recovery, L.L.C. | Illinois |
| Streator Energy Partners, LLC | Delaware |
| Upper Rock Energy Partners, LLC | Delaware |
| Barre Energy Partners, L.P. | Delaware |
| Biomass New Jersey, L.L.C. | New Jersey |
| Brown County Energy Associates, LLC | Delaware |
| Burlington Energy, Inc. | Vermont |
| Cape May Energy Associates, L.P. | Delaware |
| Dunbarton Energy Partners, Limited Partnership | New Hampshire |
| Garland Energy Development, LLC | Delaware |
| Oceanside Energy Inc. | New York |
| Onondaga Energy Partners, L.P. | New York |
| Oyster Bay Energy Partners, L.P. | New York |
| Smithtown Energy Partners, L.P. | New York |
| Springfield Energy Associates, Limited Partnership | Vermont |
| Suffolk Transmission Partners, L.P. | Delaware |
| Tucson Energy Partners LP | Delaware |
| Zapco Broome Nanticoke Corp. | New York |
| Zapco Development Corporation | Delaware |
| Zapco Energy Tactics Corporation | Delaware |
| Zapco Readville Cogeneration, Inc. | Delaware |
| ZFC Royalty Partners, A Connecticut Limited Partnership | Connecticut |
| ZMG, Inc. | Delaware |
| **Cinergy GASCO Solutions, LLC** | Delaware |
| Countryside Landfill Gasco, L.L.C. | Delaware |
| Morris Gasco, L.L.C. | Delaware |
| Brown County Landfill Gas Associates, L.P. | Delaware |
| Cinergy Solutions of Monaca, LLC | Delaware |
| Cinergy Solutions of Narrows, LLC | Delaware |
| Cinergy Solutions of Rock Hill, LLC | Delaware |
| Cinergy Solutions of San Diego, Inc. | Delaware |
| Cinergy Solutions of South Charleston, LLC | Delaware |
| Cinergy Solutions of St. Bernard, LLC | Delaware |
| Cinergy Solutions O&M, LLC | Delaware |
| Cinergy Solutions Operating Services of Delta Township, LLC | Delaware |
| Cinergy Solutions Operating Services of Lansing, LLC | Delaware |
| Cinergy Solutions Operating Services of Shreveport, LLC | Delaware |
| Cinergy Solutions Operating Services of Oklahoma, LLC | Delaware |
| Cinergy Solutions of Philadelphia, LLC | Delaware |
| **Cinergy Solutions Partners, LLC** | Delaware |
| **CST Limited, LLC** | Delaware |
| **CST Green Power, L.P.** | Delaware |
| **Green Power Holdings, LLC** | Delaware |
| **Green Power Limited, LLC** | Delaware |
| South Houston Green Power, L.P. | Delaware |
| Green Power G.P., LLC | Texas |
| CST General, LLC | Texas |
| CSGP of Southeast Texas, LLC | Delaware |
| **CSGP Limited, LLC** | Delaware |
| CSGP Services, L.P. | Delaware |

| Name of Company<br>(Indentation indicates subsidiary relationship) | State or Country of Organization or Incorporation |
|---|---|
| CSGP General, LLC | Texas |
| Lansing Grand River Utilities, LLC | Delaware |
| Oklahoma Arcadian Utilities, LLC | Delaware |
| Panoche Energy Center, LLC | Delaware |
| Shreveport Red River Utilities, LLC | Delaware |
| Cinergy Solutions of Tuscola, Inc. | Delaware |
| Delta Township Utilities, LLC | Delaware |
| Delta Township Utilities II, LLC | Delaware |
| Energy Equipment Leasing LLC | Delaware |
| Trigen–Cinergy Solutions LLC | Delaware |
| Trigen–Cinergy Solutions of Ashtabula LLC | Delaware |
| Cinergy Solutions of Boca Raton, LLC | Delaware |
| Cinergy Solutions of Cincinnati, LLC | Ohio |
| Cinergy Solutions – Utility, Inc. | Delaware |
| **Trigen–Cinergy Solutions of Lansing LLC** | Delaware |
| Trigen/Cinergy–USFOS of Lansing LLC | Delaware |
| Trigen–Cinergy Solutions of Orlando LLC | Delaware |
| Trigen–Cinergy Solutions of Owings Mills LLC | Delaware |
| Owings Mills Energy Equipment Leasing, LLC | Delaware |
| Trigen–Cinergy Solutions of Rochester LLC | Delaware |
| Trigen–Cinergy Solutions of Silver Grove LLC | Delaware |
| **Cinergy Solutions of St. Paul, LLC** | Delaware |
| Environmental Wood Supply, LLC | Minnesota |
| St. Paul Cogeneration LLC | Minnesota |
| Trigen–Cinergy Solutions of Tuscola, LLC | Delaware |
| **Cinergy Supply Network, Inc.** | Delaware |
| **Reliant Services, LLC** | Indiana |
| **MP Acquisitions Corp., Inc.** | Indiana |
| Miller Pipeline Corporation | Indiana |
| Fiber Link, LLC | Indiana |
| Cinergy Technology, Inc. | Indiana |
| | |
| **Cinergy Global Resources, Inc.** | Delaware |
| Cinergy UK, Inc. | Delaware |
| **Cinergy Global Power, Inc.** | Delaware |
| **CGP Global Greece Holdings, SA** | Greece |
| **Attiki Denmark ApS** | Denmark |
| Attiki Gas Supply Company SA | Greece |
| Cinergy Global Ely, Inc. | Delaware |
| Cinergy Global Power Services Limited | England |
| **Cinergy Global Power (UK) Limited** | England |
| **Cinergy Global Trading Limited** | England |
| Cinergy Global Hellas S.A. | Greece |
| Commercial Electricity Supplies Limited | England |
| UK Electric Power Limited | England |
| Cinergy Global Power Iberia, S.A. | Spain |
| **Cinergy Global Holdings, Inc.** | Delaware |
| **Cinergy Holdings B.V.** | The Netherlands |
| **Cinergy Zambia B.V.** | The Netherlands |
| **Copperbelt Energy Corporation PLC** | Republic of Zambia |
| Power Sports Limited | Republic of Zambia |
| **Cinergy Global (Cayman) Holdings, Inc.** | Cayman Islands |
| **Cinergy Global Tsavo Power** | Cayman Islands |
| **IPS–Cinergy Power Limited** | Kenya |
| Tsavo Power Company Limited | Kenya |
| eVent Resources Overseas I, LLC | Delaware |
| Midlands Hydrocarbons (Bangladesh) Limited | England |

| Name of Company<br>(Indentation indicates subsidiary relationship) | State or Country of Organization or Incorporation |
|---|---|
| Cinergy Global Power Africa (Proprietary) Limited | South Africa |
| **CinTec LLC** | Delaware |
| **CinTec I LLC** | Delaware |
| **eVent Resources I LLC** | Delaware |
| eVent Resources Holdings LLC | Delaware |
| CinTec II LLC | Delaware |
| **Cinergy Technologies, Inc.** | Delaware |
| **Cinergy Broadband, LLC** | Delaware |
| **CCB Communications, LLC** | Delaware |
| CCB Indiana, LLC | Delaware |
| CCB Kentucky, LLC | Delaware |
| CCB Ohio, LLC | Delaware |
| ACcess Broadband, LLC | Delaware |
| **Cinergy Ventures, LLC** | Delaware |
| Configured Energy Systems, Inc. | Delaware |
| Maximum Performance Group, Inc. | Delaware |
| **Cinergy Ventures II, LLC** | Delaware |
| Catalytic Solutions, Inc. | California |
| Electric City Corp. | Delaware |
| Cinergy e-Supply Network, LLC | Delaware |
| Cinergy One, Inc. | Delaware |
| Cinergy Two, Inc. | Delaware |
| **Cinergy Wholesale Energy, Inc.** | Ohio |
| Cinergy Power Generation Services, LLC | Delaware |
| Cinergy Origination & Trade, LLC | Delaware |
| **Cinergy Foundation, Inc.** | Indiana |

**Exhibit 23**

## CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Cinergy Corp.'s Registration Statement Nos. 33–55267, 33–55713, 33–56089, 33–56093, 33–56095, 333–51484, 333–83461, 333–83467, 333–72898, 333–72900, 333–72902, 333–81770, 333–101707 and 333–102515 of our report dated February 17, 2006 relating to the financial statements (which expresses an unqualified opinion on the Company's consolidated financial statements and includes an explanatory paragraph referring to the Company's change effective December 31, 2005 in its accounting method for conditional asset retirement obligations; change effective January 1, 2003 in its accounting method for asset retirement obligations; change effective January 1, 2003 in its accounting for stock based compensation; and change effective July 1, 2003 in its accounting for the consolidation of variable interest entities) and management's report on the effectiveness of internal control over financial reporting appearing in this Annual Report on Form 10–K of Cinergy Corp. for the year ended December 31, 2005.

/s/ Deloitte & Touche LLP
Deloitte & Touche LLP
Cincinnati, Ohio
February 22, 2006

## CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in The Cincinnati Gas & Electric Company's Registration Statement Nos. 333-112574 and 333-103200 of our report dated February 17, 2006 (which expresses an unqualified opinion on the Company's consolidated financial statements and includes an explanatory paragraph referring to the Company's change effective December 31, 2005 in its accounting method for conditional asset retirement obligations and change effective January 1, 2003 in its accounting method for asset retirement obligations), appearing in this Annual Report on Form 10-K of The Cincinnati Gas & Electric Company for the year ended December 31, 2005.

/s/ Deloitte & Touche LLP

Deloitte & Touche LLP
Cincinnati, Ohio
February 22, 2006

## CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in PSI Energy, Inc.'s Registration Statement Nos. 333–112552, 333–83379, 33–48612 and 33–57064 of our report dated February 17, 2006 (which expresses an unqualified opinion on the Company's consolidated financial statements and includes an explanatory paragraph referring to the Company's change effective December 31, 2005 in its accounting method for conditional asset retirement obligations and change effective January 1, 2003 in its accounting method for asset retirement obligations), appearing in this Annual Report on Form 10–K of PSI Energy, Inc. for the year ended December 31, 2005.

/s/ Deloitte & Touche LLP
Deloitte & Touche LLP
Cincinnati, Ohio
February 22, 2006

## CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in The Union Light, Heat and Power Company's Registration Statement Nos. 333-127311, 333-119120 and 33-40245 of our report dated February 17, 2006 (which expresses an unqualified opinion on the Company's consolidated financial statements and includes an explanatory paragraph referring to the Company's change effective December 31, 2005 in its accounting method for conditional asset retirement obligations and change effective January 1, 2003 in its accounting method for asset retirement obligations), appearing in this Annual Report on Form 10-K of The Union Light, Heat and Power Company for the year ended December 31, 2005.

/s/ Deloitte & Touche LLP

Deloitte & Touche LLP
Cincinnati, Ohio
February 22, 2006

**Exhibit 24**

## POWER OF ATTORNEY

KNOW ALL BY THESE PRESENTS, that the undersigned hereby constitutes and appoints James E. Rogers and Lynn J. Good, or either of them with full power to act without the other, the undersigned's true and lawful attorneys–in–fact and agents, with full power of substitution and resubstitution, to execute for and on behalf of the undersigned, in the undersigned's capacity as a director of Cinergy Corp. and PSI Energy, Inc., the Annual Report on Form 10–K for each corporation for the fiscal year ended December 31, 2005, and to file the signed Form 10–K with the Securities and Exchange Commission.

The undersigned does hereby ratify and confirm all that said attorneys–in–fact and agents, and each of them, shall lawfully do by virtue hereof.

IN WITNESS WHEREOF, the undersigned has hereunto caused this Power of Attorney to be executed on this 27th day of February, 2006.

/s/ Michael G. Browning
Michael G. Browning

**POWER OF ATTORNEY**

KNOW ALL BY THESE PRESENTS, that the undersigned hereby constitutes and appoints James E. Rogers and Lynn J. Good, or either of them with full power to act without the other, the undersigned's true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, to execute for and on behalf of the undersigned, in the undersigned's capacity as a director of Cinergy Corp., the Cinergy Corp. Annual Report on Form 10-K for the fiscal year ended December 31, 2005, and to file the signed Form 10-K with the Securities and Exchange Commission.

The undersigned does hereby ratify and confirm all that said attorneys-in-fact and agents, and each of them, shall lawfully do by virtue hereof.

IN WITNESS WHEREOF, the undersigned has hereunto caused this Power of Attorney to be executed on this 20th day of February, 2006.

/s/ Phillip R. Cox
Phillip R. Cox

**POWER OF ATTORNEY**

KNOW ALL BY THESE PRESENTS, that the undersigned hereby constitutes and appoints James E. Rogers and Lynn J. Good, or either of them with full power to act without the other, the undersigned's true and lawful attorneys–in–fact and agents, with full power of substitution and resubstitution, to execute for and on behalf of the undersigned, in the undersigned's capacity as a director of Cinergy Corp., the Cinergy Corp. Annual Report on Form 10–K for the fiscal year ended December 31, 2005, and to file the signed Form 10–K with the Securities and Exchange Commission.

The undersigned does hereby ratify and confirm all that said attorneys–in–fact and agents, and each of them, shall lawfully do by virtue hereof.

IN WITNESS WHEREOF, the undersigned has hereunto caused this Power of Attorney to be executed on this 20th day of February, 2006.

/s/ George C. Juilfs
George C. Juilfs

**POWER OF ATTORNEY**

KNOW ALL BY THESE PRESENTS, that the undersigned hereby constitutes and appoints James E. Rogers and Lynn J. Good, or either of them with full power to act without the other, the undersigned's true and lawful attorneys–in–fact and agents, with full power of substitution and resubstitution, to execute for and on behalf of the undersigned, in the undersigned's capacity as a director of Cinergy Corp., the Cinergy Corp. Annual Report on Form 10–K for the fiscal year ended December 31, 2005, and to file the signed Form 10–K with the Securities and Exchange Commission.

The undersigned does hereby ratify and confirm all that said attorneys–in–fact and agents, and each of them, shall lawfully do by virtue hereof.

IN WITNESS WHEREOF, the undersigned has hereunto caused this Power of Attorney to be executed on this 20th day of February, 2006.

/s/ Thomas E. Petry
Thomas E. Petry

**POWER OF ATTORNEY**

KNOW ALL BY THESE PRESENTS, that the undersigned hereby constitutes and appoints James E. Rogers and Lynn J. Good, or either of them with full power to act without the other, the undersigned's true and lawful attorneys–in–fact and agents, with full power of substitution and resubstitution, to execute for and on behalf of the undersigned, in the undersigned's capacity as a director of Cinergy Corp., the Cinergy Corp. Annual Report on Form 10–K for the fiscal year ended December 31, 2005, and to file the signed Form 10–K with the Securities and Exchange Commission.

The undersigned does hereby ratify and confirm all that said attorneys–in–fact and agents, and each of them, shall lawfully do by virtue hereof.

IN WITNESS WHEREOF, the undersigned has hereunto caused this Power of Attorney to be executed on this 22nd day of February, 2006.

/s/ Mary L. Schapiro
Mary L. Schapiro

**POWER OF ATTORNEY**

KNOW ALL BY THESE PRESENTS, that the undersigned hereby constitutes and appoints James E. Rogers and Lynn J. Good, or either of them with full power to act without the other, the undersigned's true and lawful attorneys–in–fact and agents, with full power of substitution and resubstitution, to execute for and on behalf of the undersigned, in the undersigned's capacity as a director of Cinergy Corp., the Cinergy Corp. Annual Report on Form 10–K for the fiscal year ended December 31, 2005, and to file the signed Form 10–K with the Securities and Exchange Commission.

The undersigned does hereby ratify and confirm all that said attorneys–in–fact and agents, and each of them, shall lawfully do by virtue hereof.

IN WITNESS WHEREOF, the undersigned has hereunto caused this Power of Attorney to be executed on this 20th day of February, 2006.

/s/ John J. Schiff, Jr.
John J. Schiff, Jr.

**POWER OF ATTORNEY**

KNOW ALL BY THESE PRESENTS, that the undersigned hereby constitutes and appoints James E. Rogers and Lynn J. Good, or either of them with full power to act without the other, the undersigned's true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, to execute for and on behalf of the undersigned, in the undersigned's capacity as a director of Cinergy Corp., the Cinergy Corp. Annual Report on Form 10-K for the fiscal year ended December 31, 2005, and to file the signed Form 10-K with the Securities and Exchange Commission.

The undersigned does hereby ratify and confirm all that said attorneys-in-fact and agents, and each of them, shall lawfully do by virtue hereof.

IN WITNESS WHEREOF, the undersigned has hereunto caused this Power of Attorney to be executed on this 22nd day of February, 2006.

/s/ Philip R. Sharp
Philip R. Sharp

**POWER OF ATTORNEY**

KNOW ALL BY THESE PRESENTS, that the undersigned hereby constitutes and appoints James E. Rogers and Lynn J. Good, or either of them with full power to act without the other, the undersigned's true and lawful attorneys–in–fact and agents, with full power of substitution and resubstitution, to execute for and on behalf of the undersigned, in the undersigned's capacity as a director of Cinergy Corp., the Cinergy Corp. Annual Report on Form 10–K for the fiscal year ended December 31, 2005, and to file the signed Form 10–K with the Securities and Exchange Commission.

The undersigned does hereby ratify and confirm all that said attorneys–in–fact and agents, and each of them, shall lawfully do by virtue hereof.

IN WITNESS WHEREOF, the undersigned has hereunto caused this Power of Attorney to be executed on this 20th day of February, 2006.

/s/ Dudley S. Taft
Dudley S. Taft

**POWER OF ATTORNEY**

KNOW ALL BY THESE PRESENTS, that the undersigned hereby constitutes and appoints James E. Rogers and Lynn J. Good, or either of them with full power to act without the other, the undersigned's true and lawful attorneys–in–fact and agents, with full power of substitution and resubstitution, to execute for and on behalf of the undersigned, in the undersigned's capacity as a director of PSI Energy, Inc., the PSI Energy, Inc. Annual Report on Form 10–K for the fiscal year ended December 31, 2005, and to file the signed Form 10–K with the Securities and Exchange Commission.

The undersigned does hereby ratify and confirm all that said attorneys–in–fact and agents, and each of them, shall lawfully do by virtue hereof.

IN WITNESS WHEREOF, the undersigned has hereunto caused this Power of Attorney to be executed on this 27th day of February, 2006.

/s/ Kay E. Pashos
Kay E. Pashos

**POWER OF ATTORNEY**

KNOW ALL BY THESE PRESENTS, that the undersigned hereby constitutes and appoints James E. Rogers and Lynn J. Good, or either of them with full power to act without the other, the undersigned's true and lawful attorneys–in–fact and agents, with full power of substitution and resubstitution, to execute for and on behalf of the undersigned, in the undersigned's capacity as a director of The Cincinnati Gas & Electric Company and The Union Light, Heat and Power Company, the Annual Report on Form 10–K for each corporation for the fiscal year ended December 31, 2005, and to file the signed Form 10–K with the Securities and Exchange Commission.

The undersigned does hereby ratify and confirm all that said attorneys–in–fact and agents, and each of them, shall lawfully do by virtue hereof.

IN WITNESS WHEREOF, the undersigned has hereunto caused this Power of Attorney to be executed on this 27th day of February, 2006.

/s/ Gregory C. Ficke
Gregory C. Ficke

**POWER OF ATTORNEY**

KNOW ALL BY THESE PRESENTS, that the undersigned hereby constitutes and appoints James E. Rogers and Lynn J. Good, or either of them with full power to act without the other, the undersigned's true and lawful attorneys–in–fact and agents, with full power of substitution and resubstitution, to execute for and on behalf of the undersigned, in the undersigned's capacity as a director of The Cincinnati Gas & Electric Company and The Union Light, Heat and Power Company, the Annual Report on Form 10–K for each corporation for the fiscal year ended December 31, 2005, and to file the signed Form 10–K with the Securities and Exchange Commission.

The undersigned does hereby ratify and confirm all that said attorneys–in–fact and agents, and each of them, shall lawfully do by virtue hereof.

IN WITNESS WHEREOF, the undersigned has hereunto caused this Power of Attorney to be executed on this 27th day of February, 2006.

/s/ James L. Turner
James L. Turner

## 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 annual report on Form 10–K 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: February 28, 2006

/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, Lynn J. Good, certify that:

1. I have reviewed this annual report on Form 10–K 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: February 28, 2006

/s/ Lynn J. Good
Lynn J. Good
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 Annual 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-K for the period ending December 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: February 28, 2006

/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 Annual 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–K for the period ending December 31, 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: February 28, 2006

/s/ Lynn J. Good
Lynn J. Good
Chief Financial Officer

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-K

**(Mark One)**

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

**For the fiscal year ended December 31, 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.**<br>(A Delaware Corporation)<br>139 East Fourth Street<br>Cincinnati, Ohio 45202<br>(513) 421-9500 | 31-1385023 |
| 1-1232 | **THE CINCINNATI GAS & ELECTRIC COMPANY**<br>(An Ohio Corporation)<br>139 East Fourth Street<br>Cincinnati, Ohio 45202<br>(513) 421-9500 | 31-0240030 |
| 1-3543 | **PSI ENERGY, INC.** | 35-0594457 |

(An Indiana Corporation)

1000 East Main Street

Plainfield, Indiana 46168

(513) 421–9500

2–7793

# THE UNION LIGHT, HEAT AND POWER COMPANY

31-0473080

(A Kentucky Corporation)

139 East Fourth Street

Cincinnati, Ohio 45202

(513) 421–9500

---

**Each of the following classes or series of securities registered pursuant to Section 12(b) of the Act is registered on the New York Stock Exchange:**

| Registrant | Title of each class | |
|---|---|---|
| **Cinergy Corp.** | Common Stock | |
| **The Cincinnati Gas & Electric Company** | Cumulative Preferred Stock | 4% |
| **PSI Energy, Inc.** | Cumulative Preferred Stock | 4.32% |
| | Cumulative Preferred Stock | 4.16% |
| | Cumulative Preferred Stock | 6–7/8% |
| **The Union Light, Heat and Power Company** | None | |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether each registrant (1) has 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 such registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S–K is not contained herein, and will not be contained, to the best of registrants' knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10–K or any amendment to this Form 10–K. ☐

Requirements pursuant to Item 405 of Regulation S–K are not applicable for **The Union Light, Heat and Power Company**.

**The Union Light, Heat and Power Company** meets the conditions set forth in General Instruction I (1)(a) and (b) of Form 10–K and is therefore filing this Form 10–K with the reduced disclosure format specified in General Instruction I (2) of Form 10–K.

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 | ☒ |

As of June 30, 2004, the aggregate market value of the common equity of **Cinergy Corp.** held by non–affiliates (shareholders who are not directors or executive officers) was $6.8 billion. All of the common stock of **The Cincinnati Gas & Electric Company** and **PSI Energy, Inc.** is owned by **Cinergy Corp.**, and all of the common stock of **The Union Light, Heat and Power Company** is owned by **The Cincinnati Gas & Electric Company**. As of January 31, 2005, each registrant had the following shares of common stock outstanding:

| Registrant | Description | Shares |
|---|---|---|
| **Cinergy Corp.** | Par value $.01 per share | 191,404,406 |
| **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 |

## DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement of **Cinergy Corp.** and the Information Statement of **PSI Energy, Inc.** to be filed with the Securities and Exchange Commission in 2005 are incorporated by reference into Part III of this report.

This combined Form 10-K 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 registrants other than itself.

TABLE OF CONTENTS

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.

- 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.

# PART I

## ITEM 1. BUSINESS

### WEBSITE ACCESS TO REPORTS

We make our annual report on Form 10–K, quarterly reports on Form 10–Q, current reports on Form 8–K, and amendments to those reports, filed or furnished pursuant to section 13(a) or 15(d) of the Securities Exchange Act of 1934 available free of charge on or through our internet website, www.cinergy.com, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (SEC).

### ORGANIZATION

**Cinergy Corp.**, a Delaware corporation organized in 1993, owns all outstanding common stock of The Cincinnati Gas & Electric Company (**CG&E**) and PSI Energy, Inc. (**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 Public Utility Holding Company Act of 1935, as amended. 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 The Union Light, Heat and Power Company (**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.

**CG&E** is in a market development period for residential customers and in the competitive retail electric market for non–residential customers, transitioning to deregulation of electric generation and a competitive retail electric service market in the state of Ohio. Applicable legislation governing the transition period provides for a market development (frozen rate) period that began January 1, 2001, ended December 31, 2004 for non–residential customers and is scheduled to end December 31, 2005 for residential customers. At the end of these market development periods, **CG&E** will not implement market rates, but rather a rate stabilization plan (RSP) approved by the Public Utilities Commission of Ohio (PUCO) that covers the period after the market development period through 2008. The RSP, among other things, increases rates for environmental costs and capacity reserves and provides for a fuel and emission allowance tracker through 2008. See "Electric Industry" in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A)" for the various filings that led to the PUCO's approval of **CG&E's** RSP, further details of the plan, and a discussion of key elements of Ohio deregulation.

**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 | Major Cities Served | Approximate Population Served |
|---|---|---|---|
| **CG&E** and subsidiaries | • Generation, transmission, distribution, and sale of electricity | Cincinnati, OH<br>Middletown, OH<br>Covington, KY<br>Florence, KY<br>Newport, KY | 2,064,000 |
| | • Sale and/or transportation of natural gas | | |
| | • Electric commodity marketing and trading operations | | |
| **PSI** | • Generation, transmission, distribution, and sale of electricity | Bloomington, IN<br>Carmel, IN<br>Columbus, IN<br>Kokomo, IN<br>Lafayette, IN<br>New Albany, IN<br>Terre Haute, IN | 2,283,000 |
| **ULH&P(1)** | • Transmission, distribution, and sale of electricity | Covington, KY<br>Florence, KY<br>Newport, KY | 345,000 |
| | • Sale and transportation of natural gas | | |

(1) See "Generation — Fuel Supply and Emission Allowances" under the "Regulated" section 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 and Trading, LP (Marketing & Trading), one of its subsidiaries).

## BUSINESS SEGMENTS

We conduct operations through our subsidiaries and manage our businesses through the following three reportable segments:

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

The following section describes the activities of our business segments as of December 31, 2004.

See Note 16 of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data" for financial information by business segment.

**Commercial**

Commercial manages our wholesale generation and energy marketing and trading activities. Commercial's wholesale generation consists of **CG&E's** electric generation in Ohio due to Ohio's transition to deregulation of electric generation and a competitive retail service market. See "Electric Industry" in "Item 7. MD&A" for further detail of key elements of Ohio deregulation. Commercial also performs energy risk management activities, provides

customized energy solutions and is responsible for all of our international operations. See the "Market Risk Sensitive Instruments" section of "Item 7. MD&A" for information on risks associated with these activities.

Detail of Commercial's operations can be found in the following sections:

- Generation — Fuel Supply and Emission Allowances — Describes Commercial's generation capacity, sources of fuel, and its various cost recovery mechanisms;
- Trading Operations and Risk Management — Describes Commercial's energy marketing and trading activities in the United States and Canada;
- Competition — Describes the key competitors to Commercial's various business operations;
- Energy Services — Describes Commercial's operations consulting services and its operation of a synthetic fuel production facility;
- International — Describes Commercial's operations outside of the United States; and
- Revenue Data and Customer Base — Describes the primary revenue generators for the various business operations of Commercial.

***Generation — Fuel Supply and Emission Allowances***

As of December 31, 2004, the total winter electric capacity (including our portion of the total capacity for the jointly-owned plants) c Commercial's domestic generating plants was 6,276 megawatts (MW). Approximately 67 percent of this generation portfolio is coal-fired. See "Item 2. Properties" for further discussion of the generating facilities.

Each year **CG&E** purchases over 10 million tons of coal to generate electricity, primarily from mines located in Indiana, West Virginia, Ohio, Kentucky, Pennsylvania, Illinois, and Colorado. The price of coal has increased dramatically in 2004 as compared to 2003. Contributing to the rise in the price of coal are (1) increases in demand for electricity, (2) environmental regulation, and (3) decreases in the number of suppliers of coal from prior years. To help mitigate the price fluctuation of coal, **Cinergy** has a general practice to procure a substantial portion of coal through fixed-price contracts of varying length. We hold fixed-price contracts that will source a substantial portion of our expected 2005 coal requirements. We evaluate the appropriate amount of contract coal and length of contracts based on market conditions, including pricing trends, volatility and supplier reliability. See "Contractual Cash Obligations" in "Item 7. MD&A" for further detail on **CG&E's** total commitment under fixed-price coal contracts.

Commercial has natural gas-fired peaking plants that have a capacity of 1,766 MW. The fuel for these units is primarily obtained through the natural gas spot market as it is difficult to forecast the natural gas requirements for these plants. For further information on the risk of purchasing natural gas, see the "Market Risk Sensitive Instruments" section of "Item 7. MD&A".

A joint operating agreement, effective in April 2002, allows **Cinergy** to jointly dispatch the regulated generating assets of **PSI** in conjunction with the deregulated generating assets of **CG&E.** Under this agreement, transfers of power between **PSI** and **CG&E** are generally priced at market rates.

Commercial monitors alternative sources of coal and natural gas to assure a continuing availability of economical fuel supplies. As such, it will maintain its practice of purchasing a portion of coal and natural gas requirements on the open market and will continue to investigate least-cost coal options to comply with new and existing environmental requirements. **Cinergy** and **CG&E** believe that they can continue to obtain enough coal and natural gas to meet future needs. However, future environmental requirements may significantly impact the availability and price of these fuels.

At times, Commercial purchases power to meet the energy needs of its customers. Factors that could cause Commercial to purchase power for its customers include generating plant outages, extreme weather conditions, summer reliability, growth, and price. We believe we can obtain enough purchased power to meet future needs. However, during periods of excessive demand, the price and availability of these purchases may be significantly impacted.

Commercial emits sulfur dioxide ($SO_2$) and nitrogen oxides ($NO_X$) in the generation of electricity and maintains emission allowances to offset their emissions in order to comply with $NO_X$ and $SO_2$ emission reduction requirements. In 2004, the market prices of $SO_2$ allowances rose more than 200 percent from 2003. **Cinergy** is continually evaluating market conditions and managing our overall cost structure through the addition of pollution control equipment, where economically feasible, and the use of emission allowance markets to help manage our emissions costs.

Under **CG&E's** new RSP, retail fuel and emission allowance costs will be recovered through a cost tracking mechanism that recovers costs that exceed the amount originally included in the rates frozen in **CG&E's** earlier transition plan. **CG&E** will recover retail fuel and emission allowance costs consumed in serving retail load and collect a Provider of Last Resort charge from non–residential customers from 2005 through 2008 and from residential customers from 2006 through 2008. See "Electric Industry" in "Item 7. MD&A" for further detail of **CG&E's** RSP.

***Trading Operations and Risk Management***

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. In April 2002, **CG&E** and **PSI** executed a new joint operating agreement whereby new power marketing and trading contracts since April 2002 are originated on behalf of **CG&E** only. Historically, such contracts were executed on behalf of **CG&E** and **PSI** jointly.

Our domestic operations market and trade over–the–counter (an informal market where the buying/selling of commodities occurs) contracts for the purchase and sale of electricity (primarily in the midwest region of the United States), natural gas, and other energy–related products, including coal and emission allowances. Our natural gas domestic operations provide services that manage storage, transportation, gathering, and processing activities. In addition, our domestic operations also market and trade natural gas and other energy–related products on the New York Mercantile Exchange.

Marketing & Trading's natural gas marketing and trading operations also extend to Canada where natural gas marketing and management services are provided to producers and industrial customers. Our Canadian operations also market and trade over–the–counter contracts.

See the "Market Risk Sensitive Instruments" section of "Item 7. MD&A" for information on risks associated with these activities.

***Competition***

Commercial competes for wholesale contracts for the purchase and sale of electricity and natural gas. Commercial's main competitors include public utilities, power and natural gas marketers and traders, and independent power producers.

***Energy Services***

Commercial, through Cinergy Solutions Holding Company, Inc., is an on–site energy solutions and utility services provider. We provide utility systems construction, operation and maintenance of utility facilities, energy efficiencies and conservation consulting services, as well as cogeneration. Cogeneration is the simultaneous production of two or more forms of useable energy from a single fuel source.

Commercial, through Cinergy Capital & Trading, Inc., owns a coal–based synthetic fuel production facility which converts coal feedstock into synthetic fuel for sale to a third party. As of December 31, 2004, **Cinergy** has produced and sold approximately 7.8 million tons of synthetic fuel at this facility. The synthetic fuel produced at this facility qualifies for tax credits (through 2007) in accordance with the Internal Revenue Code 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. For further information on the tax credit qualifications see Note 11(c)(*iv*) of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data".

***International***

As of December 31, 2004, we had ownership interests in (1) generation assets located in three countries capable of producing approximately 150 MW of electricity and 700 MW equivalents of steam; and (2) approximately 1,200 miles of gas and electric transmission and distribution systems through jointly-owned investments in two countries, through which we serve approximately 8,500 transmission and distribution customers. These assets serve retail and wholesale customers by providing utility services including generation of electricity and heat as well as the distribution of gas and electric commodities.

***Revenue Data and Customer Base***

Commercial primarily recognizes revenues from generation provided to customers in **CG&E's** service territory who have not switched to an alternative generation supplier under Ohio's electric deregulation market. Because rates are frozen during the market development period in Ohio, the majority of these revenues are under a fixed-price tariff. Under the Ohio customer choice program, **CG&E's** retail customers may choose their electric supplier. The percentage of customers switching to other electric suppliers and the related volume by customer class was as follows:

| | MW at December 31 | | MW Hours For the Years Ended December 31 | | Switching Percentage at December 31(1) | |
|---|---|---|---|---|---|---|
| Revenue Class | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Residential | **75** | 92 | **334,224** | 283,477 | **4.07%** | 5.17% |
| Commercial | **339** | 374 | **1,722,822** | 1,654,061 | **19.17%** | 21.55% |
| Industrial | **226** | 295 | **1,376,210** | 1,591,345 | **17.89%** | 23.60% |
| Other Public Authorities | **89** | 91 | **284,214** | 265,039 | **19.09%** | 19.95% |
| Total | **729** | 852 | **3,717,470** | 3,793,922 | | |

(1) The residential switching percentage is based on annual energy consumption and the non-residential switching percentages are based on average monthly peak demand.

Customer switching reduces retail revenues by the generation component of rates and shopping incentives. **CG&E** still collects transmission and distribution revenues from the delivery of electricity to switched customers (see Regulated section for further information). During the market development period, the reduction in revenues due to customer switching is mitigated by wholesale power sales from the freed-up generation capacity. For further discussion on Ohio deregulation and the recently approved RSP see "Electric Industry" in "Item 7. MD&A".

Commercial's operating revenue is also derived by providing electricity at wholesale and trading electricity primarily in the midwest region of the United States. In addition, Commercial provides and trades natural gas primarily to wholesale customers across the United States. The majority of these customers are public utilities, power and natural gas marketers and traders, and independent power producers.

Energy services operating revenues are derived primarily by providing steam, electricity, and operation and maintenance services to large industrial customers.

No single Commercial customer provides more than 10 percent of total operating revenues.

**Regulated**

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. Regulated operated approximately 48,000 circuit miles (the total length in miles of separate circuits) of electric lines to provide regulated transmission and distribution service to approximately 1.5 million customers as of December 31, 2004. Regulated operated approximately 9,226 miles of gas main (gas distribution lines that serve as a common source of supply for more than one service line) and service lines to provide domestic regulated transmission and distribution services to approximately 500,000 customers as of December 31, 2004. See "Item 2. Properties" for a further discussion of the transmission and distribution systems owned by our utility operating companies.

Detail of Regulated's operations can be found in the following sections:

- Generation – Fuel Supply and Emission Allowances — Describes Regulated's generation capacity, sources of fuel, and its various cost recovery mechanisms;
- Transmission and Distribution — Describes Regulated's agreements with the regional utilities and regional transmission organization (RTO) that coordinate the planning and operation of generation and transmission facilities and the associated cost recovery mechanisms;
- Gas Supply — Describes Regulated's responsibility to purchase and deliver natural gas to native load (the total requirements of a wholesale utility's franchised retail market) customers and the mechanisms used to fulfill their responsibility; and
- Revenue Data and Customer Base — Describes the primary revenue generators for the various business operations of Regulated.

***Generation – Fuel Supply and Emission Allowances***

As of December 31, 2004, the total winter electric capacity (including our portion of the total capacity for the jointly–owned plants) of Regulated's generating plants was 7,055 MW. Approximately 78 percent of this generation portfolio is coal–fired. See "Item 2. Properties" for a further discussion of the generating facilities.

Each year **PSI** purchases over 15 million tons of coal to generate electricity, primarily from mines located in Indiana, Pennsylvania, and Illinois. The price of coal has increased dramatically in 2004 as compared to 2003. The primary driving forces behind the increase in coal prices are (1) increases in demand for electricity, (2) environmental regulation, and (3) decreases in the number of suppliers of coal from prior years. To help mitigate the price fluctuation of coal, **Cinergy** has a general practice to procure a substantial portion of coal through fixed–price contracts of varying length. We hold fixed–price contracts that will source a substantial portion of our expected 2005 coal requirements. We evaluate the appropriate amount of contract coal and length of contracts based on market conditions, including pricing trends, volatility and supplier reliability. See "Contractual Cash Obligations" in "Item 7. MD&A" for further detail on **PSI's** total commitment under fixed–price coal contracts.

Regulated has natural gas–fired peaking plants that have a capacity of 1,263 MW. The fuel for these units is primarily obtained through the natural gas spot market as it is difficult to forecast the natural gas requirements for these plants. For further information on the risk of purchasing natural gas see the "Market Risk Sensitive Instruments" section of "Item 7. MD&A".

A joint operating agreement, effective in April 2002, allows **Cinergy** to jointly dispatch the regulated generating assets of **PSI** in conjunction with the deregulated generating assets of **CG&E.** Under this agreement, transfers of power between **PSI** and **CG&E** are generally priced at market rates.

At times, Regulated purchases power to meet the energy needs of its customers. Factors that could cause Regulated to purchase power for its customers include generating plant outages, extreme weather conditions, summer reliability, growth, and price. We believe we can obtain enough purchased power to meet future needs. However, during periods of excessive demand, the price and availability of these purchases may be significantly impacted.

**ULH&P** purchases energy from **CG&E** pursuant to a contract effective January 1, 2002, which was approved by the Federal Energy Regulatory Commission (FERC) and the Kentucky Public Service Commission (KPSC). This five–year agreement is a negotiated fixed–rate contract with **CG&E**.

The KPSC has conditionally approved a long–term electric supply plan for **ULH&P** that will replace the current contract with **CG&E** as previously discussed. Under this new plan, **CG&E** will transfer ownership of approximately 1,100 MW of electric generating capacity to **ULH&P**. The capacity is currently part of **CG&E's** generating assets used to service **ULH&P** under a multi–year wholesale power supply contract as previously discussed. **ULH&P** is currently seeking approval of the transaction from the SEC, wherein the Ohio Consumers Counsel has intervened in opposition, and the FERC. The transfer, which will be paid for 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 regulatory approvals, we would anticipate the transfer to take place in the second quarter of 2005.

**Cinergy** is studying the feasibility of constructing a commercial integrated coal gasification combined cycle (IGCC) generating station to help meet increased demand over the next decade. **PSI** would own all or part 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 carbon dioxide ($CO_2$) upstream of the combustion process at a lower cost than conventional plants. If a decision is reached to move forward with constructing such a plant, **PSI** would seek approval from the Indiana Utility Regulatory Commission (IURC) to begin construction. If approved, we would anticipate the IURC's subsequent approval to include the assets in **PSI's** rate base.

Regulated monitors alternative sources of coal and natural gas to assure a continuing availability of economical fuel supplies. As such, it will maintain its practice of purchasing a portion of coal and natural gas requirements on the open market and will continue to investigate least–cost coal options to comply with new and existing environmental requirements. **Cinergy** and **PSI** believe that they can continue to obtain enough coal and natural gas to meet future needs. However, future environmental requirements may significantly impact the availability and price of these fuels.

**PSI** recovers retail and a portion of its wholesale fuel costs from customers on a dollar–for–dollar basis through a cost tracking recovery mechanism (commonly referred to as a fuel adjustment clause). In addition to the fuel adjustment clause, **PSI** utilizes a purchased power tracking mechanism approved by the IURC for the recovery of costs related to certain specified purchases of power necessary to meet native load peak demand requirements to the extent such costs are not recovered through the existing fuel adjustment clause.

Regulated emits $SO_2$ and $NO_X$ in the generation of electricity and maintains emission allowances to offset their emissions in order to comply with $NO_X$ and $SO_2$ emission reduction requirements. In 2004, the market prices of $SO_2$ allowances rose more than 200 percent from 2003. **PSI** utilizes a cost tracking mechanism as approved by the IURC allowing it to recover substantially all of its emission allowance costs from its customers. **Cinergy** is continually evaluating market conditions and managing our overall cost structure through the addition of pollution control equipment, where economically feasible, and the use of emission allowance markets to help manage our emissions costs.

***Transmission and Distribution***

**Cinergy** (through our utility operating companies) and other non–affiliated utilities in a nine–state region are parties to the East Central Area Reliability Coordination (ECAR) Agreement. Through the ECAR Agreement, ECAR supports the planning and operation of generation and transmission facilities, which provides for reliability of regional bulk power supply.

**Cinergy** (through our utility operating companies) is also a member of the Midwest Independent Transmission System Operator, Inc. (Midwest ISO), a RTO established in 1998 as a non–profit organization which maintains functional control over the combined transmission systems of its members.

The Midwest ISO is the provider for transmission service requested on the transmission facilities under its tariff. It is responsible for the reliable operation of those transmission facilities and the regional planning of new

transmission facilities. The Midwest ISO also will administer energy markets utilizing Locational Marginal Pricing (i.e., the energy price for the next MW may vary throughout the Midwest ISO market based on transmission congestion and energy losses) as the methodology for relieving congestion on the transmission facilities under its functional control. ECAR will maintain the responsibility for establishing the level of operating reserves for those utilities participating in the ECAR Agreement and the operatic of the Automatic Reserve Sharing system upon the Midwest ISO's implementation of its Energy Markets Tariff. See "Electric Industry" in "Item 7. MD&A" for further detail regarding the Midwest ISO energy markets.

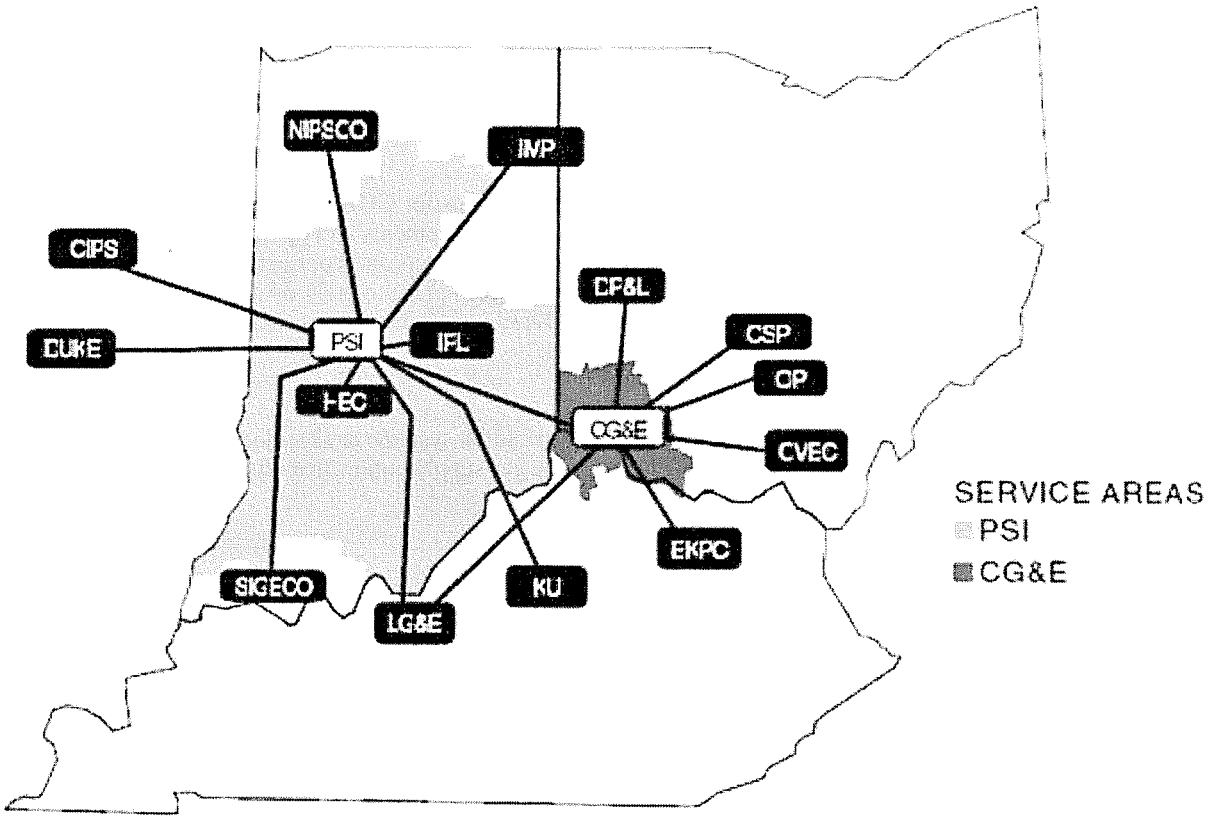
*Transmission and Distribution Cost Recovery*

Transmission cost recovery mechanisms will be established under **CG&E**'s new RSP to, among other things, permit **CG&E** to recover Midwest ISO charges. **CG&E** also plans to file a distribution rate case to recover certain distribution costs with rates to become effective January 1, 2006 and has deferred certain costs in 2004 and will defer costs in 2005 pursuant to its RSP. See "Electric Industry" in "Item 7. MD&A" for further detail of **CG&E's** RSP.

**PSI** has received IURC approval for the recovery of Midwest ISO costs and is currently seeking IURC approval that would further define the mechanisms for recovery of such costs.

*Transmission System Interconnections*

The following map illustrates the interconnections between our electric systems and other electric systems.




| | |
|---|---|
| CIPS | Central Illinois Public Service Company, a subsidiary of Ameren Corporation |
| CSP | Columbus Southern Power Company, a subsidiary of American Electric Power Company, Inc. (AEP) |
| DP&L | Dayton Power and Light Company, a subsidiary of DPL, Inc. |
| DUKE | Duke Energy North America, LLC, a subsidiary of Duke Energy Corporation |
| EKPC | East Kentucky Power Cooperative, Inc. |
| HEC | Hoosier Energy Rural Electric Cooperative, Inc. |
| IMP | Indiana Michigan Power Company, a subsidiary of AEP |
| IPL | Indianapolis Power & Light Company, a subsidiary of The AES Corporation |
| KU | Kentucky Utilities Company, a subsidiary of LG&E Energy Corp. |
| LG&E | Louisville Gas and Electric Company, a subsidiary of LG&E Energy Corp. |
| NIPSCO | Northern Indiana Public Service Company, a subsidiary of NiSource, Inc. |
| OP | Ohio Power Company, a subsidiary of AEP |
| OVEC | Ohio Valley Electric Corporation |
| SIGECO | Southern Indiana Gas and Electric Company, a subsidiary of Vectren Corporation |

*Gas Supply*

Regulated is responsible for the purchase and the subsequent delivery of natural gas to native load customers. Regulated's natural gas procurement strategy is to buy firm natural gas supplies (natural gas intended to be available at all times) and firm interstate pipeline transportation capacity during the winter season (November through March) and during the non–heating season (April through October) through a combination of firm supply and transportation capacity along with spot supply and interruptible transportation capacity. This strategy allows Regulated to assure reliable natural gas supply for its high priority (non–curtailable) firm customers during peak winter conditions and provides Regulated the flexibility to reduce its contract commitments if firm customers choose alternate gas suppliers under Regulated's customer choice/gas transportation programs. In 2004, firm supply purchase commitment agreements provided approximately 63 percent of the natural gas supply, with the remaining gas purchased on the spot market. These firm supply agreements feature two levels of gas supply, specifically (1) base load, which is a continuous supply to meet normal demand requirements, and (2) swing load, which is gas available on a daily basis to accommodate changes in demand due primarily to changing weather conditions.

Regulated manages natural gas procurement–price volatility mitigation programs for **CG&E** and **ULH&P**. These programs pre–arrange between 20–75 percent of winter heating season base load gas requirements and up to 50 percent of summer season base load requirements. **CG&E** and **ULH&P** use primarily fixed–price forward contracts and contracts with a ceiling and floor on the price. As of December 31, 2004, **CG&E** and **ULH&P**, combined, had hedged approximately 60 percent of their winter 2004/2005 base load requirements. See the "Gas Industry" section of "Item 7. MD&A" for further information.

Interstate pipelines either (1) transport gas purchased directly to the distribution systems or (2) inject gas purchased into pipeline storage facilities for future withdrawal and delivery. The majority of the gas supply comes from the Gulf of Mexico coastal areas of Texas and Louisiana.

***Revenue Data and Customer Base***

Regulated's generation revenue is derived from the fulfillment of its native load requirements. The percent of retail operating revenues derived from full service electricity and gas sales and transportation for each of the three years ended December 31 were as follows:

| Registrant | Operating Revenues | | | | | |
|---|---|---|---|---|---|---|
| | 2004 | | 2003 | | 2002 | |
| | Electric | Gas | Electric | Gas | Electric | Gas |
| **Cinergy** | **76 %** | **24 %** | 76 % | 24 % | 81 % | 19 % |
| **CG&E** and subsidiaries | **45** | **55** | 46 | 54 | 56 | 44 |
| **PSI** | **100** | **—** | 100 | — | 100 | — |
| **ULH&P** | **65** | **35** | 67 | 33 | 74 | 26 |

Electric and gas sales are seasonal. Electricity usage in our service territory peaks during the summer and gas usage peaks during the winter. Air conditioning increases electricity demand and heating increases electricity and gas demand.

The service territory of **CG&E** and its utility subsidiaries, including **ULH&P**, is heavily populated and is characterized by a stable residential customer base and a diverse mix of industrial customers. The territory served by **PSI** is composed of residential, agricultural, and widely diversified industrial customers. No single retail customer provides more than 10 percent of total operating revenues (electric or gas) for Regulated.

**Power Technology and Infrastructure**

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.

In March 2004, **Cinergy** announced that it would begin offering broadband over power line (BPL) services in the Cincinnati, Ohio area. BPL utilizes the low and medium voltage distribution lines of **Cinergy** to transmit high speed data and other digital information to and from the internet via home electrical outlets and can be used for monitoring utility infrastructure. These services are being offered through joint ventures created by Ventures and Current Communications Group LLC, marketing to **Cinergy** service territory and municipal and co–op utilities throughout the United States. Ventures has invested approximately $18 million to date.

## EMPLOYEES

We have collective bargaining agreements with the International Brotherhood of Electrical Workers (IBEW), the United Steelworkers of America (USWA), the Utility Workers Union of America (UWUA), and various international union organizations.

The following table indicates the number of employees by classification at January 31, 2005:

| Classification | CG&E(4) | PSI | ULH&P | Cinergy(5) |
|---|---|---|---|---|
| IBEW(1) | 1,018 | 1,218 | 60 | 2,546 |
| USWA(2) | 280 | — | 79 | 398 |
| UWUA(3) | 387 | — | 58 | 768 |
| Various Union Organizations | — | — | — | 355 |
| Non–Bargaining | 198 | 354 | 19 | 3,775 |
| | 1,883 | 1,572 | 216 | 7,842 |

(1) IBEW #1347 contract will expire on April 1, 2006, IBEW #1393 contract will expire on May 1, 2005, and IBEW #352 contract expired on February 5, 2005 and was replaced with a new contract set to expire on February 5, 2008.

(2) USWA #12049 and #5541–06 contracts will expire on May 15, 2007.

(3) Contract will expire on March 31, 2005.

(4) **CG&E** and subsidiaries excluding **ULH&P**.

(5) Includes 3,154 Services' employees who provide services to our operating utilities and other non–regulated companies.

## ENVIRONMENTAL MATTERS

**Cinergy** is currently affected by several different issues which involve compliance with federal and state regulations regarding the protection of the environment including, but not limited to, reductions in mercury, $NO_X$, and $SO_2$ emissions. **Cinergy** is able to recover certain costs of this environmental compliance equipment through various trackers set up with **Cinergy's** respective state regulatory agencies. See the "Environmental Issues" section in "Item 7. MD&A" for a discussion of these environmental issues and the estimated capital expenditures.

## FUTURE EXPECTATIONS/TRENDS

See the information appearing under the same caption in "Item 7. MD&A" for the following discussions:

- Regulatory Outlook and Significant Rate Developments;

- FERC and Midwest ISO;
- Gas Industry; and
- Other Matters.

## ITEM 2. PROPERTIES

### COMMERCIAL BUSINESS UNIT (COMMERCIAL)

**Electric**

***Domestic Power Generation***

Commercial's domestic power generating stations' total winter electric capacity, reflected in megawatts (MW), as of December 31, 2004, are shown in the table that follows. Commercial's electric generating plants are primarily located in Ohio and Kentucky and are wholly–owned or jointly–owned facilities.

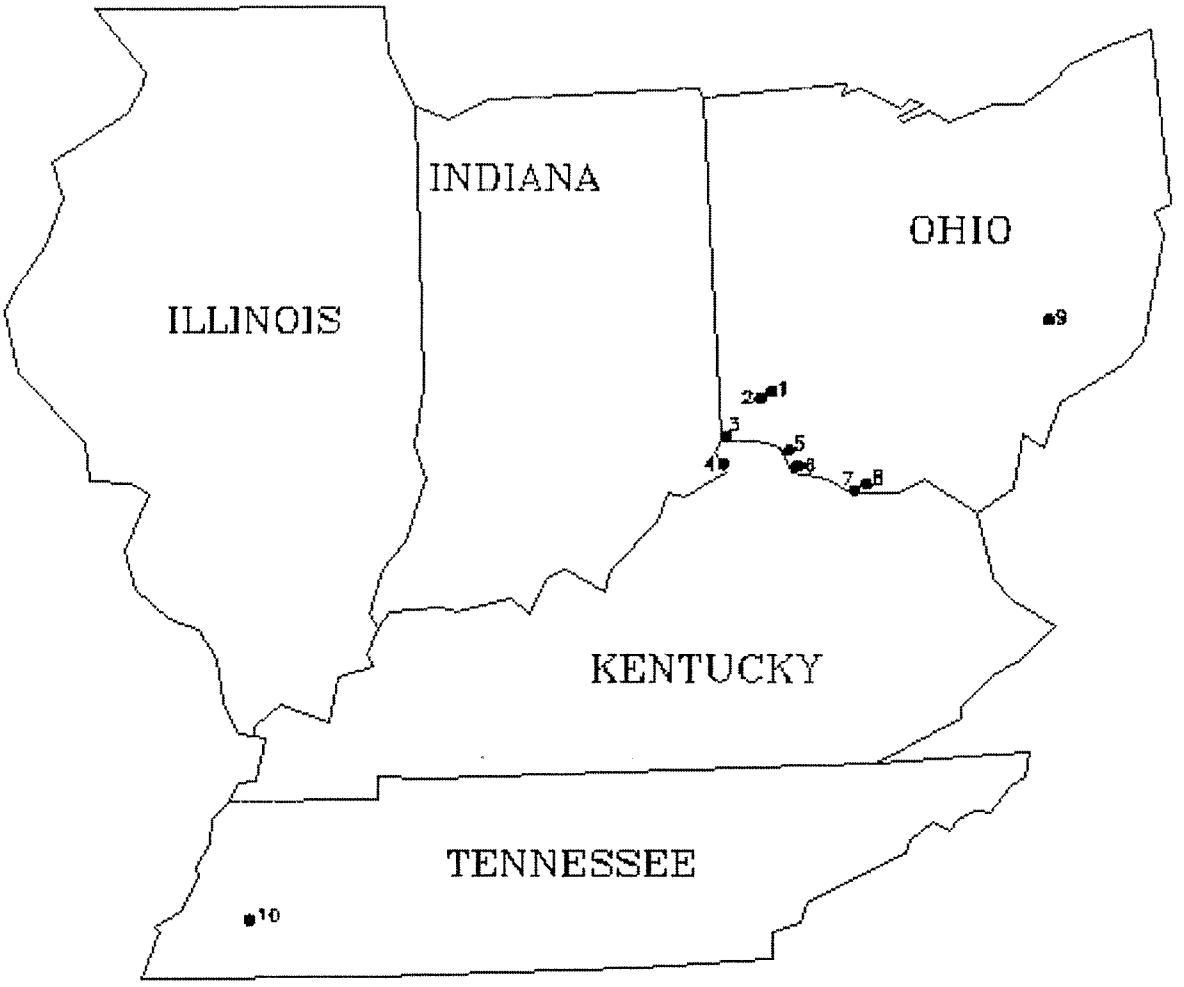
| Commercial(1) | Stations | Coal MW | Natural Gas MW | Oil MW | Total MW |
|---|---|---|---|---|---|
| The Cincinnati Gas & Electric Company (CG&E) | 9 | 4,186 | 736 | 324 | 5,246 |
| Cinergy Investments, Inc. (Investments)(2) | 2 | — | 1,030 | — | 1,030 |
| **Total** | 11 | 4,186 | 1,766 | 324 | 6,276 |

(1) This table includes only our portion of the total capacity for the jointly–owned plants.

(2) Represents natural gas peaking plants located in Tennessee and Mississippi, owned by Investments, that sell electricity on the wholesale market.

During 2004, Commercial's electric generating plants, including those that we own but do not operate, performed reliably, as evidenced by our annual capacity factor of 68 percent and a utilization factor of 83 percent (excluding natural gas and fuel oil peaking stations) and an equivalent availability factor of 84 percent. A capacity factor is a percentage that indicates how much of a power plant's capacity is used over time. A utilization factor is a percentage that indicates how much of a power plant's capacity is used while being available. An equivalent availability factor is a percentage that indicates how much of a unit is available to generate compared to its potential maximum generation.

Below is a geographical map showing the locations of Commercial's generation plants.




| Legend | | | |
|---|---|---|---|
| **Number** | **Generation Plant** | **Fuel Type** | **MW Capacity** |
| 1 | Dick's Creek | Gas | 172 |
| 2 | Woodsdale | Gas | 564 |
| 3 | Miami Fort | Coal/Oil | 962 |
| 4 | East Bend | Coal | 414 |
| 5 | Beckjord | Coal/Oil | 1,107 |
| 6 | Wm. Zimmer | Coal | 604 |
| 7 | J.M. Stuart | Coal | 913 |
| 8 | Killen | Coal | 198 |
| 9 | Conesville | Coal | 312 |
| 10 | Brownsville | Gas | 480 |
| | Caledonia(1) | Gas | 550 |
| | | Total | 6,276 |

(1) Commercial's generation plant not included in the map is located in Caledonia, Mississippi.

*Cogeneration*

As of December 31, 2004, **Cinergy** had ownership interests in and/or operated 27 domestic cogeneration facilities capable of producing 5,357 MW of electricity, 4,303 MW equivalents of steam and 236 MW equivalents of chilled water. Cogeneration is the simultaneous production of two or more forms of useable energy from a single fuel source. During 2005, **Cinergy** anticipates completion of an expansion at one of our existing cogeneration facilities, which is expected to provide an additional 70 MW equivalents of steam and 42 MW equivalents of chilled water.

*Synthetic Fuel*

Cinergy Capital & Trading, Inc. owns a coal-based synthetic fuel production facility, which converts coal into synthetic fuel for sale to a third party. See "Synthetic Fuel Production" in "Item 7. MD&A" for additional information regarding this business initiative.

**International**

As of December 31, 2004, we had ownership interests in (1) generation assets located in three countries capable of producing approximately 150 MW of electricity and 700 MW equivalents of steam; and (2) approximately 1,200 miles of gas and electric transmission and distribution systems through jointly-owned investments in two countries, through which we serve approximately 8,500 transmission and distribution customers. These assets serve retail and wholesale customers by providing utility services including generation of electricity and heat as well as the distribution of gas and electric commodities.

**REGULATED BUSINESS UNIT (REGULATED)**

**Electric**

*Domestic Power Generation*

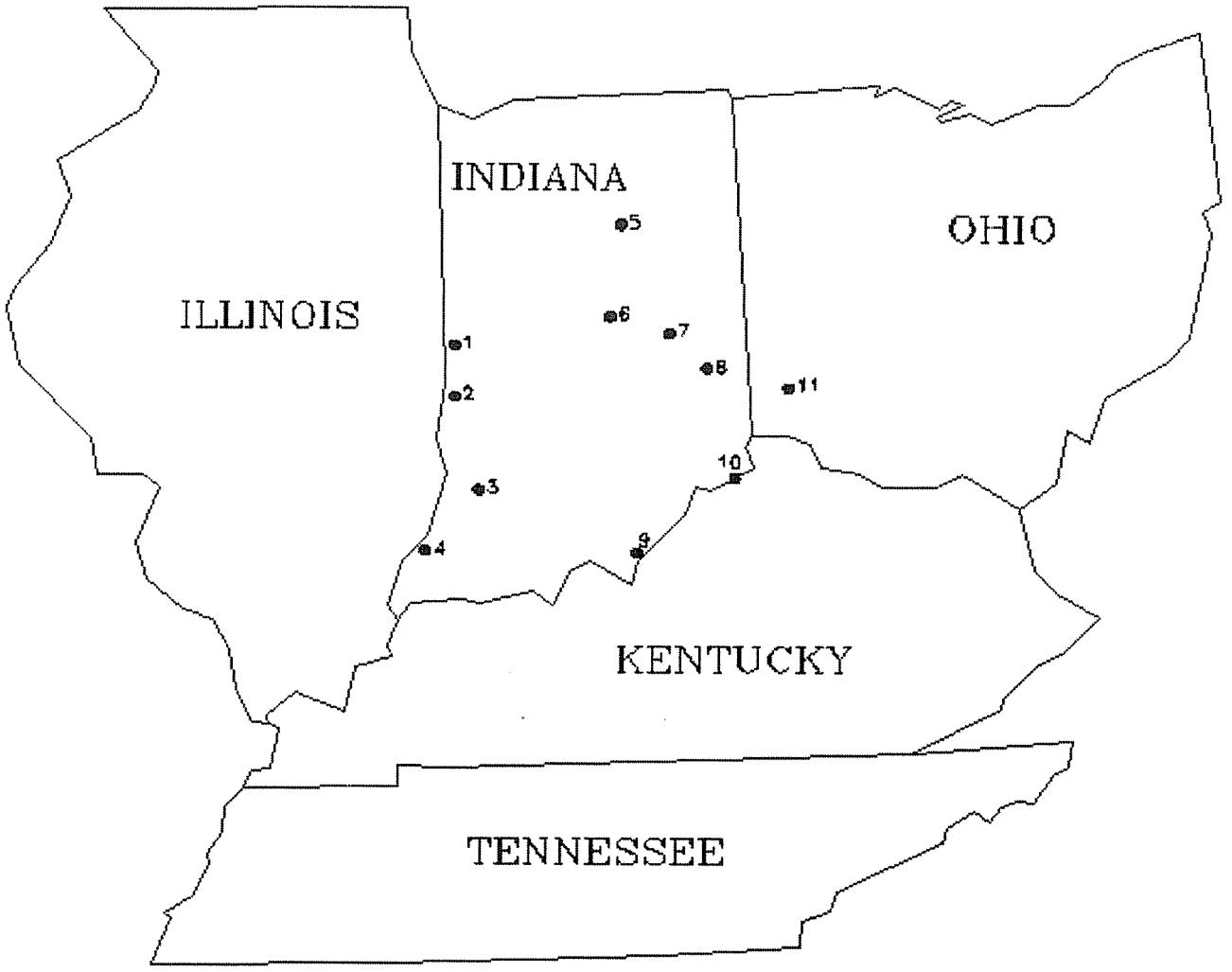
Regulated's domestic power generating stations' total winter electric capacity, reflected in MW, as of December 31, 2004, are shown in the table that follows. The electric generating plants are located in Indiana and Ohio and are wholly-owned or jointly-owned facilities.

| Regulated(1) | Stations | Coal MW | Natural Gas MW | Oil MW | Hydro MW | Total MW |
|---|---|---|---|---|---|---|
| **PSI** | 11 | 5,488 | 1,263 | 259 | 45 | 7,055 |

(1) This table includes only our portion of the total capacity for the jointly-owned plants.

During 2004, Regulated's electric generating plants, including those that we own but do not operate, performed reliably, as evidenced by our annual capacity factor of 74 percent and a utilization factor of 85 percent (excluding natural gas and fuel oil peaking stations) and an equivalent availability factor of 89 percent. A capacity factor is a percentage that indicates how much of a power plant's capacity is used over time. A utilization factor is a percentage that indicates how much of a power plant's capacity is used while being available. An equivalent availability factor is a percentage that indicates how much of a unit is available to generate compared to its potential maximum generation.

Below is a geographical map showing the locations of Regulated's generation plants.




**Legend**

| Number | Generation Plant | Fuel Type | MW Capacity |
|---|---|---|---|
| 1 | Cayuga | Coal/Gas/Oil | 1,135 |
| 2 | Wabash River | Coal/Oil | 966 |
| 3 | Edwardsport | Coal/Oil | 160 |
| 4 | Gibson | Coal | 2,844 |
| 5 | Miami Wabash | Oil | 104 |
| 6 | Noblesville | Gas | 310 |
| 7 | Henry County | Gas | 129 |
| 8 | Connersville | Oil | 98 |
| 9 | Gallagher | Coal | 560 |
| 10 | Markland | Hydro | 45 |
| 11 | Madison | Gas | 704 |
| | | Total | 7,055 |

*Transmission and Distribution*

Relevant information for our utility operating companies' electric transmission and distribution systems located in Ohio, Kentucky, and Indiana is as follows:

| Registrant | Electric Transmission Systems (circuit miles) | Electric Distribution Systems (circuit miles) | Substation Combined Capacity (kilovolt-amperes)(1) |
|---|---|---|---|
| **CG&E** and subsidiaries | | | |
| **CG&E** | 1,561 | 16,743 | 21,121,288 |
| The Union Light, Heat and Power Company **(ULH&P)** | 106 | 2,883 | 1,419,878 |
| Other subsidiaries | 40 | — | — |
| **Total CG&E** and subsidiaries | 1,707 | 19,626 | 22,541,166 |
| PSI Energy, Inc. **(PSI)** | 5,354 | 20,917 | 30,569,289 |
| **Total** | 7,061 | 40,543 | 53,110,455 |

(1) Kilovolt-amperes (1,000 volt-amperes) are a broad measure of our substation transformer capacity.

At the end of 2004, our utility operating companies' electric systems were interconnected with 14 other utilities. Our electric transmission and distribution systems are designed and constructed to further the goal of providing reliable service to our customers. Every effort is made to ensure that sufficient facilities are in service to meet this goal without installing facilities beyond what is required to operate reliably and within the designed parameters. Through our ongoing review of these systems, enhancements are developed and constructed to meet our planning, loading, and reliability guidelines. This process allows us to prudently invest in capacity additions only when and where they are required. The Midwest Independent Transmission System Operator, Inc. (Midwest ISO) holds functional control of Regulated's transmission systems.

## Gas

As of December 31, 2004, the natural gas transmission and distribution systems of **Cinergy** and **CG&E** and its subsidiaries had approximately 9,226 miles of mains and service lines located in southwestern Ohio and northern Kentucky. **Cinergy** and **CG&E** and its subsidiaries also jointly own three underground caverns with a total storage capacity of approximately 23 million gallons of liquid propane (of which 18.7 million gallons belongs to **CG&E**, including 7.5 million gallons belonging to **ULH&P**). As of December 31, 2004, **Cinergy** had 16.6 million gallons of liquid propane in storage (of which 14.4 million gallons belongs to **CG&E**, including 5.8 million gallons belonging to **ULH&P**). This liquid propane is used in the three propane/air peak shaving plants located in Ohio and Kentucky. Propane/air peak shaving plants store propane and, when needed, vaporize the propane and mix with natural gas to supplement the natural gas supply during peak demand periods and emergencies.

## PEAK LOAD

In July 2004, we experienced peak loads for the year of 10,911 MW, 4,998 MW, and 6,000 MW for **Cinergy**, **CG&E**, and **PSI**, respectively. **Cinergy** and **CG&E** set record peak loads of 11,305 MW and 5,311 MW in August 2002, respectively, while **PSI** set a record peak load of 6,088 MW in July 2002.

## ITEM 3. 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 (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 State Implementation Plans (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 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 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.

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 $CO_2$. 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 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), 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.

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, 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. At this time, we cannot predict whether the outcome of this matter will have a material impact on our financial position or result 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. 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 remanded the case to the trial court. **PSI** settled 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** is considering whether to appeal this decision. At the present time, **PSI** cannot predict the outcome of this litigation if it were to appeal the decision.

**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 CLAIM 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.

We currently, and from time to time, are involved in lawsuits, claims, and complaints incidental to the conduct of our business. In the opinion of management, no such proceeding is likely to have a material adverse effect on us.

See Note 11 of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data" for further information regarding our commitments and contingencies.

## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders of **Cinergy**, The Cincinnati Gas & Electric Company, or PSI Energy, Inc. during the fourth quarter of 2004.

## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

**Cinergy Corp.'s** common stock is listed on the New York Stock Exchange. The high and low stock prices for each quarter for the past two years are indicated below:

| | High | Low |
|---|---|---|
| **2004** | | |
| **First Quarter** | **$ 41.10** | **$ 37.17** |
| **Second Quarter** | **41.04** | **34.92** |
| **Third Quarter** | **40.75** | **36.95** |
| **Fourth Quarter** | **42.63** | **38.08** |
| 2003 | | |
| First Quarter | $ 35.87 | $ 29.77 |
| Second Quarter | 38.75 | 33.25 |
| Third Quarter | 36.99 | 33.14 |
| Fourth Quarter | 38.86 | 35.19 |

**Cinergy Corp.** holds all outstanding common stock of The Cincinnati Gas & Electric Company (**CG&E**) and PSI Energy, Inc. (**PSI**), and **CG&E** holds all of the common stock of The Union Light, Heat and Power Company (**ULH&P**). Therefore, no public trading market exists for the common stock of **CG&E**, **PSI**, and **ULH&P**.

As of January 31, 2005, **Cinergy Corp.** had 45,628 shareholders of record.

**Cinergy Corp.** declared dividends on its common stock of $.47 and $.46 per share for each quarter of 2004 and 2003, respectively. The quarterly dividends paid to **Cinergy Corp.** by **CG&E** and **PSI**, and to **CG&E** by **ULH&P** for the past two years were as follows:

| Registrant | Quarter | 2004 | 2003 |
|---|---|---|---|
| | | (in thousands) | |
| **CG&E** | First | **$ 54,926** | $ 47,082 |
| | Second | **55,612** | 63,100 |
| | Third | **57,971** | 56,473 |
| | Fourth | **67,249** | 61,208 |
| **PSI** | First | **$ 28,957** | $ 30,503 |
| | Second | **28,913** | 17,837 |
| | Third | **26,839** | 24,984 |
| | Fourth | **17,879** | 20,626 |
| **ULH&P** | First | **$ —** | $ — |
| | Second | **—** | 6,305 |
| | Third | **—** | — |
| | Fourth | **14,600** | — |

On January 14, 2005, the Board of Directors of **Cinergy Corp.** declared dividends on its common stock of $.48 per share, payable February 15, 2005, to shareholders of record at the close of business on February 1, 2005.

See "Dividend Restrictions" in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" for a brief description of the registrants' common stock dividend restrictions.

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 |
|---|---|---|---|---|
| October 1 — October 31 | 4,580 | $ 39.67 | N/A | N/A |
| November 1 — November 30 | 2,288 | $ 39.45 | N/A | N/A |
| December 1 — December 31 | — | $ — | N/A | N/A |

## ITEM 6. SELECTED FINANCIAL DATA

| | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| | | (in millions, except per share amounts) | | | |
| **Cinergy(1)** | | | | | |
| **Results of Operations:** | | | | | |
| Operating revenues | **$ 4,688** | $ 4,416 | $ 4,059 | $ 3,950 | $ 3,752 |
| Income before discontinued operations and cumulative effect of changes in accounting principles | **401** | 435 | 397 | 457 | 400 |
| Discontinued operations, net of tax(2) | **—** | 9 | (25) | (15) | (1) |
| Cumulative effect of changes in accounting principles, net of tax(3) | **—** | 26 | (11) | — | — |
| Net income | **401** | 470 | 361 | 442 | 399 |
| **Per Share Data:** | | | | | |
| Earnings per common share (EPS) – basic: | | | | | |
| Income before discontinued operations and cumulative effect of changes in accounting principles | **2.22** | 2.46 | 2.37 | 2.87 | 2.52 |
| Discontinued operations, net of tax(2) | **—** | 0.05 | (0.15) | (0.09) | (0.01) |
| Cumulative effect of changes in accounting principles, net of tax(3) | **—** | 0.15 | (0.06) | — | — |
| Net income | **2.22** | 2.66 | 2.16 | 2.78 | 2.51 |
| EPS – diluted: | | | | | |
| Income before discontinued operations and cumulative effect of changes in accounting principles | **2.18** | 2.43 | 2.34 | 2.84 | 2.51 |
| Discontinued operations, net of tax(2) | **—** | 0.05 | (0.15) | (0.09) | (0.01) |
| Cumulative effect of changes in accounting principles, net of tax(3) | **—** | 0.15 | (0.06) | — | — |
| Net income | **2.18** | 2.63 | 2.13 | 2.75 | 2.50 |
| Cash dividends declared per share | **1.88** | 1.84 | 1.80 | 1.80 | 1.80 |
| **Balance Sheet Data (at end of period):** | | | | | |
| Total assets from continuing operations | **14,982** | 14,114 | 13,685 | 12,558 | 12,604 |
| Total assets from discontinued operations | **—** | 5 | 147 | 234 | 197 |
| | **14,982** | 14,119 | 13,832 | 12,792 | 12,801 |
| Long–term debt (including amounts due within one year) | **4,448** | 4,971 | 4,188 | 3,656 | 2,868 |
| The Cincinnati Gas & Electric Company (**CG&E**) | | | | | |
| **Results of Operations:** | | | | | |
| Operating revenues | **$ 2,511** | $ 2,382 | $ 2,137 | $ 2,247 | $ 2,101 |
| Income before cumulative effect of changes in accounting principles | **257** | 300 | 264 | 327 | 267 |
| Cumulative effect of changes in accounting principles, net of tax(4) | **—** | 31 | — | — | — |
| Net income | **257** | 331 | 264 | 327 | 267 |
| **Balance Sheet Data (at end of period):** | | | | | |
| Total assets | **6,232** | 5,809 | 5,751 | 5,559 | 6,182 |
| Long–term debt (including amounts due within one year) | **1,594** | 1,569 | 1,690 | 1,205 | 1,206 |
| PSI Energy, Inc. (**PSI**) | | | | | |
| **Results of Operations:** | | | | | |
| Operating revenues | **$ 1,754** | $ 1,603 | $ 1,611 | $ 1,574 | $ 1,512 |
| Income before cumulative effect of a change in accounting principle | **165** | 134 | 214 | 162 | 135 |
| Cumulative effect of a change in accounting principle, net of tax(5) | **—** | (1) | — | — | — |
| Net income | **165** | 133 | 214 | 162 | 135 |
| **Balance Sheet Data (at end of period):** | | | | | |
| Total assets | **5,450** | 5,140 | 4,539 | 4,864 | 4,906 |
| Long–term debt (including amounts due within one year) | **1,874** | 1,720 | 1,372 | 1,348 | 1,113 |

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

(2) See Note 14 of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data" for further explanation.

(3) In 2003, **Cinergy** recognized a gain/(loss) on cumulative effect of changes in accounting principles of $39 million (net of tax) and $(13) million (net of tax) as a result of the reversal of accrued cost of removal for non-regulated generating assets and the change in accounting of certain energy related contracts from fair value to accrual. In 2002, **Cinergy** recognized a cumulative effect of a change in accounting principle of $(11) million (net of tax) as a result of an impairment charge for goodwill related to certain of our international assets.

(4) In 2003, **CG&E** recognized a gain/(loss) on cumulative effect of changes in accounting principles of $39 million (net of tax) and $(8) million (net of tax) as a result of the reversal of accrued cost of removal for non-regulated generating assets and the change in accounting of certain energy related contracts from fair value to accrual.

(5) In 2003, **PSI** recognized a loss on cumulative effect of a change in accounting principle of $(1) million (net of tax) as a result of a change in accounting of certain energy related contracts from fair value to accrual.

## ITEM 7. 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. 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.

### 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.

#### Financial Highlights

Net income for **Cinergy** for the years ended December 31, 2004, and 2003 was as follows:

| | Cinergy | | | |
|---|---|---|---|---|
| | 2004 | 2003 | Change | % Change |
| | (in millions) | | | |
| Net income | **$ 401** | $ 470 | $ (69) | (15)% |

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

- Higher operating costs due, in part, to increases in costs for employee labor and benefits, production maintenance, and the implementation of a continuous improvement initiative;
- Lower margins from the sale of electricity in the Commercial Business Unit (Commercial) primarily due to higher fuel and emission allowance costs;
- Impairment and disposal charges on certain investments primarily in the Power Technology and Infrastructure Services Business Unit (Power Technology and Infrastructure); and
- Net gains recognized in 2003 resulting from the implementation of certain accounting changes and the disposal of discontinued operations.

These decreases were partially offset by:

- A higher price received per megawatt hour (MWh) resulting from the Indiana Utility Regulatory Commission's (IURC) approval of **PSI's** base retail electric rate increase in May 2004;
- Growth in non–weather related demand for electricity;
- An increase in gross margins on power marketing, trading, and origination contracts; and
- A gain related to a Power Technology and Infrastructure investment.

For further information, see "2004 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 two separate rulemakings, the Environmental Protection Agency (EPA) has proposed significant reductions in sulfur dioxide ($SO_2$), nitrogen oxides ($NO_X$) and mercury emissions from power plants, neither of which have been finalized. Additionally, multi-emissions reductions legislation could be passed in 2005 that may take the place of these proposed rulemakings. 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.

### *Regulatory Challenges*

Ohio has enacted electric generation deregulation legislation. **CG&E's** residential customers are in a market development period through 2005, during which prices are fixed, while non-residential customers are under a recently approved rate stabilization plan (RSP) that runs through December 31, 2008. Residential customers will be under the RSP beginning in 2006, also ending in 2008. At this time, it is difficult to predict how the regulatory environment will look after the rate stabilization period ends. To date, deregulation in Ohio has not progressed as originally anticipated and the Ohio General Assembly may consider re-regulation laws as early as 2005. However, the possibility of deregulation or a hybrid of both deregulation and regulation still exists. These regulatory uncertainties are particularly challenging as we attempt to address short-term and long-term generation capacity needs as well as environmental requirements previously discussed. See "Regulatory Outlook and Significant Rate Developments" in "Future Expectations/Trends" for further discussion of these risks and uncertainties.

### *Midwest Independent Transmission System Operator, Inc. (Midwest ISO) Energy Markets*

The projected implementation date is April 1, 2005 for the Midwest ISO to begin 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 will introduce new scheduling requirements, new products for mitigating transmission congestion risks, and new pricing points for the purchase and sale of power. **Cinergy** is in the process of preparing for the implementation and the Midwest ISO is currently conducting market trials and testing of the Energy Markets. This is a significant undertaking by the Midwest ISO and its stakeholders and testing is not yet complete. 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 $SO_2$ allowances have increased dramatically in 2004, as compared to 2003. 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. Since rates have been frozen for non-residential customers through 2004 and residential customers through 2005, pursuant to Ohio deregulation, these increases in coal and emission allowance prices could not be recovered through rates. The impact of these price increases on earnings is discussed in more detail in "Results of Operations". See "*Generation Portfolio Risks*" in "Market Risk Sensitive Instruments" for information on how we plan to mitigate these risks going forward.

## 2004 RESULTS OF OPERATIONS – CINERGY

### Gross Margins

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 years ended December 31, 2004, and 2003 were as follows:

| | Cinergy | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Regulated | | | | Commercial | | | |
| | 2004 | 2003 | Change | % Change | 2004 | 2003 | Change | % Change |
| | (in millions) | | | | | | | |
| Electric gross margin(1) | **$ 1,656** | $ 1,469 | $ 187 | 13% | **$ 637** | $ 714 | $ (77) | (11)% |
| Gas gross margin(2) | **263** | 244 | 19 | 8 | **92** | 88 | 4 | 5 |
| Total gross margin | **$ 1,919** | $ 1,713 | $ 206 | 12 | **$ 729** | $ 802 | $ (73) | (9) |

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

(2) Gas gross margin is calculated as *Gas operating revenues* less *Gas purchased* expense from the 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 years ended December 31, 2004, and 2003 were as follows:

| | Cinergy | | | |
|---|---|---|---|---|
| | 2004 | 2003 | Change | % Change |
| Cooling degree days(1) | **882** | 831 | 51 | 6 % |
| Heating degree days(2) | **5,006** | 5,316 | (310 ) | (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 65 degrees, assuming the average temperature is less than 65 degrees.

The change in cooling degree days and heating degree days did not have a material effect on **Cinergy's** gross margins for the year ended December 31, 2004, as compared to 2003.

#### *Regulated Gross Margins*

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

- An approximate $80 million increase resulting from a higher price received per MWh due to **PSI's** base retail electric rate increase in May 2004; and

- An approximate $32 million increase due to growth in non-weather related demand.

The eight percent increase in Regulated's gas gross margins was primarily due to an approximate $16 million increase in tariff adjustments mainly associated with the gas main replacement program. Partially offsetting this increase was an approximate $7 million decrease reflecting a decline in non-weather related demand.

***Commercial***

*Gross Margins*

The 11 percent decrease in Commercial's electric gross margins was primarily due to the following factors:

- An approximate $51 million increase in **CG&E's** average price of fuel without a matching increase in the price of power charged to customers (the majority of which were under fixed price contracts); and
- An approximate $62 million increase in emission allowance costs, primarily due to increases in SO2 emission allowance market prices, without a matching increase in the price of power charged to customers. The number of SO2 emission allowances used also increased in 2004.

Partially offsetting these decreases were:

- An approximate $24 million increase in gross margins on power marketing, trading, and origination contracts attributable to higher margins on physical and financial trading, primarily related to regional spreads between the mideast and midwest markets; and
- An approximate $15 million increase due to growth in non–weather related demand.

Commercial's gas gross margins under generally accepted accounting principles (GAAP) and Commercial's adjusted gas gross margins were relatively flat in 2004, as compared to 2003, although volatility during 2004 was significant due to timing differences in revenue recognition between physical storage activities and the associated derivative contracts that hedge the physical storage. We evaluate the results of our gas marketing and trading business on an economic basis, which we term "adjusted gas gross margins".

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* (Statement 133), 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 table below).

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:

| | 2004 | 2003 | Change |
|---|---|---|---|
| | | (in millions) | |
| Gas margins, as reported (GAAP) | **$ 92** | $ 88 | $ 4 |
| Fair value adjustments not recognized under GAAP(1) | (7) | (5) | (2) |
| Adjusted gas gross margins | **$ 85** | $ 83 | $ 2 |

(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.

*Other Operating Revenues and Costs of Fuel Resold*

The 41 percent increase in *Other Operating Revenues* was primarily due to the following factors:

- An approximate $67 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
- An approximate $28 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 2004, which is consistent with the increases in the associated revenues as previously discussed.

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

**Other Operating Expenses**

| | Cinergy | | | |
|---|---|---|---|---|
| | 2004 | 2003 | Change | % Change |
| | (in millions) | | | |
| Operation and maintenance | **$ 1,282** | $ 1,119 | $ 163 | 15 % |
| Depreciation | **460** | 399 | 61 | 15 |
| Taxes other than income taxes | **254** | 250 | 4 | 2 |
| Total | **$ 1,996** | $ 1,768 | $ 228 | 13 |

***Operation and Maintenance***

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

- Costs primarily associated with employee labor and benefits increased approximately $50 million. Labor and benefit costs increased approximately six percent;
- Maintenance expenses, primarily production related, were higher by approximately $26 million;
- An approximate $20 million of costs incurred in 2004 related to a continuous improvement initiative;
- Higher transmission costs of approximately $15 million. This increase was due, in part, to refunds received in 2003, which offset a portion of the costs for that year; and
- An approximate $14 million increase in operation expenses for non-regulated service subsidiaries that started operations, or became fully consolidated, after the second quarter of 2003.

These increases were partially offset by:

- The recognition of approximately $14 million of costs associated with voluntary early retirement programs and employee severance programs in 2003; and

- An approximate $12 million for costs incurred in 2003 associated with the bankruptcy of Enron Corp.

***Depreciation***

The 15 percent increase in *Depreciation* expense was primarily due to the following factors:

- An approximate $36 million increase due to the addition of depreciable plant, primarily for pollution control equipment, and the accelerated gas main replacement program; and

- An approximate $27 million increase resulting from a) higher depreciation rates, as a result of changes in useful lives of production assets and an increased rate for cost of removal and b) recovery of deferred depreciation costs, both of which were approved in **PSI's** latest retail rate case.

These increases were partially offset by approximately $15 million due to longer estimated useful lives of **CG&E's** generation assets resulting from a depreciation study completed during the third quarter of 2003.

**Equity in Earnings of Unconsolidated Subsidiaries**

The increase in *Equity in Earnings of Unconsolidated Subsidiaries* was primarily due to a gain of approximately $21 million relating to the sale of most of the assets by a company in which Power Technology and Infrastructure holds an investment. See Note 15(b) of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data" for further information.

**Miscellaneous Income (Expense) - Net**

The decrease in *Miscellaneous Income (Expense) — Net* was primarily due to the recognition of approximately $56 million in impairment and disposal charges in 2004 primarily associated with certain investments in the Power Technology and Infrastructure portfolio. The values of these investments reflect our estimates and judgments about the future performance of these investments, for which actual results may differ. A substantial portion of these charges relate to a company, in which **Cinergy** holds a non-controlling interest that sold its major assets in 2004. This company is involved in the development and sale of outage management software.

This decrease was partially offset by interest income of approximately $9 million on the notes receivable of two subsidiaries consolidated in the third quarter of 2003.

**Interest Expense**

The two percent increase in *Interest Expense* was primarily due to the following factors:

- An approximate $12 million increase due to **Cinergy's** recognition of a note payable to a trust; and
- An approximate $9 million increase related to additional debt recorded in accordance with the consolidation of two new entities.

The note payable and additional debt were both recorded in July 2003 resulting from the adoption of Financial Accounting Standards Board Interpretation No. 46, *Consolidation of Variable Interest Entities* (Interpretation 46).

These increases were partially offset by:

- A decline in average long-term debt; and
- Charges recorded during 2003 associated with **CG&E's** refinancing of certain debt.

**Preferred Dividend Requirement of Subsidiary Trust**

The decrease in *Preferred Dividend Requirement of Subsidiary Trust* was a result of the implementation of Interpretation 46. Effective July 1, 2003, the preferred trust securities and the related dividends are no longer reported in **Cinergy's** financial statements. However, interest expense is still being incurred on a note payable to this trust as previously discussed. See Note 1(q)(*i*) of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data" for further details.

**Income Taxes**

**Cinergy's** 2004 effective tax rate was approximately 21 percent, a decrease of four percent from 2003, resulting from a greater amount of tax credits associated with the production and sale of synthetic fuel and the successful resolution of certain tax matters.

**Discontinued Operations**

During 2003, **Cinergy** completed the disposal of its gas distribution operation in South Africa, sold its remaining wind assets in the United States, and substantially sold or liquidated the assets of its energy trading operation in the Czech Republic. Pursuant to Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long–lived Assets* (Statement 144), these investments have been classified as discontinued operations in our financial statements. See Note 14 of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data" for additional information.

**Cumulative Effect of Changes in Accounting Principles**

In 2003, **Cinergy** recognized a *Cumulative effect of changes in accounting principles, net of tax* gain of approximately $26 million. 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* (Statement 143) and the rescission of Emerging Issues Task Force (EITF) Issue 98–10, *Accounting for Contracts Involved in Energy Trading and Risk Management Activities* (EITF 98–10). See Note 1(q)(*iv*) of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data" for further information.

## 2004 RESULTS OF OPERATIONS – CG&E

### Summary of Results

Net income for **CG&E** for the years ended December 31, 2004, and 2003 were as follows:

| | CG&E and subsidiaries | | | |
|---|---|---|---|---|
| | 2004 | 2003 | Change | % Change |
| | (in millions) | | | |
| Net income | **$ 257** | $ 331 | $ (74) | (22)% |

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

- Higher operating costs due, in part, to increases in costs for employee labor and benefits;
- Lower margins from the sale of electricity primarily due to higher fuel and emission allowance costs; and
- A net gain recognized in 2003 resulting from the implementation of certain accounting changes.

These decreases were partially offset by:

- Growth in non–weather related demand for electricity; and
- An increase in gross margins on power marketing, trading, and origination contracts.

### Gross Margins

Gross margins for **CG&E** for the years ended December 31, 2004, and 2003 were as follows:

| | CG&E and subsidiaries | | | |
|---|---|---|---|---|
| | 2004 | 2003 | Change | % Change |
| | (in millions) | | | |
| Electric gross margin(1) | **$ 1,168** | $ 1,195 | $ (27) | (2)% |
| Gas gross margin(2) | **263** | 245 | 18 | 7 |

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

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

Cooling degree days and heating degree days in **CG&E's** service territory for the years ended December 31, 2004, and 2003 were as follows:

| | CG&E and subsidiaries | | | |
|---|---|---|---|---|
| | 2004 | 2003 | Change | % Change |
| Cooling degree days(1) | **876** | 812 | 64 | 8 % |
| Heating degree days(2) | **4,881** | 5,119 | (238 ) | (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 65 degrees, assuming the average temperature is less than 65 degrees.

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 two percent decrease in **CG&E's** electric gross margins was primarily due to the following factors:

- An approximate $51 million increase in the average price of fuel without a matching increase in the price of power charged to customers (the majority of which were under fixed price contracts); and
- An approximate $32 million increase in emission allowance costs, primarily due to an increase in SO2 emission allowance market prices, without a matching increase in the price of power charged to customers.

These decreases were partially offset by:

- An approximate $31 million increase in margins from retail customers due to growth in non–weather related demand; and
- An approximate $29 million increase in gross margins on power marketing, trading, and origination contracts attributable to higher margins on physical and financial trading, primarily related to regional spreads between the mideast and midwest markets.

*Gas Gross Margins*

The seven percent increase in **CG&E's** gas gross margins was primarily due to an approximate $16 million increase in tariff adjustments mainly associated with the gas main replacement program. Partially offsetting this increase was an approximate $7 million decrease reflecting a decline in non–weather related demand.

**Other Operating Revenues and Costs of Fuel Resold**

The increase in *Other Operating Revenues* was due to an approximate $67 million increase in revenues from coal origination resulting from increases in coal prices and the number of coal origination contracts.

*Costs of fuel resold* represents the costs of coal origination activities. These costs have increased in 2004, which is consistent with the increase in the associated revenues as previously discussed.

The following explanations correspond with the line items on the 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 | | | |
|---|---|---|---|---|
| | 2004 | 2003 | Change | % Change |
| | (in millions) | | | |
| Operation and maintenance | $ **594** | $ 500 | $ 94 | 19 % |
| Depreciation | **179** | 187 | (8) | (4) |
| Taxes other than income taxes | **198** | 200 | (2) | (1) |
| Total | $ **971** | $ 887 | $ 84 | 9 |

***Operation and Maintenance***

The 19 percent increase in *Operation and maintenance* expense was primarily due to the following factors:

- Costs primarily associated with employee labor and benefits increased approximately $28 million;
- Maintenance expenses, primarily production and distribution related, were higher by approximately $21 million;
- An approximate $9 million of costs incurred in 2004 related to a continuous improvement initiative; and

- Higher transmission costs of approximately $9 million. This increase was due, in part, to refunds received in 2003, which offset a portion of the costs for that year.

Partially offsetting these increases was the recognition of approximately $4 million of costs associated with voluntary early retirement programs and employee severance programs in 2003.

*Depreciation*

The four percent decrease in *Depreciation* expense was primarily due to longer estimated useful lives of **CG&E's** generation assets resulting from a depreciation study completed during the third quarter of 2003, which resulted in a decrease of approximately $15 million. This decrease was partially offset by an approximate $8 million increase due to the addition of depreciable plant primarily for pollution control equipment and the accelerated gas main replacement program.

**Miscellaneous Income - Net**

The 47 percent decrease in *Miscellaneous Income — Net* was primarily due to the following factors:

- A final reconciliation recorded in 2003 between **CG&E** and **PSI** due to a previous demutualization of a medical insurance carrier used by both companies; and
- A decline in the allowance for equity funds used during construction resulting from certain assets being placed into service and a decrease in the equity rate applied.

**Interest Expense**

The 21 percent decrease in *Interest Expense* was primarily due to the following factors:

- A decline in average long–term debt; and
- Charges recorded during 2003 associated with the refinancing of certain debt.

**Cumulative Effect of Changes in Accounting Principles**

In 2003, **CG&E** recognized a *Cumulative effect of changes in accounting principles, net of tax* gain of approximately $31 million as a result of the adoption of Statement 143 and the rescission of EITF 98–10. See Note 1(q)(*iv*) of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data" for further information.

## 2004 RESULTS OF OPERATIONS – PSI

### Summary of Results

Net income for **PSI** for the years ended December 31, 2004, and 2003 were as follows:

| | PSI | | | |
|---|---|---|---|---|
| | 2004 | 2003 | Change | % Change |
| | (in millions) | | | |
| Net income | **$ 165** | $ 133 | $ 32 | 24 % |

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

- The impact of the **PSI** base retail electric rate increase in May 2004; and
- Growth in non–weather related demand.

These increases were partially offset by higher operating costs due, in part, to increases in costs for employee labor and benefits.

### Electric Gross Margins

Gross margins for **PSI** for the years ended December 31, 2004, and 2003 were as follows:

| | PSI | | | |
|---|---|---|---|---|
| | 2004 | 2003 | Change | % Change |
| | (in millions) | | | |
| Electric gross margin(1) | **$ 1,103** | $ 973 | $ 130 | 13% |

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

Cooling degree days and heating degree days in **PSI's** service territory for the years ended December 31, 2004, and 2003 were as follows:

| | PSI | | | |
|---|---|---|---|---|
| | 2004 | 2003 | Change | % Change |
| Cooling degree days(1) | **887** | 850 | 37 | 4 % |
| Heating degree days(2) | **5,128** | 5,512 | (384) | (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 65 degrees, assuming the average temperature is less than 65 degrees.

The change in degree days did not have a material effect on electric gross margins for the period. The 13 percent increase in **PSI's** electric gross margins was primarily due to the following factors:

- An approximate $80 million increase resulting from a higher price received per MWh due to **PSI's** base retail electric rate increase in May 2004; and
- An approximate $16 million increase due to growth in non–weather related demand.

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

**Other Operating Expenses**

| | PSI | | | |
|---|---|---|---|---|
| | 2004 | 2003 | Change | % Change |
| | (in millions) | | | |
| Operation and maintenance | **$ 475** | $ 449 | $ 26 | 6% |
| Depreciation | **222** | 164 | 58 | 35 |
| Taxes other than income taxes | **47** | 46 | 1 | 2 |
| Total | **$ 744** | $ 659 | $ 85 | 13 |

***Operation and Maintenance***

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

- Costs primarily associated with employee labor and benefits increased approximately $14 million;
- An approximate $8 million of costs incurred in 2004 related to a continuous improvement initiative;
- An increase in production related maintenance expense of approximately $7 million; and
- Higher transmission costs of approximately $6 million. This increase was due, in part, to refunds received in 2003, which offset a portion of the costs for that year.

Partially offsetting these increases was the recognition of approximately $4 million of costs associated with voluntary early retirement programs and employee severance programs in 2003.

***Depreciation***

The 35 percent increase in *Depreciation* expense was primarily due to the following factors:

- An approximate $27 million increase due to the addition of depreciable plant primarily for pollution control equipment; and
- An approximate $27 million increase resulting from a) higher depreciation rates, as a result of changes in useful lives of production assets and an increased rate for cost of removal and b) recovery of deferred depreciation costs, both of which were approved in **PSI's** latest retail rate case.

**Interest Expense**

The seven percent increase in *Interest Expense* was primarily due to an increase in the effective interest rate on short–term debt and an increase in the average amount of short–term debt outstanding.

## 2004 RESULTS OF OPERATIONS – ULH&P

The Results of Operations discussion for **ULH&P** is presented only for the year ended December 31, 2004, in accordance with General Instruction I(2)(a).

Electric and gas gross margins and net income for **ULH&P** for the years ended December 31, 2004 and 2003, were as follows:

| | ULH&P | | | |
|---|---|---|---|---|
| | 2004 | 2003 | Change | % Change |
| | (in millions) | | | |
| Electric gross margin(1) | **$ 68** | $ 68 | $ — | — % |
| Gas gross margin(2) | **45** | 40 | 5 | 13 |
| Net income | **19** | 19 | — | — |

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

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

Electric gross margins for **ULH&P** remained flat as growth in non–weather related demand was offset by the cost of increased electricity purchases to meet that demand. The 13 percent increase in gas gross margins was due, in part, to an approximate $3 million increase in rate tariff adjustments associated with the gas main replacement program and the demand–side management program, which encourages efficient customer gas usage.

Net income remained flat as an approximate $2 million increase in operating costs, primarily related to increased transmission and distribution expenses, was partially offset by an approximate $1 million reduction in property taxes during 2004.

## 2003 RESULTS OF OPERATIONS – CINERGY

### Summary of Results

Net income for **Cinergy** for the years ended December 31, 2003, and 2002 was as follows:

| | Cinergy | | | |
|---|---|---|---|---|
| | 2003 | 2002 | Change | % Change |
| | (in millions) | | | |
| Net income | $ 470 | $ 361 | $ 109 | 30 % |

**Cinergy's** increase in net income was primarily due to the following factors:

- Increases in gas gross margins as a result of an increase in base rates for Ohio customers, colder weather and increased volatility in gas prices in the first quarter of 2003, as compared to 2002, and an increase in natural gas sold from storage;
- Lower operating costs primarily resulting from the recognition of higher costs in 2002 associated with employee severance programs;
- Lower property taxes, primarily resulting from the change in property value assessment in the state of Indiana in 2003;
- The 2002 write–off of certain investments;
- A net gain recognized in 2003 resulting from the implementation of certain accounting changes;
- Gains realized in 2003 and losses incurred in 2002 from the disposal of discontinued operations; and
- Lower income taxes resulting primarily from tax credits associated with the production of synthetic fuel, which began in July 2002.

These increases were partially offset by:

- A decrease in electric gross margins primarily due to milder weather in 2003; and
- A decline in electric gross margins associated with **Cinergy's** natural gas peaking assets.

### Gross Margins

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 years ended December 31, 2003, and 2002 were as follows:

| | Cinergy | |
|---|---|---|
| | Regulated | Commercial |

| | 2003 | 2002 | Change | % Change | 2003 | 2002 | Change | % Change |
|---|---|---|---|---|---|---|---|---|
| | (in millions) | | | | | | | |
| Electric gross margin(1) | $ 1,469 | $ 1,571 | $ (102) | (6)% | $ 714 | $ 735 | $ (21) | (3)% |
| Gas gross margin(2) | 244 | 203 | 41 | 20 | 88 | 77 | 11 | 14 |
| Total gross margin | $ 1,713 | $ 1,774 | $ (61) | (3) | $ 802 | $ 812 | $ (10) | 1 |

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

(2) Gas gross margin is calculated as *Gas operating revenues* less *Gas purchased* expense from the 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 years ended December 31, 2003, and 2002 were as follows:

| | Cinergy | | | |
|---|---|---|---|---|
| | 2003 | 2002 | Change | % Change |
| Cooling degree days(1) | 831 | 1,357 | (526 ) | (39 )% |
| Heating degree days(2) | 5,316 | 5,093 | 223 | 4 |

(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 65 degrees, assuming the average temperature is less than 65 degrees.

***Regulated Gross Margins***

The six percent decrease in Regulated's electric gross margins was primarily due to a decline in retail electric margins mainly resulting from milder weather in 2003, compared to 2002. As noted in the table, cooling degree days were down 39 percent in **Cinergy's** service territory. Partially offsetting this decrease was an increase in rate tariff adjustments associated with certain construction programs at **PSI**.

The 20 percent increase in Regulated's gas gross margins was primarily due to the following factors:

- An increase in base rates, as approved by the Public Utilities Commission of Ohio (PUCO) in May 2002, and tariff adjustments associated with the gas main replacement program and Ohio excise taxes; and
- The colder weather in the first quarter of 2003, compared to 2002, which resulted in a greater amount of thousand cubic feet (mcf) delivered to customers.

***Commercial***

*Gross Margins*

The three percent decrease in Commercial's electric gross margins was primarily due to a decline in margins associated with Commercial's natural gas peaking assets in 2003, as compared to 2002. Partially offsetting this decrease were higher margins from physical and financial trading primarily in and around the midwest.

The 14 percent increase in Commercial's gas gross margins was primarily due to the following factors:

- An increase in the volatility of natural gas prices in the first quarter of 2003, as compared to the same period in 2002; and
- An increase in natural gas sold out of storage in 2003. Cinergy Marketing & Trading, LP (Marketing & Trading) began engaging in significant storage activities at the end of the second quarter of 2002.

*Other Operating Revenues and Costs of Fuel Resold*

The 22 percent increase in *Other Operating Revenues* was primarily due to an increase in Commercial's revenues from the sale of synthetic fuel, which began in July 2002. This increase was partially offset by a decline in Commercial's revenues from coal origination.

*Costs of fuel resold* includes Commercial's costs of coal origination activities and the production of synthetic fuel. In 2003, the costs of producing synthetic fuel increased and the costs of coal origination activities decreased, both of which are consistent with the changes in the associated revenues as previously discussed.

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

**Other Operating Expenses**

| | Cinergy | | | |
|---|---|---|---|---|
| | 2003 | 2002 | Change | % Change |
| | (in millions) | | | |
| Operation and maintenance | $ 1,119 | $ 1,202 | $ (83) | (7)% |
| Depreciation | 399 | 404 | (5) | (1) |
| Taxes other than income taxes | 250 | 263 | (13) | (5) |
| Total | $ 1,768 | $ 1,869 | $ (101) | (5) |

***Operation and Maintenance***

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

- The recognition of higher costs associated with employee severance programs in 2002;
- Decreased transmission costs, largely the result of changes in the Midwest ISO operations; and
- A decrease in employee incentive costs.

These decreases were partially offset by:

- The charges associated with our resolution of claims with respect to the bankruptcy of Enron Corp.; and
- An increase in maintenance expense for our generating units and overhead lines.

***Depreciation***

The one percent decrease in *Depreciation* expense was primarily due to the following factors:

- An increase in estimated useful lives of **CG&E's** generation assets resulting from a depreciation study completed during the third quarter of 2003; and
- **CG&E's** discontinuance of accruing costs of removal for generating assets (which was previously included as part of *Depreciation* expense) as a result of the adoption of Statement 143. See Note 1(j) of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data" for further details. Prior periods were not restated for the adoption of Statement 143.

Partially offsetting these decreases was the addition of depreciable plant primarily including pollution control equipment, accelerated gas main replacement program assets, and equipment associated with the production of synthetic fuel.

***Taxes Other Than Income Taxes***

The five percent decrease in *Taxes other than income taxes* expense was primarily due to lower property taxes, which were partially offset by increased excise taxes. This decrease was primarily a result of a change in property value assessments in the state of Indiana in 2003.

**Miscellaneous Income (Expense) – Net**

The increase in *Miscellaneous Income (Expense) – Net* was primarily due to the following factors:

- 2002 write–offs of certain equipment and technology investments and costs accrued related to the termination of a contract for the construction of combustion turbines; and
- Interest income on the notes receivable of two newly consolidated subsidiaries in 2003. See Note 1(q)(*i*) of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data" for further details.

Partially offsetting these increases were net gains realized in 2002 from the sale of equity investments in certain renewable energy projects.

**Interest Expense**

The 11 percent increase in *Interest Expense* was primarily due to the following factors:

- An increase in average long–term debt outstanding during the year ended December 31, 2003;
- Charges during 2003 associated with the re–financing of certain debt; and
- Additional debt recorded in July 2003 with the consolidation of two new entities and the recognition of a note payable to a trust resulting from the adoption of Interpretation 46. See Note 1(q)(*i*) of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data".

These increases were partially offset by a decrease in short–term interest rates.

**Preferred Dividend Requirement of Subsidiary Trust**

The 50 percent decrease in *Preferred Dividend Requirement of Subsidiary Trust* was a result of the implementation of Interpretation 46. Effective July 1, 2003, the preferred trust securities and the related dividends are no longer reported in **Cinergy's** financial statements. However, interest expense is still being incurred on a note payable to this trust as previously discussed. See Note 1(q)(*i*) of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data" for further details.

**Income Taxes**

The decrease in the effective income tax rate was primarily due to tax credits associated with the production and sale of synthetic fuel, which began in July 2002. **Cinergy's** effective tax rate for 2003 was approximately 25 percent.

**Discontinued Operations**

In 2002, **Cinergy** sold and/or classified as held for sale, several non–core investments, including renewable and international investments. During 2003, **Cinergy** completed the disposal of its gas distribution operation in South Africa, sold its remaining wind assets in the United States, and substantially sold or liquidated the assets of its energy trading operation in the Czech Republic. Pursuant to Statement 144, these investments have been classified as discontinued operations in our financial statements. See Note 14 of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data" for additional information.

The increase in discontinued operations in 2003 as compared to 2002 was due to the recognition of losses on disposal of foreign investments in 2002 and the recognition of gains on disposal in 2003.

**Cumulative Effect of Changes in Accounting Principles**

In 2003, **Cinergy** recognized a *Cumulative effect of changes in accounting principles, net of tax* gain of approximately $26 million. The cumulative effect of changes in accounting principles was a result of the adoption of Statement 143 and the rescission of EITF 98-10.

In 2002, **Cinergy** recognized a *Cumulative effect of a change in accounting principle, net of tax* loss of approximately $11 million as a result of implementation of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*. See Note 1(q)(*iv*) of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data" for further information.

## 2003 RESULTS OF OPERATIONS – CG&E

### Summary of Results

Net income for **CG&E** for the years ended December 31, 2003, and 2002 were as follows:

| | CG&E and subsidiaries | | | |
|---|---|---|---|---|
| | 2003 | 2002 | Change | % Change |
| | (in millions) | | | |
| Net income | $ 331 | $ 264 | $ 67 | 25 % |

**CG&E's** increase in net income was primarily due to the following factors:

- Increases in gas gross margins due to an increase in base rates, as approved by the PUCO in May 2002, and colder weather in the first quarter of 2003 as compared to 2002;
- Lower operating costs primarily resulting from the recognition of higher costs in 2002 associated with employee severance programs; and
- A net gain recognized in 2003 resulting from the implementation of certain accounting changes.

Offsetting these increases was a decrease in electric gross margins primarily due to milder weather in 2003, as compared to 2002.

### Gross Margins

Gross margins for **CG&E** for the years ended December 31, 2003, and 2002 were as follows:

| | CG&E and subsidiaries | | | |
|---|---|---|---|---|
| | 2003 | 2002 | Change | % Change |
| | (in millions) | | | |
| Electric gross margin(1) | $ 1,195 | $ 1,205 | $ (10) | (1)% |
| Gas gross margin(2) | 245 | 205 | 40 | 20 |

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

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

Cooling degree days and heating degree days in **CG&E's** service territory for the years ended December 31, 2003, and 2002 were as follows:

| | CG&E and subsidiaries | | | |
|---|---|---|---|---|
| | 2003 | 2002 | Change | % Change |
| Cooling degree days(1) | 812 | 1,353 | (541 ) | (40 )% |
| Heating degree days(2) | 5,119 | 4,926 | 193 | 4 |

(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 65 degrees, assuming the average temperature is less than 65 degrees.

*Electric Gross Margins*

The one percent decrease in **CG&E's** electric gross margins was primarily due to a decline in retail electric margins mainly resulting from milder weather in 2003 as compared to 2002. As noted in the table, cooling degree days were down 40 percent in **CG&E's** service territory. Higher margins from physical and financial trading partially offset this decrease.

*Gas Gross Margins*

The 20 percent increase in **CG&E's** gas gross margins was primarily due to the following factors:

- An increase in base rates, as approved by the PUCO in May 2002, and tariff adjustments associated with the gas main replacement program and Ohio excise taxes; and
- The colder weather in the first quarter of 2003, compared to 2002, which resulted in a greater amount of mcf delivered to customers.

**Other Operating Revenues and Costs of Fuel Resold**

The 23 percent decrease in *Other Operating Revenues* was due to a decrease in revenues from coal origination.

*Costs of fuel resold* represents the costs of coal origination activities. These costs decreased in 2003, which is consistent with the decline in the associated revenues as previously discussed.

The following explanations correspond with the line items on the 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 | | | |
|---|---|---|---|---|
| | **2003** | **2002** | **Change** | **% Change** |
| | **(in millions)** | | | |
| Operation and maintenance | $ 500 | $ 531 | $ (31) | (6)% |
| Depreciation | 187 | 197 | (10) | (5) |
| Taxes other than income taxes | 200 | 198 | 2 | 1 |
| Total | $ 887 | $ 926 | $ (39) | (4) |

*Operation and Maintenance*

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

- Decreased transmission costs largely the result of changes in the Midwest ISO operations;
- The recognition of higher costs associated with employee severance programs in 2002; and
- A decrease in employee incentive costs.

These decreases were partially offset by an increase in maintenance expense for our generating units and overhead lines.

*Depreciation*

The five percent decrease in *Depreciation* expense was primarily due to the following factors:

- An increase in the estimated useful lives of **CG&E's** generation assets resulting from a depreciation study completed during the third quarter of 2003; and
- The discontinuance of accruing costs of removal for generating assets (which was previously included as part of *Depreciation* expense) as a result of the adoption of Statement 143. See Note 1(j) of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data" for further details. Prior periods were not restated for the adoption of Statement 143.

**Miscellaneous Income – Net**

The increase in *Miscellaneous Income – Net* was due, in part, to a final reconciliation with **PSI** of a previous demutualization of a medical insurance carrier used by both companies which was recorded in 2003.

**Interest Expense**

The 20 percent increase in *Interest Expense* was primarily due to the following factors:

- An increase in average long–term debt outstanding; and
- Charges during 2003 associated with the re–financing of certain debt.

**Cumulative Effect of Changes in Accounting Principles**

In 2003, **CG&E** recognized a *Cumulative effect of changes in accounting principles, net of tax* gain of approximately $31 million as a result of the adoption of Statement 143 and the rescission of EITF 98–10. See Note 1(q)(*iv*) of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data" for further information.

## 2003 RESULTS OF OPERATIONS – PSI

### Summary of Results

Net income for **PSI** for the years ended December 31, 2003, and 2002 was as follows:

| | PSI | | | |
|---|---|---|---|---|
| | 2003 | 2002 | Change | % Change |
| | (in millions) | | | |
| Net income | $ 133 | $ 214 | $ (81) | (38)% |

**PSI's** decrease in net income was primarily attributable to decreases in electric gross margins due to milder weather in 2003, as compared to 2002. This decrease was partially offset by the following factors:

- The recognition of higher operating costs in 2002 associated with employee severance programs; and
- Lower property taxes, primarily resulting from the change in property value assessment in the state of Indiana in 2003.

### Electric Gross Margins

Gross margins for **PSI** for the years ended December 31, 2003, and 2002 were as follows:

| | PSI | | | |
|---|---|---|---|---|
| | 2003 | 2002 | Change | % Change |
| | (in millions) | | | |
| Electric gross margin(1) | $ 973 | $ 1,064 | $ (91) | (9)% |

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

Cooling degree days and heating degree days in **PSI's** service territory for the years ended December 31, 2003, and 2002 were as follows:

| | PSI | | | |
|---|---|---|---|---|
| | 2003 | 2002 | Change | % Change |
| Cooling degree days(1) | 850 | 1,360 | (510) | (38)% |
| Heating degree days(2) | 5,512 | 5,260 | 252 | 5 |

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

(2) 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.

The nine percent decrease in **PSI's** electric gross margins was primarily due to a decline in retail electric margins resulting from milder weather in 2003, compared to 2002. As noted in the table, cooling degree days were down 38 percent in **PSI's** service territory. An increase in rate tariff adjustments associated with certain construction programs partially offset these decreases.

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

**Other Operating Expenses**

| | PSI | | | |
|---|---|---|---|---|
| | 2003 | 2002 | Change | % Change |
| | (in millions) | | | |
| Operation and maintenance | $ 449 | $ 470 | $ (21) | (4)% |
| Depreciation | 164 | 155 | 9 | 6 |
| Taxes other than income taxes | 46 | 57 | (11) | (19) |
| Total | $ 659 | $ 682 | $ (23) | (3) |

***Operation and Maintenance***

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

- Recognition of higher costs associated with employee severance programs in 2002;
- Decreased transmission costs, largely the result of changes in the Midwest ISO operations; and
- A decrease in employee incentive costs.

These decreases were partially offset by an increase in maintenance expense for our generating units and overhead lines.

***Depreciation***

The six percent increase in *Depreciation* expense was primarily due to the following factors:

- The addition of depreciable plant resulting from **PSI's** December 2002 purchase of two gas--fired peaking plants from non–regulated affiliates. See Note 19 of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data" for more information; and
- The addition of other depreciable plant primarily reflecting pollution control equipment and the repowering of Noblesville Station.

***Taxes Other Than Income Taxes***

The 19 percent decrease in *Taxes other than income taxes* expense was primarily due to lower property taxes, which were partially offset by increased excise taxes. This decrease was primarily a result of a change in property value assessments in the state of Indiana in 2003.

**Miscellaneous Income – Net**

The 69 percent decrease in *Miscellaneous Income – Net* was primarily a result of a final reconciliation with **CG&E** of a previous demutualization of a medical insurance carrier used by both companies which was recorded in 2003.

**Interest Expense**

The 16 percent increase in *Interest Expense* was primarily a result of an increase in average long–term debt outstanding during the year ended December 31, 2003. This increase was partially offset by a decrease in short–term interest rates.

**Income Taxes**

The increase in the effective income tax rate was primarily due to an increase in the Indiana state income tax rate.

## LIQUIDITY AND CAPITAL RESOURCES

### Historical Cash Flow Analysis From Continuing Operations

*Operating Activities from Continuing Operations*

For the years ended December 31, 2004, 2003, and 2002, our cash flows from operating activities from continuing operations were as follows:

**Net Cash Provided by Operating Activities from Continuing Operations**

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| | | (in thousands) | |
| **Cinergy(1)** | **$ 833,004** | $ 945,673 | $ 955,802 |
| **CG&E** and subsidiaries | **445,621** | 557,761 | 653,029 |
| **PSI** | **483,463** | 246,735 | 499,047 |
| **ULH&P** | **45,381** | 33,061 | 60,707 |

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

The tariff–based gross margins of our utility operating companies continue to be the principal source of cash from operating activities. The diversified retail customer mix of residential, commercial, and industrial classes and a commodity mix of gas and electric services provide a reasonably predictable gross cash flow.

For the year ended December 31, 2004, **Cinergy's** and **CG&E's** decrease in net cash provided by operating activities was primarily due to unfavorable working capital fluctuations, including the build up of fuel and emission allowances inventory. **PSI's** increase was due to an increase in earnings (after adjusting for non–cash items) and a difference in the timing of payables and income tax payments. **ULH&P's** increase in net cash provided by operating activities was attributable to favorable working capital fluctuations.

For the year ended December 31, 2003, **CG&E's**, **PSI's**, and **ULH&P's** net cash provided by operating activities decreased, as compared to 2002. **CG&E's** decrease was primarily due to unfavorable working capital fluctuations. **PSI's** decrease was largely due to a decrease in earnings (after adjusting for non–cash items) and a decrease in receivables sold under the receivables sale facility. A significant portion of **ULH&P's** decrease was due to unfavorable working capital fluctuations and an increase in deferred costs under the gas cost recovery mechanism. **Cinergy's** net cash provided by operating activities in 2003 was comparable to 2002, comprised of the decreases at **CG&E** and **PSI** discussed above offset by improved operating cash flows at our non–regulated subsidiaries.

*Financing Activities from Continuing Operations*

For the years ended December 31, 2004, 2003, and 2002, our cash flows from financing activities from continuing operations were as follows:

**Net Cash Provided by (Used in) Financing Activities from Continuing Operations**

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| | | (in thousands) | |
| **Cinergy(1)** | **$ (233,881)** | $ (245,128) | $ 42,689 |
| **CG&E** and subsidiaries | **(172,782)** | (263,296) | (293,445) |

| | | | |
|---|---|---|---|
| **PSI** | **(164,141 )** | 90,070 | (43,817 ) |
| **ULH&P** | **(9,226 )** | 4,852 | (22,026 ) |

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

For the year ended December 31, 2004, **CG&E's** decrease in net cash used in financing activities was primarily due to a decrease in redemptions of long–term debt. **PSI's** increase in net cash used in financing activities was attributable to the repayment of short–term debt in 2004 and capital contributions from **Cinergy Corp.** that were made in 2003. **ULH&P's** increase in net cash used in financing activities was due to an increase in dividends on common stock. **Cinergy's** net cash used in financing activities in 2004 was comparable to 2003.

For the year ended December 31, 2003, **Cinergy's** net cash used in financing activities increased, as compared to 2002, primarily due to increases in redemptions of long–term debt. **CG&E's** net cash used in financing activities decreased during 2003, as compared to 2002, primarily due to a net increase in short–term debt financing. **PSI's** and **ULH&P's** net cash provided by financing activities increased during 2003, as compared to 2002. **PSI's** increase was primarily due to capital contributions from **Cinergy Corp.** **ULH&P's** increase was primarily attributable to increases in short–term debt.

***Investing Activities from Continuing Operations***

For the years ended December 31, 2004, 2003, and 2002, our cash flows used in investing activities from continuing operations were as follows:

**Net Cash Used in Investing Activities from Continuing Operations**

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| | | (in thousands) | |
| **Cinergy(1)** | **$ (603,702 )** | $ (731,537 ) | $ (885,636 ) |
| **CG&E** and subsidiaries | **(284,527 )** | (323,959 ) | (323,322 ) |
| **PSI** | **(315,093 )** | (332,247 ) | (454,810 ) |
| **ULH&P** | **(33,857 )** | (39,940 ) | (38,854 ) |

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

For the year ended December 31, 2004, **Cinergy's** decrease in net cash used in investing activities was primarily due to decreases in capital expenditures related to energy–related investments. **CG&E's** decrease in net cash used in investing activities was primarily due to a decrease in capital expenditures for ongoing environmental compliance programs and normal construction activity. **PSI's** and **ULH&P's** net cash used in investing activities in 2004 was comparable to 2003.

For the year ended December 31, 2003, **Cinergy's** net cash used in investing activities decreased, as compared to 2002, primarily due to decreases in capital expenditures related to environmental compliance programs and other energy–related investments. **Cinergy** also purchased a synthetic fuel production facility during 2002. **PSI's** decrease was primarily due to decreases in capital expenditures for ongoing environmental compliance programs and other construction projects. **CG&E's** and **ULH&P's** net cash used in 2003 investing activities was comparable to 2002.

**Capital Requirements**

***Environmental Issues***

*Proposed Environmental Protection Agency Regulations*

In December 2003, the United States EPA proposed the Clean Air Interstate Rule (CAIR), formerly the Interstate Air Quality Rule, which 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 $SO_2$ and $NO_X$, 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 also issued draft regulations regarding required reductions in mercury emissions from coal–fired power plants (Clean Air Mercury Rule). The draft regulations include two possible alternatives to achieve emissions reductions: a mercury cap and trade program or source specific reductions achieved through a command and control approach. The cap and trade approach would provide a longer compliance horizon and provide more flexible compliance options for coal–fired generators, including the purchase of allowances in lieu of further capital expenditures with respect to these investments. This 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 is expected to issue final rules on CAIR and the Clean Air Mercury Rule by March 2005.

Over the 2005–2009 time period, estimated capital costs associated with reducing mercury, $SO_2$, and $NO_X$ in compliance with the currently proposed CAIR and Clean Air Mercury Rule are not expected to exceed approximately

$1.72 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 program. 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. **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 11(b)(*iii*) of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data" 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. 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.

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.

*Clear Skies Legislation*

President Bush has proposed environmental legislation that would combine a series of Clean Air Act (CAA) requirements, including the recently proposed regulations for mercury and particulate matter 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 proposed the CAIR regulations to accomplish Clear Skies' goals within the existing framework of the CAA. Clear Skies has been reintroduced in the Senate and could be considered in Committee over the next several weeks. However, at this time, we cannot predict whether this or any multi-emissions bill will achieve approval.

*Energy Bill*

The United States House of Representatives (House) passed the Energy Policy Act in April 2003. The legislation, as passed in the House, included the repeal of the Public Utility Holding Company Act of 1935, as amended (PUHCA), as well as tax incentives for gas and electric distribution lines, and combined heat and power and renewable energy projects. The United States Senate (Senate) Energy and Natural Resources Committee passed its version of comprehensive energy legislation in April 2003. A conference agreement which merged both the House and Senate versions passed in the House in October 2003, but failed to pass in the Senate. The legislation will be introduced again during the 109th Congress, however, it is anticipated that several changes will be made. At this time, it is not possible to predict whether a final energy bill will pass in 2005.

*Environmental Lawsuits*

We are currently involved in the following lawsuits which are discussed in more detail in Note 11(a) of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data". An unfavorable outcome of any of these lawsuits could have a material impact on our liquidity and capital resources.

- CAA Lawsuit
- Carbon Dioxide (CO2) Lawsuit
- Selective Catalytic Reduction Units at Gibson Generating Station
- Zimmer Generating Station Lawsuit
- Manufactured Gas Plant Sites
- Asbestos Claims Litigation

***Capital and Investment Expenditures***

Actual construction and other committed expenditures for 2004 and forecasted construction and other committed expenditures for 2005 and for the five-year period 2005–2009 (in nominal dollars) are presented in the table below:

**Capital and Investment Expenditures**

| | Actual | Forecasted | |
|---|---|---|---|
| | 2004 | 2005 | 2005–2009 |
| | | (in millions) | |
| **Cinergy(1)** | **$ 701** | $ 1,115 | $ 5,430 |
| **CG&E** and subsidiaries | **300** | 430 | 2,345 |
| **PSI** | **340** | 620 | 2,645 |
| **ULH&P** | **34** | 80 | 335 |

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

In 2004, we spent $203 million for $NO_X$ and other environmental compliance projects. Forecasted expenditures for environmental compliance projects (in nominal dollars) are approximately $465 million for 2005 and $1.8 billion for the 2005–2009 period. The vast majority of this forecast includes our entire estimate of costs to comply with draft regulations requiring reductions in mercury, $NO_X$, and $SO_2$ emissions, assuming a cap and trade approach to mercury emissions. Approximately 60 percent of these estimated environmental costs would be incurred at **PSI's** regulated coal-fired plants. See "Environmental Issues" for further discussion.

*Contractual Cash Obligations*

The following table presents **Cinergy's**, **CG&E's**, **PSI's**, and **ULH&P's** significant contractual cash obligations:

| Contractual Cash Obligations | Payments Due | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 | 2009 | There-after | Total |
| | (in millions) | | | | | | |
| **Cinergy(1)** | | | | | | | |
| Capital leases | $ 7 | $ 7 | $ 7 | $ 10 | $ 10 | $ 24 | $ 65 |
| Operating leases | 43 | 36 | 28 | 18 | 14 | 27 | 166 |
| Long–term debt(2) | 220(3)(4) | 355 | 726 | 551 | 270 | 2,376 | 4,498 |
| Fuel purchase contracts(5) | 879 | 495 | 420 | 49 | — | — | 1,843 |
| Other commodity purchase contracts(6) | 28 | 7 | 3 | 1 | — | — | 39 |
| **Total Cinergy** | $ 1,177 | $ 900 | $ 1,184 | $ 629 | $ 294 | $ 2,427 | $ 6,611 |
| **CG&E** and subsidiaries | | | | | | | |
| Capital leases | $ 4 | $ 4 | $ 4 | $ 6 | $ 6 | $ 16 | $ 40 |
| Operating leases | 10 | 8 | 7 | 5 | 4 | 6 | 40 |
| Long–term debt(2) | 150(4) | — | 100 | 120 | 20 | 1,240 | 1,630 |
| Fuel purchase contracts(5) | 413 | 202 | 161 | — | — | — | 776 |
| Other commodity purchase contracts(6) | 5 | 1 | — | 1 | — | — | 7 |
| **Total CG&E** and subsidiaries | $ 582 | $ 215 | $ 272 | $ 132 | $ 30 | $ 1,262 | $ 2,493 |
| **PSI** | | | | | | | |
| Capital leases | $ 3 | $ 3 | $ 3 | $ 4 | $ 4 | $ 8 | $ 25 |
| Operating leases | 11 | 10 | 9 | 7 | 6 | 13 | 56 |
| Long–term debt(2) | 50(3) | 326 | 266 | 43 | 223 | 976 | 1,884 |
| Fuel purchase contracts(5) | 466 | 293 | 259 | 49 | — | — | 1,067 |
| **Total PSI** | $ 530 | $ 632 | $ 537 | $ 103 | $ 233 | $ 997 | $ 3,032 |
| **ULH&P** | | | | | | | |
| Capital leases | $ 1 | $ 1 | $ 1 | $ 1 | $ 2 | $ 3 | $ 9 |
| Long–term debt(2) | — | — | — | 20 | 20 | 55 | 95 |
| **Total ULH&P** | $ 1 | $ 1 | $ 1 | $ 21 | $ 22 | $ 58 | $ 104 |

(1) Includes amounts related to non–registrants.

(2) Amounts do not include interest payments. See the Consolidated Statements of Capitalization in "Item 8. Financial Statements and Supplementary Data" for disclosure of interest rates for interest payments.

(3) Includes **PSI's** 6.50% Debentures due August 1, 2026, reflected as maturing in 2005, as the interest rate is due to reset on August 1, 2005. If the interest rate does not reset, the bonds are subject to mandatory redemption by **PSI.**

(4) **CG&E's** 6.90% Debentures due June 1, 2025, are putable to **CG&E** at the option of the holders on June 1, 2005. However, based upon current market conditions, we believe it is unlikely that the debentures will be put to **CG&E** on this date.

(5) We have significantly more coal under contract; however, these contracts contain price re–opener provisions effectively making them variable contracts after certain dates. Contract coal after the price re–opener date is therefore excluded from this table.

(6) Includes long–term contracts accounted for on an accrual basis. See the Fair Value of Contracts maturity table in "Market Risk Sensitive Instruments" for disclosure of energy trading contracts that are accounted for at fair value.

*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** Balance Sheets.

**Cinergy's** minimum required contribution in calendar year 2004 was $16 million, as compared to $11 million in calendar year 2003. Actual contributions during calendar year 2004 and 2003 totaled $117 million and $74 million, reflecting additional discretionary contributions of $101 million and $63 million, respectfully, under the aforementioned five-year plan. Due to the significant 2004 and 2003 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 $72 million in 2005. **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.

**Cinergy** sponsors non-qualified pension plans that cover officers, certain key employees, and non-employee directors. **Cinergy's** payments for these non-qualified pension plans are expected to be approximately $9 million in 2005.

We provide certain health care and life insurance benefits to retired United States employees and their eligible dependents. **Cinergy's** payments for these postretirement benefits in 2005 are expected to be approximately $25 million. See Note 9 of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data" for additional information about our pension and other postretirement benefit plans.

*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 December 31, 2004, we had invested or committed to invest approximately $0.8 billion in EWGs and FUCOs, leaving available investment capacity under the order of approximately $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 December 31, 2004, we had invested and/or guaranteed approximately $1.1 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 December 31, 2004, 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 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 December 31, 2004, we had invested approximately $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 December 31, 2004, we had approximately $877 million outstanding under the guarantees issued, of which approximately 96 percent represents guarantees of obligations reflected on **Cinergy's** 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 11(c)(v) of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data" 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 December 31, 2004 trading portfolio, if such an event were to occur, **Cinergy** would be required to issue up to approximately $310 million in collateral related to its gas and power trading operations, of which $69 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 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 December 31, 2004 (in millions) | |
|---|---|---|
| | Authority | Outstanding |
| **Cinergy Corp.** | $ 5,000 (1) | $ 676 |
| **CG&E** and subsidiaries | 665 (2) | 180 |
| **PSI** | 600 | 131 |
| **ULH&P** | 65 (2) | 11 |

(1) **Cinergy Corp.**, under the PUHCA, was granted 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 borrowing consists 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 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 December 31, 2004 | | | | |
|---|---|---|---|---|---|
| | Established Lines | Outstanding | Unused | Standby Liquidity(1) | Available Revolving Lines of Credit |
| | | | (in millions) | | |
| **Cinergy** | | | | | |
| **Cinergy Corp.** | | | | | |
| Revolving lines(2) | $ 2,000 | $ — | $ 2,000 | $ 688 | $ 1,312 |
| Uncommitted lines(3) | 40 | — | 40 | | |
| Commercial paper(4) | | 676 | | | |
| Utility operating companies | | | | | |
| Uncommitted lines(3) | 75 | — | 75 | | |
| Pollution control notes | | 248 | | | |
| Non–regulated subsidiaries | | | | | |
| Revolving lines(5) | 158 | 8 | 150 | — | 150 |
| Short–term debt | | 2 | | | |
| Pollution control notes | | 25 | | | |
| **Cinergy Total** | | $ 959 | | | $ 1,462 |
| **CG&E** and subsidiaries | | | | | |
| Uncommitted lines(3) | $ 15 | $ — | $ 15 | | |
| Pollution control notes | | 112 | | | |
| Money pool | | 180 | | | |
| **CG&E Total** | | $ 292 | | | |
| **PSI** | | | | | |
| Uncommitted lines(3) | $ 60 | $ — | $ 60 | | |
| Pollution control notes | | 136 | | | |
| Money pool | | 130 | | | |
| **PSI Total** | | $ 266 | | | |
| **ULH&P** | | | | | |
| Money pool | | $ 11 | | | |
| **ULH&P Total** | | $ 11 | | | |

(1) Standby liquidity is reserved against the revolving lines of credit to support the commercial paper program and outstanding letters of credit (currently $676 million and $12 million, respectively).

(2) Consists of a three–year $1 billion facility and a five–year $1 billion facility. The five–year facility contains $500 million sublimits each for **CG&E** and **PSI**.

(3) 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.

(4) 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.

(5) In December 2004, Cinergy Canada, Inc. successfully placed a $150 million three-year senior revolving credit facility.

At December 31, 2004, **Cinergy Corp.** had approximately $1.3 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 | | | 676 | |
| Letter of credit support | | | 12 | |
| Total three–year facility(2) | | 1,000 | 688 | 312 |
| Total Credit Facilities | | $ 2,000 | $ 688 | $ 1,312 |

(1) In April 2004, **Cinergy Corp.** successfully placed a $500 million 364–day senior unsecured revolving credit facility. This facility replaced the $600 million 364–day senior unsecured revolving credit facility that expired in April 2004. In December 2004, **Cinergy Corp.** successfully replaced the $500 million 364–day facility with a $1 billion five–year facility. **CG&E** and **PSI** each have $500 million borrowing sublimits on this facility.

(2) In April 2004, **Cinergy Corp.** successfully placed a $1 billion three–year senior unsecured revolving credit facility. This facility replaced the $400 million three–year senior unsecured revolving credit facility that was set to expire in May 2004.

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 discussed in Note 1(q)(*i*) of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data", long–term debt increased in the third quarter of 2003 resulting from the adoption of Interpretation 46. The debt which was recorded as a result of this new accounting pronouncement did not cause

**Cinergy Corp.** to be in breach of any covenants at the time of adoption. As of December 31, 2004, **Cinergy**, **CG&E**, and **PSI** are in compliance with all of their debt covenants.

*Variable Rate Pollution Control Notes*

**CG&E** and **PSI** have issued certain variable rate pollution control notes (tax–exempt notes obtained to finance equipment or land development for pollution control purposes). Because the holders of these notes have the right to have their notes redeemed on a daily, weekly, or monthly basis, they are reflected in *Notes payable and other short–term obligations* on the Balance Sheets of **Cinergy**, **CG&E**, and **PSI**. At December 31, 2004, **Cinergy**, **CG&E** and **PSI** had $273 million, $112 million and $136 million, respectively, outstanding in variable rate pollution control notes, classified as short–term debt. **ULH&P** had no outstanding short–term pollution control notes. Any short–term pollution control note borrowings outstanding do not reduce the unused and available short–term debt regulatory authority of **CG&E**, **PSI**, and **ULH&P**. See Note 5 of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data".

*Commercial Paper*

**Cinergy Corp.'s** commercial paper program is supported by **Cinergy Corp.'s** $2 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 December 31, 2004, **Cinergy Corp.** had $676 million in commercial paper outstanding.

*Money Pool*

**Cinergy Corp.**, Cinergy Services, Inc., and our utility operating companies participate in a money pool arrangement to better manage cash and working capital requirements. Under this arrangement, those companies with surplus short–term funds provide short–term loans to affiliates (other than **Cinergy Corp.**) participating under this arrangement. This surplus cash may be from internal or external sources. The amounts outstanding under this money pool arrangement are shown as a component of *Notes receivable from affiliated companies* and/or *Notes payable to affiliated companies* on the Balance Sheets of **CG&E**, **PSI**, and **ULH&P**. Any money pool borrowings outstanding reduce the unused and available short–term debt regulatory authority of **CG&E**, **PSI**, and **ULH&P**.

***Operating Leases***

We have entered into operating lease agreements for various facilities and properties such as computer, communication and transportation equipment, and office space. See Note 6(a) of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data" for additional information regarding operating leases.

***Capital Leases***

Our utility operating companies are able to enter into capital leases subject to the authorization limitations of the applicable state utility commissions. New financing authority is subject to the approval of the respective commissions. The following table presents further information related to the capital lease authorizations of **CG&E**, **PSI**, and **ULH&P** at December 31, 2004.

**Capital Lease Authority**
**December 31, 2004**
**(in millions)**

| | Authority | Outstanding | Remaining | Expiration Date |
|---|---|---|---|---|
| **CG&E** and subsidiaries | $ 60 | $ 9 | $ 51 | 12/31/2005 |

| | | | | |
|---|---|---|---|---|
| **PSI** | 100 | 4 | 96 | 12/31/2005 |
| **ULH&P** | 25 | 2 | 23 | 12/31/2006 |

See Note 6(b) of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data" for additional information regarding capital leases.

*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 December 31, 2004, was as follows:

| | Authorized | Used | Available |
|---|---|---|---|
| | | (in millions) | |
| **Cinergy Corp.** | | | |
| PUHCA total capitalization(1)(2) | $ 5,000 | $ 1,747 | $ 3,253 |
| **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, was granted 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 January 2005, **ULH&P** filed an application with the Kentucky Public Service Commission (KPSC) seeking 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 approximately $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*

**Cinergy** uses off–balance sheet arrangements from time to time to facilitate financing of various projects. Off–balance sheet arrangements are often created for a single specified purpose, for example, to facilitate securitization, leasing, hedging, research and development, reinsurance, or other transactions or arrangements. The following describes our major off–balance sheet arrangements excluding the investments **Cinergy** holds in various unconsolidated subsidiaries which are accounted for under the equity method. See Note 1(b)(*ii*) of the "Notes to

Financial Statements" in "Item 8. Financial Statements and Supplementary Data" for additional information on the accounting for equity method investments.

*(i) Guarantees*

**Cinergy** has entered into various contracts that are classified as guarantees under Interpretation 45. For further information, see Note 11(c)(*v*) of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data".

*(ii) Retained Interest in Assets Transferred to an Unconsolidated Entity*

In February 2002, **CG&E**, **PSI**, and **ULH&P** replaced their existing agreement to sell certain of their accounts receivable and related collections. **Cinergy Corp.** formed Cinergy Receivables to purchase, on a revolving basis, nearly all of the retail accounts receivable and related collections of **CG&E**, **PSI**, and **ULH&P**. **Cinergy Corp.** does not consolidate Cinergy Receivables since it meets the requirements to be accounted for as a qualifying SPE. **CG&E**, **PSI**, and **ULH&P** each retain an interest in the receivables transferred to Cinergy Receivables. The transfer of receivables are accounted for as sales, pursuant to Statement of Financial Accounting Standards No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. For a more detailed discussion of our sales of accounts receivable, see Note 3(c) of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data".

*(iii) Derivative Instruments that are Classified as Equity*

In 2001, **Cinergy Corp.** issued approximately $316 million notional amounts of combined securities, a component of which was stoc 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. In January and February 2005, the stock purchase contracts were settled, resulting in the issuance of common stock that is recorded on **Cinergy's** Balance Sheets as Common Stock Equity. For further information see Note 3(b) of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data".

*(iv) Variable Interest Entities (VIE)*

**Cinergy** holds interests in VIEs, consolidated and unconsolidated, as defined by Interpretation 46. For further information, see Note 1(q)(*i*) and Note 3 of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data".

*Securities Ratings*

As of January 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 Aaal, 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*

Under the SEC's June 2000 Order, **Cinergy Corp.** is permitted to increase its total capitalization by $5 billion (as previously discussed). The proceeds from any new issuances will be used for general corporate purposes.

**Cinergy Corp.** issued approximately 3.9 million shares in 2004 and approximately 4.6 million shares in 2003 to satisfy its obligations under its various employee stock plans and the **Cinergy Corp.** Direct Stock Purchase and Dividend Reinvestment Plan.

In January 2003, **Cinergy Corp.** filed a shelf registration statement with the SEC with respect to the issuance of common stock, preferred stock, and other securities in an aggregate offering amount of $750 million. In February 2003, **Cinergy** issued 5.7 million shares of common stock of **Cinergy Corp.** with net proceeds of approximately $175 million under this registration statement. The net proceeds from this transaction were used to reduce short-term debt of **Cinergy Corp.** and for other general corporate purposes. In December 2004, **Cinergy Corp.** issued 6.1 million shares of common stock with net proceeds of approximately $247 million, which were used to reduce short-term debt.

In May and August of 2003, **Cinergy Corp.** contributed $200 million in capital to **PSI** in two separate $100 million capital contributions to support **PSI's** current credit ratings.

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 approximately $316 million were used to reduce short-term debt. See

Note 3(b) of the "Notes to Financial Statements" in "Item 8. Financial Statements and Supplementary Data" for further discussion of the securities.

*Dividend Restrictions*

**Cinergy Corp.'s** ability to pay dividends to holders of its common stock is principally dependent on the ability of **CG&E** and **PSI** to pay **Cinergy Corp.** dividends on their common stock. **Cinergy Corp.**, **CG&E**, and **PSI** cannot pay dividends on their common stock if their respective preferred stock dividends or preferred trust dividends are in arrears. The amount of common stock dividends that each company can pay is also limited by certain capitalization and earnings requirements under **CG&E's** and **PSI's** credit instruments. Currently, these requirements do not impact the ability of either company to pay dividends on its common stock.

*Other*

Where subject to rate regulations, our utility operating companies have the ability to timely recover certain cash outlays through various regulatory mechanisms.

As opportunities arise, we will continue to monetize certain non-core investments, which would include our international assets and other technology investments.

## 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 and Significant Rate Developments

Currently, regulatory and legislative initiatives shaping the transition to a competitive retail market are the responsibilities of the individual states. Many states, including Ohio, have enacted electric utility deregulation legislation. In general, these initiatives have sought to separate the electric utility service into its basic components (generation, transmission, and distribution) and offer each component separately for sale. This separation is referred to as unbundling of the integrated services. Under the customer choice initiative in Ohio, we continue to transmit and distribute electricity; however, the customer can purchase electricity from any certified supplier. The following sections further discuss the current status of deregulation legislation and other significant regulatory developments in the states of Ohio, Indiana, and Kentucky, which encompass our utility service territories.

#### *Ohio*

**CG&E** is in a market development period for residential customers and in the competitive retail electric market for non–residential customers, transitioning to deregulation of electric generation and a competitive retail electric service market in the state of Ohio. The market development (frozen rate) period began January 1, 2001, ended December 31, 2004 for non–residential customers and is scheduled to end December 31, 2005 for residential customers.

**CG&E** made multiple rate filings in 2003 with the 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. 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** will begin to collect a POLR charge from non–residential customers effective January 1, 2005, and 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 will be 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 will apply to

non–residential customers beginning January 1, 2005 and 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 will be established beginning January 1, 2005 for non–residential customers and January 1, 2006 for residential customers. The transmission cost recovery mechanisms will 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 requested amount of the increase is approximately $78 million.

The RSP provides for rate recovery through December 31, 2008. Although it is difficult to predict, it is likely that any one of three scenarios could exist after the rate stabilization period ends in 2008:

- The legislation could be repealed or revised to establish a return to regulation of electric generation;

- Deregulation and a competitive retail electric service market with market–based rates for all customer classes; or

- A hybrid of regulation and deregulation.

Although we cannot predict the regulatory outcome, we believe any of these scenarios could have a material impact on our financial position and results of operations. However, we believe that a return to regulation of electric generation would provide the least volatility in ongoing results, although likely accompanied by less opportunity for growth in earnings.

In December 2004, **CG&E** filed an application with the PUCO requesting recovery of future costs of additional generating facilities in Ohio, for either construction of new electric generating facilities or the purchase of existing assets currently owned by others. **CG&E** would seek recovery of these costs over the lives of the assets. These investments are needed to meet ongoing load growth by customers receiving generation service from **CG&E** and would enable the company to reliably meet its obligation as the provider of last resort for customers returning to **CG&E** from alternate suppliers. To maintain flexibility in providing electric service at the lowest cost, **CG&E** is also seeking the authority to purchase existing capacity and power from other suppliers and to earn a return commensurate with the risk from these agreements.

***Indiana***

We are not aware of any current plans for electric deregulation in Indiana.

In May 2004, the IURC issued an order approving **PSI's** base retail electric rate case, and **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 of assumed profits included in base rates related to 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 $NO_X$ emission allowance costs and certain costs related to the Midwest ISO.

**Cinergy** is studying the feasibility of constructing a commercial integrated coal gasification combined cycle (IGCC) generating station to

help meet increased demand over the next decade. **PSI** would own all or part 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 t remove mercury and $CO_2$ upstream of the combustion process at a lower cost than conventional plants. 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.

In November 2004, **PSI** filed a compliance plan case with the IURC seeking approval of **PSI's** plan for complying with pending $SO_2$, $NO_X$, and mercury emission reduction requirements, 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 approximately $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 April 2005 and a final IURC Order is expected in the third quarter of 2005.

***Kentucky***

We are not aware of any current plans for electric deregulation in Kentucky.

The KPSC has conditionally approved **ULH&P's** planned acquisition of **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. **ULH&P** is currently seeking approval of the transaction from the SEC, wherein the Ohio Consumers Counsel has intervened in opposition, and the FERC. The transfer, which will be paid for 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 regulatory approvals, we would anticipate the transfer to take place in the second quarter of 2005. Once approved, **ULH&P** would be required to file a rate case with the KPSC to include these assets in rate base with rate increases to be effective January 1, 2007. Costs of fuel and emission allowances would be recovered through a fuel adjustment clause currently in existence in Kentucky, beginning January 1, 2007 when the assets are in rate base. Because the KPSC has already conditionally approved the transfer, we expect the regulatory process to result in a reasonable rate base valuation for these assets; however, at this time we cannot predict whether we will receive approval of the transaction from the FERC and SEC.

**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 and Financial Transmission Rights (Energy Markets Tariff). The Midwest ISO is now in the final stages of market trials and testing of its Energy Markets Tariff. The FERC has issued orders that, among other things, conditionally approve the start–up of the Energy Markets Tariff. The projected implementation date is April 1, 2005. Requests for rehearing are pending before FERC, and FERC's orders have also been appealed to a federal appeals court.

Specifically, the Energy Markets Tariff proposes to manage system reliability through the use of a market–based congestion management system. The proposal 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 Locational Marginal Pricing (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 Financial Transmission Rights, 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 as well as a proposal to develop a long–term solution to resource adequacy concerns. The Midwest ISO will perform a day–ahead unit commitment and dispatch forecast for all resources in its market. The Midwest ISO will also perform 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. This is a significant undertaking by the Midwest ISO and its stakeholders and testing is not yet complete. At this time, we cannot predict the outcome of these matters and whether they will have a material effect on our financial position or results of operations.

***Blackout Report***

In April 2004, the United States–Canada Power System Outage Task Force issued its Final Report on the August 14, 2003 Blackout in the United States and Canada. The report reviewed the causes of the Blackout and made 46 recommendations intended to minimize the likelihood and scope of similar events in the future. One of the recommendations is to make reliability standards mandatory and enforceable with penalties for noncompliance. In the past, compliance with North American Electric Reliability Council's reliability standards and guidelines has largely been voluntary. At this time, we do not believe the recommendations of the Final Report, if implemented, will have a material impact on our financial position or results of operations.

***FERC's Market Screen Orders***

In April 2004, the FERC issued an order establishing a new, interim set of market power screens for use in evaluating sales of wholesale power at market–based rates. In July 2004, the FERC issued an order generally affirming that order. In April 2004, the FERC also commenced a rulemaking to evaluate whether its overall test for market–based rates should be continued, and to determine a permanent market power test to replace the interim test. That rulemaking process remains pending. Under FERC's interim generation market power analysis, as a member of the Midwest ISO, **Cinergy** could consider the Midwest ISO geographic market for purposes of FERC's market power analysis once the Midwest ISO has a sufficient market structure and a single energy market. **Cinergy** does not believe it has market power in generation. However, if **Cinergy** were unable to establish that it does not have the ability to exercise market power in generation, it could result in the loss of market–based rate authority in certain regions of the wholesale market and, assuming such loss of market–based rate authority, would require **Cinergy** to charge certain wholesale customers cost–based rates for wholesale sales of electricity. In February, 2005, FERC issued final rules that may affect how and when circumstances have changed to an extent that requires FERC review of previously granted authorization to sell at existing market–based rates. At this time, we cannot predict the outcome of these matters and whether they will have a material effect on our financial position or results of operations.

**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 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.

| | | | |
|---|---|---|---|
| 4–l | **Cinergy Corp.**<br>**PSI** | Fifty–first Supplemental Indenture between **PSI** and LaSalle National Bank dated February 1, 1994. | **PSI** 1993 Form 10–K |
| 4–m | **Cinergy Corp.**<br>**PSI** | Fifty–second Supplemental Indenture between **PSI** and LaSalle National Bank, as Trustee, dated as of April 30, 1999. | **PSI** March 31, 1999, Form 10–Q |
| 4–n | **Cinergy Corp.**<br>**PSI** | Fifty–third Supplemental Indenture between **PSI** and LaSalle National Bank dated June 15, 2001. | **PSI** June 30, 2001, Form 10–Q |
| 4–o | **Cinergy Corp.**<br>**PSI** | Fifty–fifth Supplemental Indenture between **PSI** and LaSalle National Bank dated February 15, 2003. | **PSI** September 30, 2003, Form 10–Q |
| 4–p | **Cinergy Corp.**<br>**PSI** | Indenture (Secured Medium–term Notes, Series A), dated July 15, 1991, between **PSI** and LaSalle National Bank, as Trustee. | **PSI** Form 10–K/A, Amendment No. 2, dated July 15, 1993 |
| 4–q | **Cinergy Corp.**<br>**PSI** | Indenture (Secured Medium–term Notes, Series B), dated July 15, 1992, between **PSI** and LaSalle National Bank, as Trustee. | **PSI** Form 10–K/A, Amendment No. 2, dated July 15, 1993 |
| 4–r | **Cinergy Corp.**<br>**PSI** | Loan Agreement between **PSI** and the City of Princeton, Indiana dated as of November 7, 1996. | **PSI** September 30, 1996, Form 10–Q |
| 4–s | **Cinergy Corp.**<br>**PSI** | Loan Agreement between **PSI** and the City of Princeton, Indiana dated as of February 1, 1997. | **PSI** 1996 Form 10–K |
| 4–t | **Cinergy Corp.**<br>**PSI** | Indenture dated November 15, 1996, between **PSI** and The Fifth Third Bank, as Trustee. | **PSI** 1996 Form 10–K |
| 4–u | **Cinergy Corp.**<br>**PSI** | First Supplemental Indenture dated November 15, 1996, between **PSI** and The Fifth Third Bank, as Trustee. | **PSI** 1996 Form 10–K |
| 4–v | **Cinergy Corp.**<br>**PSI** | Third Supplemental Indenture dated as of March 15, 1998, between **PSI** and The Fifth Third Bank, as Trustee. | **PSI** 1997 Form 10–K |
| 4–w | **Cinergy Corp.**<br>**PSI** | Fourth Supplemental Indenture dated as of August 5, 1998, between **PSI** and The Fifth Third Bank, as Trustee. | **PSI** June 30, 1998, Form 10–Q |
| 4–x | **Cinergy Corp.**<br>**PSI** | Fifth Supplemental Indenture dated as of December 15, 1998, between **PSI** and The Fifth Third Bank, as Trustee. | **PSI** 1998 Form 10–K |
| 4–y | **Cinergy Corp.**<br>**PSI** | Sixth Supplemental Indenture dated as of April 30, 1999, between **PSI** and Fifth Third Bank, as Trustee. | **PSI** March 31, 1999, Form 10–Q |
| 4–z | **Cinergy Corp.**<br>**PSI** | Seventh Supplemental Indenture dated as of October 20, 1999, between **PSI** and Fifth Third Bank, as Trustee. | **PSI** September 30, 1999, Form 10–Q |
| 4–aa | **Cinergy Corp.**<br>**PSI** | Eighth Supplemental Indenture dated as of September 23, 2003, between **PSI** and Fifth Third Bank, as Trustee. | **PSI** September 30, 2003, Form 10–Q |
| 4–bb | **Cinergy Corp.**<br>**PSI** | Unsecured Promissory Note dated October 14, 1998, between **PSI** and the Rural Utilities Service. | **PSI** 1998 Form 10–K |
| 4–cc | **Cinergy Corp.**<br>**PSI** | Loan Agreement between **PSI** and the Indiana Development Finance Authority dated as of July 15, 1998. | **PSI** June 30, 1998, Form 10–Q |
| 4–dd | **Cinergy Corp.**<br>**PSI** | Loan Agreement between **PSI** and the Indiana Development Finance Authority dated as of May 1, 2000. | **PSI** June 30, 2000, Form 10–Q |
| 4–ee | **Cinergy Corp.**<br>**CG&E** | Original Indenture (First Mortgage Bonds) between **CG&E** and The Bank of New York (as Trustee) dated as of August 1, 1936. | **CG&E** Registration Statement No. 2–2374 |
| 4–ff | **Cinergy Corp.**<br>**CG&E** | Fourteenth Supplemental Indenture between **CG&E** and The Bank of New York dated as of November 2, 1972. | **CG&E** Registration Statement No. 2–60961 |
| 4–gg | **Cinergy Corp.**<br>**CG&E** | Thirty–third Supplemental Indenture between **CG&E** and The Bank of New York dated as of September 1, 1992. | **CG&E** Registration Statement No. 33–53578 |
| 4–hh | **Cinergy Corp.**<br>**CG&E** | Thirty–fourth Supplemental Indenture between **CG&E** and The Bank of New York dated as of October 1, 1993. | **CG&E** September 30, 1993, Form 10–Q |
| 4–ii | **Cinergy Corp.**<br>**CG&E** | Thirty–fifth Supplemental Indenture between **CG&E** and The Bank of New York dated as of January 1, 1994. | **CG&E** Registration Statement No. 33–52335 |
| 4–jj | **Cinergy Corp.**<br>**CG&E** | Thirty–sixth Supplemental Indenture between **CG&E** and The Bank of New York dated as of February 15, 1994. | **CG&E** Registration Statement No. 33–52335 |
| 4–kk | **Cinergy Corp.**<br>**CG&E** | Thirty–seventh Supplemental Indenture between **CG&E** and The Bank of New York dated as of | **CG&E** 1996 Form 10–K |

| | | | |
|---|---|---|---|
| | | October 14, 1996. | |
| 4–ll | **Cinergy Corp.**<br>**CG&E** | Thirty–eighth Supplemental Indenture between **CG&E** and The Bank of New York dated as of February 1, 2001. | **CG&E** March 31, 2001, Form 10–Q |
| 4–mm | **Cinergy Corp.**<br>**CG&E** | Loan Agreement between **CG&E** and the County of Boone, Kentucky dated as of February 1, 1985. | **CG&E** 1984 Form 10–K |
| 4–nn | **Cinergy Corp.**<br>**CG&E** | Repayment Agreement between **CG&E** and The Dayton Power and Light Company dated as of December 23, 1992. | **CG&E** 1992 Form 10–K |
| 4–oo | **Cinergy Corp.**<br>**CG&E** | Loan Agreement between **CG&E** and the County of Boone, Kentucky dated as of January 1, 1994. | **CG&E** 1993 Form 10–K |
| 4–pp | **Cinergy Corp.**<br>**CG&E** | Loan Agreement between **CG&E** and the State of Ohio Air Quality Development Authority dated as of December 1, 1985. | **CG&E** 1985 Form 10–K |
| 4–qq | **Cinergy Corp.**<br>**CG&E** | Loan Agreement between **CG&E** and the State of Ohio Air Quality Development Authority dated as of September 13, 1995. | **CG&E** September 30, 1995, Form 10–Q |
| 4–rr | **Cinergy Corp.**<br>**CG&E** | Loan Agreement between **CG&E** and the State of Ohio Water Development Authority dated as of January 1, 1994. | **CG&E** 1993 Form 10–K |

| | | | |
|---|---|---|---|
| 4–ss | **Cinergy Corp.**<br>**CG&E** | Loan Agreement between **CG&E** and the State of Ohio Air Quality Development Authority dated as of January 1, 1994. | **CG&E** 1993 Form 10–K |
| 4–tt | **CG&E** | Loan Agreement between **CG&E** and the State of Ohio Air Quality Development Authority dated August 1, 2001. | **CG&E** September 30, 2001, Form 10–Q |
| 4–uu | **Cinergy Corp.**<br>**CG&E** | Original Indenture (Unsecured Debt Securities) between **CG&E** and The Fifth Third Bank dated as of May 15, 1995. | **CG&E** Form 8–A dated July 24, 1995 |
| 4–vv | **Cinergy Corp.**<br>**CG&E** | First Supplemental Indenture between **CG&E** and The Fifth Third Bank dated as of June 1, 1995. | **CG&E** June 30, 1995, Form 10–Q |
| 4–ww | **Cinergy Corp.**<br>**CG&E** | Second Supplemental Indenture between **CG&E** and The Fifth Third Bank dated as of June 30, 1995. | **CG&E** Form 8–A dated July 24, 1995 |
| 4–xx | **Cinergy Corp.**<br>**CG&E** | Third Supplemental Indenture between **CG&E** and The Fifth Third Bank dated as of October 9, 1997. | **CG&E** September 30, 1997, Form 10–Q |
| 4–yy | **Cinergy Corp.**<br>**CG&E** | Fourth Supplemental Indenture between **CG&E** and The Fifth Third Bank dated as of April 1, 1998. | **CG&E** March 31, 1998, Form 10–Q |
| 4–zz | **Cinergy Corp.**<br>**CG&E** | Fifth Supplemental Indenture between **CG&E** and The Fifth Third Bank dated as of June 9, 1998. | **CG&E** June 30, 1998, Form 10–Q |
| 4–aaa | **Cinergy Corp.**<br>**CG&E** | Seventh Supplemental Indenture between **CG&E** and The Fifth Third Bank dated as of June 15, 2003. | **CG&E** June 30, 2003, Form 10–Q |
| 4–bbb | **Cinergy Corp.**<br>**CG&E**<br>**ULH&P** | Original Indenture (First Mortgage Bonds) between **ULH&P** and The Bank of New York dated as of February 1, 1949. | **ULH&P** Registration Statement No. 2–7793 |
| 4–ccc | **Cinergy Corp.**<br>**CG&E**<br>**ULH&P** | Fifth Supplemental Indenture between **ULH&P** and The Bank of New York dated as of January 1, 1967. | **CG&E** Registration Statement No. 2–60961 |
| 4–ddd | **Cinergy Corp.**<br>**CG&E**<br>**ULH&P** | Thirteenth Supplemental Indenture between **ULH&P** and The Bank of New York dated as of August 1, 1992. | **ULH&P** 1992 Form 10–K |
| 4–eee | **Cinergy Corp.**<br>**CG&E**<br>**ULH&P** | Original Indenture (Unsecured Debt Securities) between **ULH&P** and The Fifth Third Bank dated as of July 1, 1995. | **ULH&P** June 30, 1995, Form 10–Q |
| 4–fff | **Cinergy Corp.**<br>**CG&E**<br>**ULH&P** | First Supplemental Indenture between **ULH&P** and The Fifth Third Bank dated as of July 15, 1995. | **ULH&P** June 30, 1995, Form 10–Q |
| 4–ggg | **Cinergy Corp.**<br>**CG&E**<br>**ULH&P** | Second Supplemental Indenture between **ULH&P** and The Fifth Third Bank dated as of April 30, 1998. | **ULH&P** March 31, 1998, Form 10–Q |
| 4–hhh | **Cinergy Corp.**<br>**CG&E**<br>**ULH&P** | Third Supplemental Indenture between **ULH&P** and The Fifth Third Bank dated as of December 8, 1998. | **ULH&P** 1998 Form 10–K |
| 4–iii | **Cinergy Corp.**<br>**CG&E**<br>**ULH&P** | Fourth Supplemental Indenture between **ULH&P** and The Fifth Third Bank, as Trustee, dated as of September 17, 1999. | **ULH&P** September 30, 1999, Form 10–Q |
| 4–jjj | **Cinergy Corp.** | Base Indenture dated as of October 15, 1998, between Global Resources and The Fifth Third Bank, as Trustee. | **Cinergy Corp.** September 30, 1998, Form 10–Q |
| 4–kkk | **Cinergy Corp.** | First Supplemental Indenture dated as of October 15, 1998, between Global Resources and The Fifth Third Bank, as Trustee. | **Cinergy Corp.** September 30, 1998, Form 10–Q |
| 4–lll | **Cinergy Corp.** | Indenture dated as of December 16, 1998, between **Cinergy Corp.** and The Fifth Third Bank. | **Cinergy Corp.** 1998 Form 10–K |
| 4–mmm | **Cinergy Corp.** | Indenture between **Cinergy Corp.** and The Fifth Third Bank, as Trustee, dated as of April 15, 1999. | **Cinergy Corp.** March 31, 1999, Form 10–Q |
| 4–nnn | **Cinergy Corp.** | Indenture between **Cinergy Corp.** and The Fifth Third Bank, as Trustee, dated September 12, 2001. | **Cinergy Corp.** September 30, 2001, Form 10–Q |
| 4–ooo | **Cinergy Corp.** | First Supplemental Indenture between **Cinergy Corp.** and The Fifth Third Bank, as Trustee, dated September 12, 2001. | **Cinergy Corp.** September 30, 2001, Form 10–Q |
| 4–ppp | **Cinergy Corp.** | Second Supplemental Indenture, dated December 18, 2001, between **Cinergy Corp.** and The Fifth Third Bank, as Trustee. | **Cinergy Corp.** Form 8–K, December 19, 2001 |
| 4–qqq | **Cinergy Corp.** | Rights Agreement between **Cinergy Corp.** and The Fifth Third Bank, as Rights Agent, dated October 16, | **Cinergy Corp.** Registration Statement |

| | | | |
|---|---|---|---|
| | | 2000. | on Form 8–A dated October 16, 2000 |
| 4–rrr | **Cinergy Corp.** | Purchase Contract Agreement, dated December 18, 2001, between **Cinergy Corp.** and The Bank of New York, as Purchase Contract Agent. | **Cinergy Corp.** Form 8–K, December 19, 2001 |
| 4–sss | **Cinergy Corp.** | Pledge Agreement, dated December 18, 2001, among **Cinergy Corp.**, JP Morgan Chase Bank, as Collateral Agent, Custodial Agent and Securities Intermediary, and The Bank of New York, as Purchase Contract Agent. | **Cinergy Corp.** Form 8–K, December 19, 2001 |

| | | | |
|---|---|---|---|
| 4–ttt | **Cinergy Corp.**<br>**CG&E** | Thirty–ninth Supplemental Indenture dated as of September 1, 2002, between **CG&E** and The Bank of New York, as Trustee. | **Cinergy Corp.** September 30, 2002, Form 10–Q |
| 4–uuu | **Cinergy Corp.**<br>**PSI** | Fifty–fourth Supplemental Indenture dated as of September 1, 2002, between **PSI** and LaSalle Bank National Association, as Trustee. | **Cinergy Corp.** September 30, 2002, Form 10–Q |
| 4–vvv | **Cinergy Corp.**<br>**CG&E** | Sixth Supplemental Indenture between **CG&E** and Fifth Third Bank dated as of September 15, 2002. | **Cinergy Corp.** September 30, 2002, Form 10–Q |
| 4–www | **Cinergy Corp.**<br>**PSI** | Loan Agreement between **PSI** and the Indiana Development Finance Authority dated as of September 1, 2002. | **Cinergy Corp.** September 30, 2002, Form 10–Q |
| 4–xxx | **Cinergy Corp.**<br>**PSI** | Loan Agreement between **PSI** and the Indiana Development Finance Authority dated as of September 1, 2002. | **Cinergy Corp.** September 30, 2002, Form 10–Q |
| 4–yyy | **Cinergy Corp.**<br>**CG&E** | Loan Agreement between **CG&E** and the Ohio Air Quality Development Authority dated as of September 1, 2002. | **Cinergy Corp.** September 30, 2002, Form 10–Q |
| 4–zzz | **Cinergy Corp.** | First Amendment to Rights Agreement, dated August 28, 2002, effective September 16, 2002, between **Cinergy Corp.** and The Fifth Third Bank, as Rights Agent. | **Cinergy Corp.** Form 8–A/A, Amendment No. 1, filed September 16, 2002 |
| 4–aaaa | **PSI** | Loan Agreement between **PSI** and the Indiana Development Finance Authority dated as of February 15, 2003. | **PSI** March 31, 2003, Form 10–Q |
| 4–bbbb | **PSI** | 6.302% Subordinated Note between **PSI** and **Cinergy Corp.**, dated February 5, 2003. | **PSI** March 31, 2003, Form 10–Q |
| 4–cccc | **PSI** | 6.403% Subordinated Note between **PSI** and **Cinergy Corp.**, dated February 5, 2003. | **PSI** March 31, 2003, Form 10–Q |
| 4–dddd | **CG&E** | Loan Agreement between **CG&E** and the Ohio Air Quality Development Authority dated as of November 1, 2004, relating to Series A | **CG&E** Form 8–K, filed November 19, 2004 |
| 4–eeee | **CG&E** | Loan Agreement between **CG&E** and the Ohio Air Quality Development Authority dated as of November 1, 2004, relating to Series B | **CG&E** Form 8–K, filed November 19, 2004 |
| 4–ffff | **PSI** | Loan Agreement between **PSI** and the Indiana Development Finance Authority dated as of December 1, 2004, relating to Series 2004B | **PSI** Form 8–K, filed December 9, 2004 |
| 4–gggg | **PSI** | Loan Agreement between **PSI** and the Indiana Development Finance Authority dated as of December 1, 2004, relating to Series 2004C | **PSI** Form 8–K, filed December 9, 2004 |
| 4–hhhh | **Cinergy Corp.**<br>**PSI** | Fifty–Sixth Supplemental Indenture dated as of December 1, 2004, between **PSI** and LaSalle Bank National Association, as Trustee | |
| 4–iiii | **Cinergy Corp.**<br>**ULH&P** | Indenture between ULH&P and Deutsche Bank dated as of December 1, 2004, between ULH&P and Deutsche Bank Trust Company Americas, as Trustee | |
| **Material contracts** | | | |
| 10–a | **Cinergy Corp.**<br>**CG&E**<br>**PSI** | Amended and Restated Employment Agreement dated October 24, 1994, among **CG&E**, **Cinergy Corp.**, PSI Resources, Inc., and **PSI**, and Jackson H. Randolph. | **Cinergy Corp.** 1994 Form 10–K |
| 10–b | **Cinergy Corp.**<br>**CG&E**<br>**PSI** | Employment Agreement dated February 4, 2004, among **Cinergy Corp.**, **CG&E**, and **PSI**, and James E. Rogers. | **Cinergy Corp.** 2003 Form 10–K |
| 10–c | **Cinergy Corp.**<br>**CG&E**<br>**PSI** | Amended and Restated Employment Agreement dated October 11, 2002, among **Cinergy Corp.**, Cinergy Services, Inc. (Services), **CG&E**, and **PSI**, and William J. Grealis. | **Cinergy Corp.** 2002 Form 10–K |
| 10–d | **Cinergy Corp.**<br>**CG&E**<br>**PSI** | Amended Employment Agreement effective December 17, 2003 to Employment Agreement dated October 11, 2002, among **Cinergy Corp.**, Services, **CG&E**, and **PSI**, and William J. Grealis. | **Cinergy Corp.** 2003 Form 10–K |
| 10–e | **Cinergy Corp.**<br>**CG&E** | Amended and Restated Employment Agreement dated October 1, 2002, among **Cinergy Corp.**, Services, | **Cinergy Corp.** 2002 Form 10–K |

| | | | |
|---|---|---|---|
| | **PSI** | **CG&E**, and **PSI**, and Donald B. Ingle, Jr. | |
| 10–f | **Cinergy Corp.**<br>**CG&E**<br>**PSI** | Amended and Restated Employment Agreement dated September 12, 2002, among **Cinergy Corp.**, Services, **CG&E**, and **PSI**, and Michael J. Cyrus. | **Cinergy Corp.** 2002 Form 10–K |
| 10–g | **Cinergy Corp.**<br>**CG&E**<br>**PSI** | Amended Employment Agreement effective December 17, 2003 to Employment Agreement dated September 12, 2002, among **Cinergy Corp.**, Services, **CG&E**, and **PSI**, and Michael J. Cyrus. | **Cinergy Corp.** 2003 Form 10–K |
| 10–h | **Cinergy Corp.**<br>**CG&E**<br>**PSI** | Amended and Restated Employment Agreement dated September 24, 2002, among **Cinergy Corp.**, Services, **CG&E**, and **PSI**, and James L. Turner. | **Cinergy Corp.** 2002 Form 10–K |
| 10–i | **Cinergy Corp.**<br>**CG&E**<br>**PSI** | Amended Employment Agreement effective December 17, 2003 to Employment Agreement dated September 24, 2002, among **Cinergy Corp.**, Services, **CG&E**, and **PSI**, and James L. Turner. | **Cinergy Corp.** 2003 Form 10–K |
| 10–j | **Cinergy Corp.**<br>**CG&E**<br>**PSI** | Amended and Restated Employment Agreement dated January 1, 2002, among **Cinergy Corp.**, Services, **CG&E**, and **PSI**, and R. Foster Duncan. | **Cinergy Corp.** 2002 Form 10–K |
| 10–k | **Cinergy Corp.**<br>**CG&E**<br>**PSI** | Amended Employment Agreement effective December 17, 2003 to Employment Agreement dated January 1, 2002, among **Cinergy Corp.**, Services, **CG&E**, and **PSI**, and R. Foster Duncan. | **Cinergy Corp.** 2003 Form 10–K |
| 10–l | **Cinergy Corp.**<br>**CG&E**<br>**PSI** | Employment Agreement dated November 15, 2002, among **Cinergy Corp.**, **CG&E**, and **PSI** and Marc E. Manly. | **Cinergy Corp.** 2003 Form 10–K |
| 10–m | **Cinergy Corp.**<br>**CG&E**<br>**PSI** | Amended Employment Agreement effective December 17, 2003 to Employment Agreement dated November 15, 2002, among **Cinergy Corp.**, **CG&E**, and **PSI**, and Marc E. Manly. | **Cinergy Corp.** 2003 Form 10–K |
| 10–n | **Cinergy Corp.** | Amended and Restated Separation and Retirement Agreement and Waiver and Release of Liability dated February 15, 2002, between **Cinergy Corp.**, and Larry E. Thomas. | **Cinergy Corp.** 2001 Form 10–K |

| | | | |
|---|---|---|---|
| 10–o | **Cinergy Corp.** | Separation and Retirement Agreement and Waiver and Release of Liability dated October 8, 2002 between **Cinergy Corp.** and Donald B. Ingle, Jr. | **Cinergy Corp.** 2002 Form 10–K |
| 10–p | **Cinergy Corp.**<br>**PSI** | Deferred Compensation Agreement, effective as of January 1, 1992, between **PSI** and James E. Rogers. | **PSI** Form 10–K/A, Amendment No. 1, dated April 29, 1993 |
| 10–q | **Cinergy Corp.**<br>**PSI** | Split Dollar Life Insurance Agreement, effective as of January 1, 1992, between **PSI** and James E. Rogers. | **PSI** Form 10–K/A, Amendment No. 1, dated April 29, 1993 |
| 10–r | **Cinergy Corp.**<br>**PSI** | First Amendment to Split Dollar Life Insurance Agreement between **PSI** and James E. Rogers dated December 11, 1992. | **PSI** Form 10–K/A, Amendment No. 1, dated April 29, 1993 |
| 10–s | **Cinergy Corp.**<br>**CG&E** | Deferred Compensation Agreement between **CG&E** and Jackson H. Randolph dated January 1, 1992. | **CG&E** 1992 Form 10–K |
| 10–t | **Cinergy Corp.**<br>**CG&E** | Split Dollar Insurance Agreement, effective as of May 1, 1993, between **CG&E** and Jackson H. Randolph. | **CG&E** 1994 Form 10–K |
| 10–u | **Cinergy Corp.**<br>**CG&E** | Amended and Restated Supplemental Retirement Income Agreement between **CG&E** and Jackson H. Randolph dated January 1, 1995. | **CG&E** 1995 Form 10–K |
| 10–v | **Cinergy Corp.**<br>**CG&E** | Amended and Restated Supplemental Executive Retirement Income Agreement between **CG&E** and certain executive officers. | **CG&E** 1997 Form 10–K |
| 10–w | **Cinergy Corp.** | **Cinergy Corp.** Supplemental Executive Retirement Plan amended and restated effective January 1, 1999, adopted October 15, 1998. | **Cinergy Corp.** 1999 Form 10–K |
| 10–x | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Supplemental Executive Retirement Plan, effective January 1, 2003, adopted October 10, 2003. | **Cinergy Corp.** 2003 Form 10–K |
| 10–y | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Supplemental Executive Retirement Plan, effective January 1, 2003, adopted December 15, 2003. | **Cinergy Corp.** 2003 Form 10–K |
| 10–z | **Cinergy Corp.** | 1997 Amendments to Various Compensation and Benefit Plans of **Cinergy Corp.**, adopted January 30, 1997. | **Cinergy Corp.** 1997 Form 10–K |
| 10–aa | **Cinergy Corp.** | **Cinergy Corp.** Stock Option Plan, adopted October 18, 1994, effective October 24, 1994. | **Cinergy Corp.** Form S–8, filed October 19, 1994 |
| 10–bb | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Stock Option Plan, amended October 22, 1996, effective November 1, 1996. | **Cinergy Corp.** September 30, 1996, Form 10–Q |
| 10–cc | **Cinergy Corp.** | Amended and Restated **Cinergy Corp.** Annual Incentive Plan, effective January 25, 2002. | **Cinergy Corp.** 2001 Form 10–K |
| 10–dd | **Cinergy Corp.** | **Cinergy Corp.** Employee Stock Purchase and Savings Plan, adopted October 18, 1994, effective October 24, 1994. | **Cinergy Corp.** Form S–8, filed October 19, 1994 |
| 10–ee | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Employee Stock Purchase and Savings Plan, adopted April 26, 1996, effective January 1, 1996. | **Cinergy Corp.** June 30, 1996, Form 10–Q |
| 10–ff | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Employee Stock Purchase and Savings Plan, adopted October 22, 1996, effective November 1, 1996. | **Cinergy Corp.** September 30, 1996, Form 10–Q |
| 10–gg | **Cinergy Corp.** | **Cinergy Corp.** UK Sharesave Scheme, adopted and effective December 16, 1999. | **Cinergy Corp.** 1999 Form 10–K |
| 10–hh | **Cinergy Corp.** | **Cinergy Corp.** Directors' Deferred Compensation Plan, adopted October 18, 1994, effective October 24, 1994. | **Cinergy Corp.** Form S–8, filed October 19, 1994 |
| 10–ii | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Directors' Deferred Compensation Plan, adopted October 22, 1996. | **Cinergy Corp.** September 30, 1996, Form 10–Q |
| 10–jj | **Cinergy Corp.** | **Cinergy Corp.** Retirement Plan for Directors, amended and restated effective January 1, 1999, adopted October 15, 1998. | **Cinergy Corp.** Schedule 14A Definitive Proxy Statement filed March 12, 1999 |
| 10–kk | **Cinergy Corp.** | **Cinergy Corp.** Directors' Equity Compensation Plan adopted October 15, 1998, effective January 1, 1999. | **Cinergy Corp.** Schedule 14A Definitive Proxy Statement filed March 12, 1999 |
| 10–ll | **Cinergy Corp.** | | |

| | | | |
|---|---|---|---|
| | | **Cinergy Corp.** Executive Supplemental Life Insurance Program adopted October 18, 1994, effective October 24, 1994, consisting of Defined Benefit Deferred Compensation Agreement, Executive Supplemental Life Insurance Program Split Dollar Agreement I, and Executive Supplemental Life Insurance Program Split Dollar Agreement II. | **Cinergy Corp.** 1994 Form 10–K |
| 10–mm | **Cinergy Corp.** | **Cinergy Corp.** Executive Life Insurance Plan, effective as of January 1, 2004, adopted December 18, 2003. | **Cinergy Corp.** 2003 Form 10–K |
| 10–nn | **Cinergy Corp.** | Amended and Restated **Cinergy Corp.** 1996 Long–term Incentive Compensation Plan, effective January 25, 2002. | **Cinergy Corp.** 2001 Form 10–K |
| 10–oo | **Cinergy Corp.** | **Cinergy Corp.** 401(k) Excess Plan, effective January 1, 1997, adopted December 17, 1996. | **Cinergy Corp.** 1996 Form 10–K |
| 10–pp | **Cinergy Corp.** | Amendment to **Cinergy Corp.** 401(k) Excess Plan, adopted January 24, 2002, effective January 1, 2002. | **Cinergy Corp.** Form S–8, filed January 31, 2002 |

| | | | |
|---|---|---|---|
| 10–qq | **Cinergy Corp.** | Amendment to **Cinergy Corp.** 401(k) Excess Plan, adopted December 18, 2002, effective January 1, 2003. | **Cinergy Corp.** 2002 Form 10–K |
| 10–rr | **Cinergy Corp.** | Amendment to **Cinergy Corp.** 401(k) Excess Plan, adopted March 31, 2004, effective January 1, 2004. | **Cinergy Corp.** March 31, 2004 Form 10–Q |
| 10–ss | **Cinergy Corp.** | **Cinergy Corp.** Nonqualified Deferred Incentive Compensation Plan, effective January 1, 1997, adopted December 17, 1996. | **Cinergy Corp.** 1996 Form 10–K |
| 10–tt | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Nonqualified Deferred Incentive Compensation Plan, adopted December 18, 2002, effective January 1, 2002. | **Cinergy Corp.** 2002 Form 10–K |
| 10–uu | **Cinergy Corp.** | **Cinergy Corp.** Director, Officer and Key Employee Stock Purchase Program, effective January 7, 2000, adopted December 10, 1999. | **Cinergy Corp.** 1999 Form 10–K |
| 10–vv | **Cinergy Corp.** | **Cinergy Corp.** Non–Union Employees' Pension Plan adopted December 18, 2002, amended and restated effective January 1, 2003. | **Cinergy Corp.** 2002 Form 10–K |
| 10–ww | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Non–Union Employees' Pension Plan, effective May 1, 2003, adopted October 10, 2003. | **Cinergy Corp.** 2003 Form 10–K |
| 10–xx | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Non–Union Employees' Pension Plan, effective December 1, 2003, adopted October 10, 2003. | **Cinergy Corp.** 2003 Form 10–K |
| 10–yy | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Non–Union Employees' Pension Plan, effective January 1, 2005, adopted December 17, 2004. | |
| 10–zz | **Cinergy Corp.** | **Cinergy Corp.** Non–Union Employees' Severance Opportunity Plan as amended and restated effective June 1, 2001, adopted May 30, 2001. | **Cinergy Corp.** June 30, 2001, Form 10–Q |
| 10–aaa | **Cinergy Corp.** | Amendment to the Amended and Restated Separation and Retirement Agreement and Waiver and Release of Liability, between **Cinergy Corp.** and Larry E. Thomas. | **Cinergy Corp.** March 31, 2002, Form 10–Q |
| 10–bbb | **Cinergy Corp.** | Second Amendment to the Amended and Restated Separation and Retirement Agreement and Waiver and Release of Liability, between **Cinergy Corp.** and Larry E. Thomas. | **Cinergy Corp.** June 30, 2002, Form 10–Q |
| 10–ccc | **Cinergy Corp.** | Amended and Restated **Cinergy Corp.** Non–Union Employees' 401(k) Plan, adopted December 18, 2002, effective January 1, 2003. | **Cinergy Corp.** 2002 Form 10–K |
| 10–ddd | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Non–Union Employees' 401(k) Plan, effective December 1, 2003, adopted October 10, 2003. | **Cinergy Corp.** 2003 Form 10–K |
| 10–eee | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Non–Union Employees' 401(k) Plan, effective January 1, 2004, adopted December 16, 2003. | **Cinergy Corp.** 2003 Form 10–K |
| 10–fff | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Non–Union Employees' 401(k) Plan, effective January 1, 2005, adopted December 17, 2004. | |
| 10–ggg | **Cinergy Corp.** | **Cinergy Corp.** Union Employees' 401(k) Plan as amended and restated effective January 1, 1998, adopted December 18, 1997. | **Cinergy Corp.** 1999 Form 10–K |
| 10–hhh | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Union Employees' 401(k) Plan, adopted December 1, 1999, effective December 10, 1999. | **Cinergy Corp.** 1999 Form 10–K |
| 10–iii | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Union Employees' 401(k) Plan, effective January 1, 2004, adopted December 16, 2003. | **Cinergy Corp.** 2003 Form 10–K |
| 10–jjj | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Union Employees' 401(k) Plan, effective January 1, 2005, adopted December 17, 2004. | |
| 10–kkk | **Cinergy Corp.** | **Cinergy Corp.** Union Employees' Savings Incentive Plan as amended and restated effective January 1, 1998, adopted December 18, 1997. | **Cinergy Corp.** 1999 Form 10–K |
| 10–lll | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Union Employees' Savings Incentive Plan, effective December 1, 1999, adopted December 10, 1999. | **Cinergy Corp.** 1999 Form 10–K |

| | | | |
|---|---|---|---|
| 10–mmm | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Union Employees' Savings Incentive Plan, effective January 1, 2004, adopted December 16, 2003. | **Cinergy Corp.** 2003 Form 10–K |
| 10–nnn | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Union Employees' Savings Incentive Plan, effective January 1, 2005, adopted December 17, 2004. | |
| 10–ooo | **Cinergy Corp.** | **Cinergy Corp.** Excess Profit Sharing Plan, effective as of January 1, 2003, adopted December 20, 2002. | **Cinergy Corp.** 2003 Form 10–K |
| 10–ppp | **Cinergy Corp.** | **Cinergy Corp.** Excess Pension Plan, as amended and restated, effective as of January 1, 1998. | **Cinergy Corp.** 2003 Form 10–K |
| 10–qqq | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Excess Pension Plan, effective as of August 29, 2002. | **Cinergy Corp.** 2003 Form 10–K |
| 10–rrr | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Excess Pension Plan, effective as of January 1, 2003, adopted October 10, 2003. | **Cinergy Corp.** 2003 Form 10–K |
| 10–sss | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Excess Pension Plan, effective as of December 15, 2003. | **Cinergy Corp.** 2003 Form 10–K |

| | | | |
|---|---|---|---|
| 10–ttt | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Excess Pension Plan, effective as of January 1, 2004, adopted December 16, 2003. | **Cinergy Corp.** 2003 Form 10–K |
| 10–uuu | **Cinergy Corp.** | Amendment to **Cinergy Corp.** Excess Pension Plan, effective as of January 1, 2005, adopted December 17, 2004. | |
| 10–vvv | **PSI** | Asset Purchase Agreement by and among Cinergy Capital & Trading, Inc., CinCap Madison, LLC and **PSI** dated as of February 5, 2003. | **PSI** March 31, 2003 Form 10–Q |
| 10–www | **PSI** | Asset Purchase Agreement by and among Cinergy Capital & Trading, Inc., CinCap VII, LLC and **PSI** dated as of February 5, 2003. | **PSI** March 31, 2003 Form 10–Q |
| 10–xxx | **Cinergy Corp.** | Form of incentive stock option grant agreement. | **Cinergy Corp.** September 30, 2004 Form 10–Q |
| 10–yyy | **Cinergy Corp.** | Form of non–qualified stock option grant agreement. | **Cinergy Corp.** September 30, 2004 Form 10–Q |
| 10–zzz | **Cinergy Corp.** | Form of restricted stock grant agreement. | **Cinergy Corp.** September 30, 2004 Form 10–Q |
| 10–aaaa | **Cinergy Corp.** | Form of performance share grant agreement. | **Cinergy Corp.** September 30, 2004 Form 10–Q |
| 10–bbbb | **Cinergy Corp.** | Form of phantom stock grant agreement. | **Cinergy Corp.** September 30, 2004 Form 10–Q |
| 10–cccc | **Cinergy Corp.** | Summary Sheet of Compensation Arrangement between **Cinergy Corp.** and its Non–Employee Directors. | |
| 10–dddd | **Cinergy Corp.** | Form of Stock Award Agreement by and between **Cinergy Corp.** and its Directors | **Cinergy Corp.** Form 8–K, filed December 14, 2004 |
| 10–eeee | **Cinergy Corp.** | Form of Deferred Compensation Agreement by and between **Cinergy Corp.** and its Directors | **Cinergy Corp.** Form 8–K, filed December 14, 2004 |
| **Subsidiaries of the registrant** | | | |
| 21 | **Cinergy Corp.**<br>**CG&E**<br>**PSI** | Subsidiaries of **Cinergy Corp.**, **CG&E**, and **PSI** | |
| **Consent of experts and counsel** | | | |
| 23 | **Cinergy Corp.**<br>**CG&E**<br>**PSI**<br>**ULH&P** | Independent Auditors' Consent | |
| **Power of attorney** | | | |
| 24 | **Cinergy Corp.**<br>**CG&E**<br>**PSI**<br>**ULH&P** | Power of Attorney | |
| **Certifications** | | | |
| 31–a | **Cinergy Corp.**<br>**CG&E**<br>**PSI**<br>**ULH&P** | Certification by James E. Rogers pursuant to Rule 13a–14(a)/15d–14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes–Oxley Act of 2002. | |
| 31–b | **Cinergy Corp.**<br>**CG&E**<br>**PSI**<br>**ULH&P** | Certification by James L. Turner pursuant to Rule 13a–14(a)/15d–14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes–Oxley Act of 2002. | |
| 32–a | **Cinergy Corp.**<br>**CG&E** | Certification by James E. Rogers pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of | |

| | | |
|---|---|---|
| | **PSI**<br>**ULH&P** | the Sarbanes–Oxley Act of 2002. |
| 32–b | **Cinergy Corp.**<br>**CG&E**<br>**PSI**<br>**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. |

(1) Regulation S–K 229.10(d) requires Registrants to identify the physical location, by SEC file number reference, of all documents that are incorporated by reference and have been on file with the SEC for more than five years. The SEC file number references for **Cinergy** and its subsidiaries, which are registrants are provided below:
**Cinergy Corp.** in file number 1–11377
**CG&E** in file number 1–1232
**PSI** in file number 1–3543
**ULH&P** in file number 2–7793

Each registrant hereby undertakes to furnish to the SEC upon request a copy of any long–term debt instrument not previously listed.

## FINANCIAL STATEMENT SCHEDULES

## SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS

## FOR THE THREE YEARS ENDED DECEMBER 31, 2004

*(in thousands)*

| Col. A | Col. B | Col. C | | Col. D | | Col. E |
|---|---|---|---|---|---|---|
| | | Additions | | Deductions | | |
| Description | Balance at Beginning of Period | Charged to Expenses | Charged to Other Accounts | For Purposes for Which Reserves Were Created | Other | Balance at Close of Period |
| **Cinergy Corp.** and subsidiaries | | | | | | |
| **Accumulated Provisions Deducted from Applicable Assets** | | | | | | |
| Allowance for Doubtful Accounts | | | | | | |
| **2004** | **$ 7,884** | **$ 1,317** | **$ 153** | **$ 3,840** | **$ —** | **$ 5,514** |
| 2003 | $ 16,368 | $ 3,256 | $ 302 | $ 12,042 | $ — | $ 7,884 |
| 2002 | $ 34,110 | $ 7,883 | $ 9,270 | $ 34,873 | $ 22 | $ 16,368 |
| **CG&E** and subsidiaries | | | | | | |
| **Accumulated Provisions Deducted from Applicable Assets** | | | | | | |
| Allowance for Doubtful Accounts | | | | | | |
| **2004** | **$ 1,602** | **$ 570** | **$ 114** | **$ 1,564** | **$ —** | **$ 722** |
| 2003 | $ 5,942 | $ 2,900 | $ 256 | $ 7,496 | $ — | $ 1,602 |
| 2002 | $ 25,874 | $ 2,029 | $ 6,096 | $ 28,057 | $ — | $ 5,942 |
| **PSI** | | | | | | |
| **Accumulated Provisions Deducted from Applicable Assets** | | | | | | |
| Allowance for Doubtful Accounts | | | | | | |
| **2004** | **$ 1,110** | **$ 21** | **$ —** | **$ 960** | **$ —** | **$ 171** |
| 2003 | $ 5,656 | $ — | $ — | $ 4,546 | $ — | $ 1,110 |
| 2002 | $ 6,773 | $ 2,310 | $ 3,174 | $ 6,579 | $ 22 | $ 5,656 |
| **ULH&P** | | | | | | |
| **Accumulated Provisions Deducted from Applicable Assets** | | | | | | |
| Allowance for Doubtful Accounts | | | | | | |
| **2004** | **$ 192** | **$ —** | **$ —** | **$ 179** | **$ —** | **$ 13** |
| 2003 | $ 84 | $ — | $ 108 | $ — | $ — | $ 192 |
| 2002 | $ 1,196 | $ 392 | $ 2,383 | $ 3,887 | $ — | $ 84 |

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Cinergy Corp., The Cincinnati Gas & Electric Company, PSI Energy, Inc., and The Union Light, Heat and Power Company each 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: February 25, 2004

By /s/ James E. Rogers
James E. Rogers
Chief Executive Officer

Pursuant to the requirements of the Exchange Act, this report has been signed by the following persons on behalf of the indicated registrants and in the capacities and on the dates indicated:

| Signature | Title | Date |
|---|---|---|
| **Cinergy Corp.** | | |
| Michael G. Browning* | Director | February 25, 2005 |
| Phillip R. Cox* | Director | February 25, 2005 |
| George C. Juilfs* | Director | February 25, 2005 |
| Thomas E. Petry* | Director | February 25, 2005 |
| /s/ James E. Rogers<br>James E. Rogers | Director and Chief Executive Officer (principal executive officer) | February 25, 2005 |
| Mary L. Schapiro* | Director | February 25, 2005 |
| John J. Schiff, Jr.* | Director | February 25, 2005 |
| Philip R. Sharp* | Director | February 25, 2005 |
| Dudley S. Taft* | Director | February 25, 2005 |
| /s/ James L. Turner<br>James L. Turner | Chief Financial Officer (principal financial officer) | February 25, 2005 |
| /s/ Lynn J. Good<br>Lynn J. Good | Vice President and Controller (principal accounting officer) | February 25, 2005 |
| **CG&E** | | |
| Michael J. Cyrus* | Director | February 25, 2005 |
| /s/ James E. Rogers<br>James E. Rogers | Director and Chief Executive Officer (principal executive officer) | February 25, 2005 |
| /s/ James L. Turner<br>James L. Turner | Director and Chief Financial Officer (principal financial officer) | February 25, 2005 |
| /s/ Lynn J. Good<br>Lynn J. Good | Vice President and Controller (principal accounting officer) | February 25, 2005 |
| **PSI** | | |
| Michael G. Browning* | Director | February 25, 2005 |
| Kay E. Pashos* | Director | February 25, 2005 |
| /s/ James E. Rogers<br>James E. Rogers | Director and Chief Executive Officer (principal executive officer) | February 25, 2005 |
| /s/ James L. Turner<br>James L. Turner | Chief Financial Officer (principal financial officer) | February 25, 2005 |
| /s/ Lynn J. Good<br>Lynn J. Good | Vice President and Controller (principal accounting officer) | February 25, 2005 |
| **ULH&P** | | |
| Michael J. Cyrus* | Director | February 25, 2005 |
| /s/ James E. Rogers<br>James E. Rogers | Director and Chief Executive Officer (principal executive officer) | February 25, 2005 |

| | | |
|---|---|---|
| /s/ James L. Turner<br>James L. Turner | Director and Chief Financial Officer (principal financial officer) | February 25, 2005 |
| /s/ Lynn J. Good<br>Lynn J. Good | Vice President and Controller (principal accounting officer) | February 25, 2005 |

* The undersigned, by signing his name hereto, does hereby execute this Form 10–K on behalf of the officers and directors of the registrant previously indicated by asterisks, pursuant to powers of attorney duly executed by such officers and directors and incorporated by reference as an exhibit to this Form 10–K.

/s/ James E. Rogers
James E. Rogers
*Attorney–In–Fact*
February 25, 2005

/s/ James L. Turner
James L. Turner
*Attorney–In–Fact*
February 25, 2005

# FIFTY-SIXTH SUPPLEMENTAL

# INDENTURE

# TO

# INDENTURE DATED SEPTEMBER 1, 1939

---

PSI ENERGY, INC.

(FORMERLY NAMED "PUBLIC SERVICE COMPANY OF INDIANA, INC." AND

SUCCESSOR BY CONSOLIDATION TO PUBLIC SERVICE COMPANY OF INDIANA)

TO

LASALLE BANK NATIONAL ASSOCIATION

AS TRUSTEE

(FORMERLY NAMED "LASALLE NATIONAL BANK" AND THE

SUCCESSOR TRUSTEE TO THE FIRST NATIONAL BANK OF CHICAGO)

---

DATED AS OF DECEMBER 1, 2004

---

CREATING FIRST MORTGAGE BONDS, SERIES III, DUE DECEMBER 1, 2039 AND

FIRST MORTGAGE BONDS, SERIES JJJ, DUE DECEMBER 1, 2039

AND

OTHERWISE SUPPLEMENTING AND AMENDING THE INDENTURE

## TABLE OF CONTENTS

FIFTY-SIXTH SUPPLEMENTAL INDENTURE dated as of the first day of December, 2004, made and entered into by and between PSI ENERGY, INC. (hereinafter commonly referred to as the "Company"), a corporation organized and existing under the laws of the State of Indiana, formerly named Public Service Company of Indiana, Inc., and the successor by consolidation to Public Service Company of Indiana, an Indiana corporation, party of the first part, and LASALLE BANK NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States and having its office or place of business in the City of Chicago, State of Illinois, formerly named LaSalle National Bank, and the successor trustee to The First National Bank of Chicago (hereinafter commonly referred to as the "Trustee"), party of the second part,

WITNESSETH:

WHEREAS, Public Service Company of Indiana (hereinafter commonly referred to as the "Initial Mortgagor"), prior to its consolidation with certain other corporations to form the Company, executed and delivered to the Trustee a certain indenture of mortgage or deed of trust (hereinafter called the "original Indenture" when referred to as existing prior to any amendment thereto, and the "Indenture" when referred to as heretofore, now or hereafter amended), dated September 1, 1939, and a First Supplemental Indenture thereto, dated as of March 1, 1941, to secure the bonds of the Initial Mortgagor, its successors and assigns, issued from time to time under the Indenture in series for the purposes of and subject to the limitations specified in the Indenture; and

WHEREAS, the Company on September 6, 1941, became, through a consolidation, the successor of the Initial Mortgagor (and four other companies) and succeeded to all the rights and became liable for all the obligations of the Initial Mortgagor (and such other companies); and

WHEREAS, after said consolidation, the Company executed and delivered a Second Supplemental Indenture, dated as of November 1, 1941, to the original Indenture for the purposes, among others, of (i) the making by the Company of an agreement of assumption and adoption by it of the Indenture, (ii) the assumption by the Company of the bonds (and interest and premium, if any, thereon) issued or to be issued under the Indenture, and of all terms, covenants and conditions binding upon it under the Indenture, and the agreeing by the Company to pay, perform and fulfill the same, and (iii) the conveying to the Trustee upon the trusts declared in the Indenture, but subject to any outstanding liens and encumbrances, all the property which the Company then owned or which it might thereafter acquire, except property of a character similar to the property of the Initial Mortgagor which is excluded from the lien of the Indenture; and

WHEREAS, all conditions have been met and all acts and things necessary have been done and performed to make the Indenture the valid and binding agreement of the Company and to substitute the Company for the Initial Mortgagor under the Indenture, and to vest the Company with each and every right and power of the Initial Mortgagor, including the right and power to issue bonds thereunder; and

WHEREAS, the Company has subsequently executed and delivered, for purposes authorized under the Indenture, a Third Supplemental Indenture dated as of March 1, 1942, a Fourth Supplemental Indenture dated as of May 1, 1943, a Fifth Supplemental Indenture dated as of August 1, 1944, a Sixth Supplemental Indenture dated as of September 1, 1945, a Seventh Supplemental Indenture dated as of November 1, 1947, an Eighth Supplemental Indenture dated as of January 1, 1949, a Ninth Supplemental Indenture dated as of May 1, 1950, a Tenth Supplemental Indenture dated as of July 1, 1952, an Eleventh Supplemental Indenture dated as of January 1, 1954, a Twelfth Supplemental Indenture dated as of October 1, 1957, a Thirteenth Supplemental Indenture dated as of February 1, 1959, a Fourteenth Supplemental Indenture dated as of July 15, 1960, a Fifteenth Supplemental Indenture dated as of June 15, 1964, a Sixteenth Supplemental Indenture dated as of January 1, 1969, a Seventeenth Supplemental Indenture dated as of March 1, 1970, an Eighteenth Supplemental Indenture dated as of January 1, 1971, a Nineteenth Supplemental Indenture dated as of January 1, 1972, a Twentieth Supplemental Indenture dated as of February 1, 1974, a Twenty–First Supplemental Indenture dated as of August 1, 1974, a Twenty–Second Supplemental Indenture dated as of August 1, 1975, a Twenty–Third Supplemental Indenture dated as of January 1, 1977, a Twenty–Fourth Supplemental Indenture dated as of October 1, 1977, a Twenty–Fifth Supplemental Indenture dated as of September 1, 1978, a Twenty–Sixth Supplemental Indenture dated as of September 1, 1978, a Twenty–Seventh Supplemental Indenture dated as of March 1, 1979, a Twenty–Eighth Supplemental Indenture dated as of May 1, 1979, a Twenty–Ninth Supplemental Indenture dated as of March 1, 1980, a Thirtieth Supplemental Indenture dated as of August 1, 1980, a Thirty–First Supplemental Indenture dated as of February 1, 1981, a Thirty–Second Supplemental Indenture dated as of August 1, 1981, a Thirty–Third Supplemental Indenture dated as of December 1, 1981, a Thirty–Fourth Supplemental Indenture dated as of December 1, 1982, a Thirty–Fifth Supplemental Indenture dated as of March 30, 1984, a Thirty–Sixth Supplemental Indenture dated as of November 15, 1984, a Thirty–Seventh Supplemental Indenture dated as of August 15, 1985, a Thirty–Eighth Supplemental Indenture dated as of October 1, 1986, a Thirty–Ninth Supplemental Indenture dated as of March 15, 1987, a Fortieth Supplemental Indenture dated as of June 1, 1987, a Forty–First Supplemental Indenture dated as of June 15, 1988, a Forty–Second Supplemental Indenture dated as of August 1, 1988, a Forty–Third Supplemental Indenture dated as of September 15, 1989, a Forty–Fourth Supplemental Indenture dated as of March 15, 1990, a Forty–Fifth Supplemental Indenture dated as of March 15, 1990, a Forty–Sixth Supplemental Indenture dated as of June 1, 1990, a Forty–Seventh Supplemental Indenture dated as of July 15, 1991, a Forty–Eighth Supplemental Indenture dated as of July 15, 1992, a Forty–Ninth Supplemental Indenture dated as of February 15, 1993, a Fiftieth Supplemental Indenture dated as of February 15, 1993, a Fifty–First Supplemental Indenture dated as of February 1, 1994, a Fifty–Second Supplemental Indenture dated as of April 30, 1999, a Fifty–Third Supplemental Indenture dated as of June 15, 2001, a Fifty–Fourth Supplemental Indenture dated as of September 1, 2002, and a Fifty–Fifth Supplemental Indenture dated as of February 15, 2003, each supplementing and amending the Indenture; and

WHEREAS, the Thirty–Fifth Supplemental Indenture authorized and appointed LaSalle Bank National Association, a national banking association duly organized and existing under the law of the United States of America with its principal office in Chicago, Illinois and formerly named LaSalle National Bank, as Successor Trustee to The First National Bank of Chicago, which appointment was accepted, and all trust powers under the Indenture were thereby transferred from The First National Bank of Chicago to LaSalle Bank National Association; and

WHEREAS, the Forty–Sixth Supplemental Indenture amended the Indenture to reflect a change in the name of the Company from Public Service Company of Indiana, Inc. to PSI Energy, Inc. effective as of April 20, 1990; and

WHEREAS, as of December 1, 2004, the only bonds that have been heretofore issued under the Indenture which are now outstanding are $7,500,000 aggregate principal amount of "PSI Energy, Inc. First Mortgage Bonds, Series VV, Due July 15, 2026" and $70,000,000 aggregate principal amount of "PSI Energy, Inc. First Mortgage Bonds, Series WW, Due August 15, 2027" and $50,000,000 aggregate principal amount of "PSI Energy, Inc. First Mortgage Bonds, Series ZZ, 5 3/4%, Due February 15, 2028" and $30,000,000 aggregate principal amount of "PSI Energy, Inc. First Mortgage Bonds, Series AAA, 7 1/8%, Due February 1, 2024" and $124,665,000 aggregate principal amount of "PSI Energy, Inc. First Mortgage Bonds, Series BBB, 8%, Due July 15, 2009" (such bonds being hereinafter referred to as "Bonds of Series BBB") and $53,055,000 aggregate principal amount of "PSI Energy, Inc. First Mortgage Bonds, Series CCC, 8.85%, Due January 15, 2022" and $38,000,000 aggregate principal amount of "PSI Energy, Inc. First Mortgage Bonds, Series DDD, 8.31%, Due September 1, 2032" and $325,000,000 aggregate principal amount of "PSI Energy, Inc. First Mortgage Bonds, Series EEE, 6.65%, Due June 15, 2006" and $23,000,000 aggregate principal amount of "PSI Energy, Inc. First Mortgage Bonds, Series FFF, Due March 1, 2031" and $24,600,000 aggregate principal amount of "PSI Energy, Inc. First Mortgage Bonds, Series GGG, Due March 1, 2019" and $35,000,000 aggregate principal amount of "PSI Energy, Inc. First Mortgage Bonds, Series HHH, Due April 1, 2022"; and

WHEREAS, in accordance with the provisions of Section 1 of Article XVIII of the Indenture, the Board of Directors has authorized the execution and delivery by the Company of a Fifty–Sixth Supplemental Indenture, substantially in the form of this Fifty–Sixth Supplemental Indenture, for the purpose of creating a fifty–fourth and fifty–fifth series of bonds to be issued under the Indenture, to be known as, respectively, "PSI Energy, Inc. First Mortgage Bonds, Series III, Due December 1, 2039" (such series to consist of a single bond being hereinafter referred to as the "Series III Bond") and "PSI Energy, Inc. First Mortgage Bonds, Series JJJ, Due December 1, 2039" (such series to consist of a single bond being hereinafter referred to as the "Series JJJ Bond") (the Series III Bond and the Series JJJ Bond, when referred to collectively in this Fifty–Sixth Supplemental Indenture, shall be hereinafter referred to as the "Bonds of Series III and JJJ"), and prescribing the form and substance of the Bonds of Series III and JJJ and the terms, provisions and characteristics thereof, and for the purpose of adding to the covenants and agreements of the Company for the protection of the bondholders and of

the trust estate and of making such changes in the Indenture as are deemed necessary or desirable and as are permitted by the Indenture; and

WHEREAS, all conditions and requirements necessary to make this Fifty–Sixth Supplemental Indenture a valid, binding and legal instrument have been done, performed and fulfilled and the execution and delivery hereof have been in all respects duly authorized:

NOW, THEREFORE, in consideration of the premises, and of the acceptance and purchase of the Bonds of Series III and JJJ by the holders and registered owners thereof, and of the sum of One Dollar ($1.00) duly paid by the Trustee to the Company, the receipt whereof is hereby acknowledged, and in accordance with and subject to the terms and provisions of the Indenture, the Company and the Trustee, respectively, have entered into, executed and delivered this Fifty–Sixth Supplemental Indenture for the uses and purposes hereinafter expressed, that is to say:

## ARTICLE I.

## FIRST MORTGAGE BONDS, SERIES III, DUE DECEMBER 1, 2039 AND FIRST MORTGAGE BONDS, SERIES JJJ, DUE DECEMBER 1, 2039

*Section 1.* There are hereby created a fifty–fourth and fifty–fifth series of bonds to be issued under and secured by the Indenture, to be designated as "PSI Energy, Inc. First Mortgage Bonds, Series III, Due December 1, 2039" (such series to consist of a single bond, which shall be the Series III Bond hereinbefore referred to) and "PSI Energy, Inc. First Mortgage Bonds, Series JJJ, Due December 1, 2039" (such series to consist of a single bond, which shall be the Series JJJ Bond hereinbefore referred to), respectively.

*Section 2.* The Series III Bond and Series JJJ Bond each shall be issued only in the form of a separate, single, authenticated, fully registered bond which (i) need not be in the form of a lithographed or engraved certificate, but may be typewritten or printed on ordinary paper or such paper as the Trustee may reasonably request, (ii) shall represent and be denominated in a principal amount not to exceed seventy–seven million one hundred twenty–five thousand dollars ($77,125,000) with respect to Series III Bond, and a principal amount not to exceed seventy–seven million one hundred twenty–five thousand dollars ($77,125,000) with respect to the Series JJJ Bond, (iii) shall be executed by the Company and authenticated by the Trustee in accordance with the provisions of the Indenture, and (iv) shall be registered in the name of XL Capital Assurance Inc., or its permitted assigns ("XL Capital").

The Series III Bond is being issued to XL Capital as security for the payment by the Company of its obligations under the Insurance Agreement, dated as of December 1, 2004, between XL Capital and the Company, which was entered into in connection with the delivery by XL Capital of its Financial Guaranty Insurance Policy insuring certain payments of principal of, and interest on, certain bonds (the "Series 2004B IDFA

Bonds") to be issued under a Trust Indenture, dated as of December 1, 2004, between the Indiana Development Finance Authority ("IDFA") and Deutsche Bank National Trust Company, as trustee. The proceeds of the Series 2004B IDFA Bonds will be loaned to the Company pursuant to a Loan Agreement, dated as of December 1, 2004, between IDFA and the Company.

The Series JJJ Bond is being issued to XL Capital as security for the payment by the Company of its obligations under an Insurance Agreement, dated as of December 1, 2004, between XL Capital and the Company, which was entered into in connection with the delivery by XL Capital of its Financial Guaranty Insurance Policy insuring certain payments of principal of, and interest on, certain bonds (the "Series 2004C IDFA Bonds") to be issued under a Trust Indenture, dated as of December 1, 2004, between the IDFA and Deutsche Bank National Trust Company, as trustee. The proceeds of the Series 2004C IDFA Bonds will be loaned to the Company pursuant to a Loan Agreement, dated as of December 1, 2004, between IDFA and the Company.

The Series III Bond and the Series JJJ Bond each shall be transferable only as required to effect an assignment thereof to a successor–in–interest of XL Capital under the applicable Insurance Agreement referred to hereinabove, provided that the Trustee shall have received notice from the Company of such an assignment (which notice the Trustee may rely upon without further inquiry).

The Series III Bond and the Trustee's certificate to be endorsed thereon, and the Series JJJ Bond and the Trustee's certificate to be endorsed thereon, shall be substantially in the following forms, respectively:

[THE REMAINDER OF THIS PAGE HAS BEEN LEFT BLANK INTENTIONALLY.]

(FORM OF FACE OF THE SERIES III BOND)

THE HOLDER OF THIS BOND BY ACCEPTANCE HEREOF AGREES TO RESTRICTIONS ON TRANSFER, TO WAIVERS OF CERTAIN RIGHTS OF EXCHANGE, AND TO INDEMNIFICATION PROVISIONS AS SET FORTH BELOW. IN ADDITION, THE BOND REPRESENTED BY THIS CERTIFICATE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 AND SUCH BOND MAY NOT BE TRANSFERRED WITHOUT COMPLIANCE WITH APPLICABLE SECURITIES LAWS.

THIS BOND IS NOT TRANSFERABLE EXCEPT TO A SUCCESSOR TO XL CAPITAL ASSURANCE INC. UNDER THE INSURANCE AGREEMENT DATED AS OF DECEMBER 1, 2004 BETWEEN XL CAPITAL ASSURANCE INC AND PSI ENERGY, INC.

No. III– $

PSI ENERGY, INC.

FIRST MORTGAGE BOND, SERIES III,

DUE DECEMBER 1, 2039

PSI Energy, Inc., an Indiana corporation (hereinafter called the "Company"), for value received, hereby promises to pay to XL CAPITAL ASSURANCE INC., or registered assigns, the principal sum of Dollars ($ ) on the first day of December, 2039 and to pay interest on said principal sum, on each Interest Payment Date (hereinbelow defined), until said principal sum is paid, at the rate from time to time borne by the Indiana Development Finance Authority Environmental Revenue Bonds, Series 2004B (the "Series 2004B IDFA Bonds") issued by the Indiana Development Finance Authority ("IDFA") under a Trust Indenture, dated as of December 1, 2004, between IDFA and Deutsche Bank National Trust Company as trustee (the "IDFA Indenture"); provided, however, that in no event shall the rate of interest borne by this Bond exceed 13% per annum. Both the principal of and the interest on this bond shall be payable in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts at the office or agency of the Company in Plainfield, Indiana, or, at the option of the registered owner hereof, at the office or agency of the Company in the Borough of Manhattan, the City of New York, State of New York, except that interest on this bond may be paid, at the option of the Company, by check or draft mailed to the address of the person entitled thereto as it appears on the books of the Company maintained for that purpose.

This bond is issued to XL Capital Assurance Inc., or its permitted assigns ("XL Capital") as security for the payment by the Company of its obligations under that certain Insurance Agreement dated as of December 1, 2004 between the Company and XL Capital (the "Insurance Agreement"). The Insurance Agreement was entered into in connection with the delivery by XL Capital of its Financial Guaranty Insurance Policy insuring certain payments of principal of, and interest on, the Series 2004B IDFA Bonds.

The proceeds of the Series 2004B IDFA Bonds have been loaned to the Company pursuant to a Loan Agreement, dated as of December 1, 2004, between IDFA and the Company.

Notwithstanding any other provision of this bond, no principal shall be due and payable on this bond unless and until an Event of Default shall have occurred under Section 4.01 of the Insurance Agreement by reason of a failure by the Company to pay its obligations under the Insurance Agreement and the Trustee shall have received notice from XL Captial or the Company of such an Event of Default (which notice the Trustee may rely upon without further inquiry). If such an Event of Default under the Insurance Agreement shall occur, it shall be deemed to be a default, for purposes of the Indenture, in the payment of an amount of principal of this bond equal to the amount of such unpaid obligation.

REFERENCE IS MADE TO THE FURTHER PROVISIONS OF THIS BOND SET FORTH ON THE REVERSE HEREOF. SUCH FURTHER PROVISIONS SHALL FOR ALL PURPOSES HAVE THE SAME EFFECT AS THOUGH FULLY SET FORTH AT THIS PLACE.

This bond shall not be valid or become obligatory for any purpose unless and until it shall have been authenticated by the execution by the Trustee, or its successor in trust under the Indenture, of the certificate endorsed hereon.

IN WITNESS WHEREOF, PSI Energy, Inc. has caused this bond to be executed in its name by the manual or facsimile signature of its President or an Executive Vice President or one of its Vice Presidents, and its corporate seal or a facsimile thereof to be hereto affixed and attested by the manual or facsimile signature of its Secretary or one of its Assistant Secretaries.

Dated as of:

PSI ENERGY, INC.

By _____

President

ATTEST:

_____

Secretary

(FORM OF REVERSE OF THE SERIES III BOND)

This bond is one of the bonds of the Company issued and to be issued from time to time under and in accordance with and all secured by an indenture of mortgage or deed of trust, dated September 1, 1939, from Public Service Company of Indiana (predecessor of the Company) to The First National Bank of Chicago, as Trustee, to which LaSalle Bank National Association is successor trustee, (which indenture as amended by all supplemental indentures is hereinafter referred to as the "Indenture"). Said Trustee or its successor in trust under the Indenture is hereinafter sometimes referred to as the "Trustee." Reference is hereby made to the Indenture for a description of the property mortgaged and pledged and the nature and extent of the security for said bonds. By the terms of the Indenture, the bonds secured thereby are issuable in series which may vary as to date, amount, date of maturity, rate of interest and in other respects as in the Indenture provided.

This bond is designated as "PSI Energy, Inc. First Mortgage Bonds, Series III, Due December 1, 2039" (hereinafter referred to as the "Series III Bond") of the Company issued under and secured by the Indenture and created by a Fifty–Sixth Supplemental Indenture, dated as of December 1, 2004 (the "Fifty–Sixth Supplemental Indenture"), which also amends the Indenture.

The rights and obligations of the Company and of the bearers and registered owners of bonds may be modified or amended with the consent of the Company by an affirmative vote of the bearers or registered owners entitled to vote of at least seventy–five per centum (75%) in principal amount of the bonds then outstanding at a meeting of bondholders called for the purpose (and by an affirmative vote of the bearers or registered owners entitled to vote of at least seventy–five per centum (75%) in principal amount of bonds of any series affected by such modification or amendment in case one or more, but less than all, series of bonds are so affected), all in the manner and subject to the limitations set forth in the Indenture, any consent by the bearer or registered owner of any bond being conclusive and binding upon such bearer or registered owner and upon all future bearers or registered owners of such bond, irrespective of whether or not any notation of such consent is made on such bond; provided that no such modification or amendment shall, among other things, extend the maturity or reduce the amount of, or reduce the rate of interest on, or otherwise modify the terms of the payment of the principal of, or interest or premium (if any) on this bond, which obligations are absolute and unconditional, or permit the creation of any lien ranking prior to or equal with the lien of the Indenture on any of the mortgaged property. The Fifty–Sixth Supplemental Indenture provides that at any time when no bonds issued under the Indenture prior to the issuance of the "PSI Energy, Inc. First Mortgage Bonds, Series BBB, 8%, Due July 15, 2009" are outstanding, the Company reserves the right to amend the Indenture, without the consent or other action by the holders of the bonds outstanding at that time, to decrease the seventy–five per centum (75%) vote requirement referred to above to sixty–six and two–thirds per centum (66–2/3%).

The Series III Bond shall be transferable only as required to effect an assignment thereof to a successor-in-interest of XL Capital under the Insurance Agreement, provided that the Trustee shall have received notice from the Company of such an assignment (which notice the Trustee may rely upon without further inquiry).

Each Interest Payment Date under the IDFA Indenture shall be an Interest Payment Date for the Series III Bond. If and when interest is paid on the Series 2004B IDFA Bonds for any given period of time, then there is deemed to have been paid on this Series III Bond an amount of interest equal to such interest paid on the Series 2004B IDFA Bonds. The Company shall promptly notify the Trustee of the amounts and Interest Payment Dates if any interest becomes payable on this Series III Bond.

The Series III Bond shall be deemed to have been paid and no longer outstanding under the Indenture to the extent that Series 2004B IDFA Bonds are paid or deemed to have been paid and are no longer outstanding under the IDFA Indenture and all amounts owed by the Company to XL Capital under the Insurance Agreement have been indefeasibly paid in full, and the Trustee has received notice to such effect from the Company (which notice the Trustee may rely upon without further inquiry).

Notwithstanding the foregoing, this bond shall be deemed to have been paid and redeemed at any time if and to the extent that the Series 2004B IDFA Bonds are redeemed pursuant to the IDFA Indenture, in whole or in part, in an amount equal to 100% of the principal amount of the Series 2004B IDFA Bonds redeemed and all amounts owed by the Company to XL Capital under the Insurance Agreement have been indefeasibly paid in full. In such an event, the Company shall notify XL Capital and the Trustee that a like principal amount of this bond shall be deemed to have been paid and redeemed. The Series III Bond is not otherwise redeemable prior to its maturity.

XL Capital shall surrender this bond to the Company for cancellation and discharge by the Trustee upon the expiration of the Insurance Agreement or in the event that the Release Test (as defined in the Insurance Agreement) is satisfied. The Trustee may cancel and discharge the Series III Bond upon presentment thereof by the Company without making further inquiry.

In the case of any of certain events of default specified in the Indenture, the principal of this bond may be declared or may become due and payable prior to the stated date of maturity hereof in the manner and with the effect provided in the Indenture.

No recourse shall be had for the payment of the principal of or interest on this bond, or for any claim based hereon, or otherwise in respect hereof or of the Indenture, to or against any incorporator, shareholder, officer or director, past, present or future, of the Company or of any predecessor or successor company, either directly or through the Company or such predecessor or successor company, under any constitution or statute or rule of law, or by the enforcement of any assessment or penalty, or otherwise, all such liability of incorporators, shareholders, directors and officers being waived and released

by the registered owner hereof by the acceptance of this bond and being likewise waived and released by the terms of the Indenture.

(FORM OF TRUSTEE'S CERTIFICATE)

TRUSTEE'S CERTIFICATE

This bond is the Series III Bond designated therein referred to and described in the within mentioned Indenture and Fifty-Sixth Supplemental Indenture.

LASALLE BANK NATIONAL ASSOCIATION,
AS TRUSTEE,

By _____
*Authorized Officer*

[THE REMAINDER OF THIS PAGE HAS BEEN LEFT BLANK INTENTIONALLY.]

(FORM OF FACE OF THE SERIES JJJ BOND)

THE HOLDER OF THIS BOND BY ACCEPTANCE HEREOF AGREES TO RESTRICTIONS ON TRANSFER, TO WAIVERS OF CERTAIN RIGHTS OF EXCHANGE, AND TO INDEMNIFICATION PROVISIONS AS SET FORTH BELOW. IN ADDITION, THE BOND REPRESENTED BY THIS CERTIFICATE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 AND SUCH BOND MAY NOT BE TRANSFERRED WITHOUT COMPLIANCE WITH APPLICABLE SECURITIES LAWS.

THIS BOND IS NOT TRANSFERABLE EXCEPT TO A SUCCESSOR TO XL CAPITAL ASSURANCE INC. UNDER THE INSURANCE AGREEMENT DATED AS OF DECEMBER 1, 2004 BETWEEN XL CAPITAL ASSURANCE INC. AND PSI ENERGY, INC.

No. JJJ– $

PSI ENERGY, INC.

FIRST MORTGAGE BOND, SERIES JJJ,

DUE DECEMBER 1, 2039

PSI Energy, Inc., an Indiana corporation (hereinafter called the "Company"), for value received, hereby promises to pay to XL CAPITAL ASSURANCE INC., or registered assigns, the principal sum of Dollars ($ ) on the first day of December, 2039 and to pay interest on said principal sum, on each Interest Payment Date (hereinbelow defined), until said principal sum is paid, at the rate from time to time borne by the Indiana Development Finance Authority Environmental Revenue Bonds, Series 2004C (the "Series 2004C IDFA Bonds") issued by the Indiana Development Finance Authority ("IDFA") under a Trust Indenture, dated as of December 1, 2004, between IDFA and Deutsche Bank National Trust Company as trustee (the "IDFA Indenture"); provided, however, that in no event shall the rate of interest borne by this Bond exceed 13% per annum. Both the principal of and the interest on this bond shall be payable in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts at the office or agency of the Company in Plainfield, Indiana, or, at the option of the registered owner hereof, at the office or agency of the Company in the Borough of Manhattan, the City of New York, State of New York, except that interest on this bond may be paid, at the option of the Company, by check or draft mailed to the address of the person entitled thereto as it appears on the books of the Company maintained for that purpose.

This bond is issued to XL Capital Assurance Inc., or its permitted assigns ("XL Capital") as security for the payment by the Company of its obligations under that certain Insurance Agreement dated as of December 1, 2004, between the Company and XL Capital (the "Insurance Agreement"). The Insurance Agreement was entered into in connection with the delivery by XL Capital of its Financial Guaranty Insurance Policy insuring certain payments of principal of, and interest on, the Series 2004C IDFA Bonds.

The proceeds of the Series 2004C IDFA Bonds have been loaned to the Company pursuant to a Loan Agreement, dated as of December 1, 2004, between IDFA and the Company.

Notwithstanding any other provision of this bond, no principal shall be due and payable on this bond unless and until an Event of Default shall have occurred under Section 4.01 of the Insurance Agreement by reason of a failure by the Company to pay its obligations under the Insurance Agreement and the Trustee shall have received notice from XL Capital or the Company of such an Event of Default (which notice the Trustee may rely upon without further inquiry). If such an Event of Default under the Insurance Agreement shall occur, it shall be deemed to be a default, for purposes of the Indenture, in the payment of an amount of principal of this bond equal to the amount of such unpaid obligation.

REFERENCE IS MADE TO THE FURTHER PROVISIONS OF THIS BOND SET FORTH ON THE REVERSE HEREOF. SUCH FURTHER PROVISIONS SHALL FOR ALL PURPOSES HAVE THE SAME EFFECT AS THOUGH FULLY SET FORTH AT THIS PLACE.

This bond shall not be valid or become obligatory for any purpose unless and until it shall have been authenticated by the execution by the Trustee, or its successor in trust under the Indenture, of the certificate endorsed hereon.

IN WITNESS WHEREOF, PSI Energy, Inc. has caused this bond to be executed in its name by the manual or facsimile signature of its President or an Executive Vice President or one of its Vice Presidents, and its corporate seal or a facsimile thereof to be hereto affixed and attested by the manual or facsimile signature of its Secretary or one of its Assistant Secretaries.

Dated as of:

PSI ENERGY, INC.

By _____

President

ATTEST:

_____

Secretary

(FORM OF REVERSE OF THE SERIES JJJ BOND)

This bond is one of the bonds of the Company issued and to be issued from time to time under and in accordance with and all secured by an indenture of mortgage or deed of trust, dated September 1, 1939, from Public Service Company of Indiana (predecessor of the Company) to The First National Bank of Chicago, as Trustee, to which LaSalle Bank National Association is successor trustee, (which indenture as amended by all supplemental indentures is hereinafter referred to as the "Indenture"). Said Trustee or its successor in trust under the Indenture is hereinafter sometimes referred to as the "Trustee." Reference is hereby made to the Indenture for a description of the property mortgaged and pledged and the nature and extent of the security for said bonds. By the terms of the Indenture, the bonds secured thereby are issuable in series which may vary as to date, amount, date of maturity, rate of interest and in other respects as in the Indenture provided.

This bond is designated as "PSI Energy, Inc. First Mortgage Bonds, Series JJJ, Due December 1, 2039" (hereinafter referred to as the "Series JJJ Bond") of the Company issued under and secured by the Indenture and created by a Fifty–Sixth Supplemental Indenture, dated as of December 1, 2004 (the "Fifty–Sixth Supplemental Indenture"), which also amends the Indenture.

The rights and obligations of the Company and of the bearers and registered owners of bonds may be modified or amended with the consent of the Company by an affirmative vote of the bearers or registered owners entitled to vote of at least seventy–five per centum (75%) in principal amount of the bonds then outstanding at a meeting of bondholders called for the purpose (and by an affirmative vote of the bearers or registered owners entitled to vote of at least seventy–five per centum (75%) in principal amount of bonds of any series affected by such modification or amendment in case one or more, but less than all, series of bonds are so affected), all in the manner and subject to the limitations set forth in the Indenture, any consent by the bearer or registered owner of any bond being conclusive and binding upon such bearer or registered owner and upon all future bearers or registered owners of such bond, irrespective of whether or not any notation of such consent is made on such bond; provided that no such modification or amendment shall, among other things, extend the maturity or reduce the amount of, or reduce the rate of interest on, or otherwise modify the terms of the payment of the principal of, or interest or premium (if any) on this bond, which obligations are absolute and unconditional, or permit the creation of any lien ranking prior to or equal with the lien of the Indenture on any of the mortgaged property. The Fifty–Sixth Supplemental Indenture provides that at any time when no bonds issued under the Indenture prior to the issuance of the "PSI Energy, Inc. First Mortgage Bonds, Series BBB, 8%, Due July 15, 2009" are outstanding, the Company reserves the right to amend the Indenture, without the consent or other action by the holders of the bonds outstanding at that time, to decrease the seventy–five per centum (75%) vote requirement referred to above to sixty–six and two–thirds per centum (66–2/3%).

The Series JJJ Bond shall be transferable only as required to effect an assignment thereof to a successor–in–interest of XL Capital under the Insurance Agreement, provided that the Trustee shall have received notice from the Company of such an assignment (which notice the Trustee may rely upon without further inquiry).

Each Interest Payment Date under the IDFA Indenture shall be an Interest Payment Date for the Series JJJ Bond. If and when interest is paid on the Series 2004C IDFA Bonds for any given period of time, then there is deemed to have been paid on this Series JJJ Bond an amount of interest equal to such interest paid on the Series 2004C IDFA Bonds. The Company shall promptly notify the Trustee of the amounts and Interest Payment Dates if any interest becomes payable on this Series JJJ Bond.

The Series JJJ Bond shall be deemed to have been paid and no longer outstanding under the Indenture to the extent that Series 2004C IDFA Bonds are paid or deemed to have been paid and are no longer outstanding under the IDFA Indenture and all amounts owed by the Company to XL Capital under the Insurance Agreement have been indefeasibly paid in full, and the Trustee has received notice to such effect from the Company (which notice the Trustee may rely upon without further inquiry).

Notwithstanding the foregoing, this bond shall be deemed to have been paid and redeemed at any time if and to the extent that the Series 2004C IDFA Bonds are redeemed pursuant to the IDFA Indenture, in whole or in part, in an amount equal to 100% of the principal amount of the Series 2004C IDFA Bonds redeemed and all amounts owed by the Company to XL Capital under the Insurance Agreement have been indefeasibly paid in full. In such an event, the Company shall notify XL Capital and the Trustee that a like principal amount of this bond shall be deemed to have been paid and redeemed. The Series JJJ Bond is not otherwise redeemable prior to its maturity.

XL Capital shall surrender this bond to the Company for cancellation and discharge by the Trustee upon the expiration of the Insurance Agreement or in the event that the Release Test (as defined in the Insurance Agreement) is satisfied. The Trustee may cancel and discharge the Series JJJ Bond upon presentment thereof by the Company without making further inquiry.

In the case of any of certain events of default specified in the Indenture, the principal of this bond may be declared or may become due and payable prior to the stated date of maturity hereof in the manner and with the effect provided in the Indenture.

No recourse shall be had for the payment of the principal of or interest on this bond, or for any claim based hereon, or otherwise in respect hereof or of the Indenture, to or against any incorporator, shareholder, officer or director, past, present or future, of the Company or of any predecessor or successor company, either directly or through the Company or such predecessor or successor company, under any constitution or statute or rule of law, or by the enforcement of any assessment or penalty, or otherwise, all such liability of incorporators, shareholders, directors and officers being waived and released

by the registered owner hereof by the acceptance of this bond and being likewise waived and released by the terms of the Indenture.

(FORM OF TRUSTEE'S CERTIFICATE)

TRUSTEE'S CERTIFICATE

This bond is the Series JJJ Bond designated therein referred to and described in the within mentioned Indenture and Fifty–Sixth Supplemental Indenture.

LASALLE BANK NATIONAL ASSOCIATION,
AS TRUSTEE,

By _____
*Authorized Officer*

[THE REMAINDER OF THIS PAGE HAS BEEN LEFT BLANK INTENTIONALLY.]

*Section 3.* Each Bond of Series III and JJJ issued prior to the first interest payment date shall be dated as of December 7, 2004, and otherwise shall be dated as provided in Section 1 of Article II of the Indenture.

*Section 4.* The Series III Bond shall be due and payable on December 1, 2039, and shall bear interest from December 7, 2004, at the rate from time to time borne by the Series 2004B IDFA Bonds (as referred to in the form of the bond hereinabove set forth). The Series JJJ Bond shall be due and payable on December 1, 2039, and shall bear interest from December 7, 2004, at the rate from time to time borne by the Series 2004C IDFA Bonds (as referred to in the form of the bond hereinabove set forth).

If and when interest is paid on the Series 2004B IDFA Bonds for any given period of time, then there is deemed to have been paid on the Series III Bond an amount of interest equal to such interest paid on the Series 2004B IDFA Bonds. If and when interest is paid on the Series 2004C IDFA Bonds for any given period of time, then there is deemed to have been paid on the Series JJJ Bond an amount of interest equal to such interest paid on the Series 2004C IDFA Bonds. The Company shall promptly notify the Trustee of the amounts and Interest Payment Dates if any interest becomes payable on the Series III Bond or the Series JJJ Bond.

For purposes of the calculation required by the first paragraph of Section 5 of Article IV of the Indenture, annual interest in respect of:

(a) the Series III Bond shall be equal to the sum of (i) the sum of the amounts determined by multiplying the principal amount of the Series 2004B IDFA, if any, outstanding on the date of such calculation which bear a fixed rate of interest by such fixed rate, plus (ii) the amount determined by multiplying the aggregate principal amount of the Series 2004B IDFA Bonds, if any, outstanding on the date of such calculation which bear interest at rates which may fluctuate or may fluctuate from time to time in accordance with methods specified in such Series 2004B IDFA Bonds by 13% per annum; and

(b) the Series JJJ Bond shall be equal to the sum of (i) the sum of the amounts determined by multiplying the principal amount of the Series 2004C IDFA, if any, outstanding on the date of such calculation which bear a fixed rate of interest by such fixed rate, plus (ii) the amount determined by multiplying the aggregate principal amount of the Series 2004C IDFA Bonds, if any, outstanding on the date of such calculation which bear interest at rates which may fluctuate or may fluctuate from time to time in accordance with methods specified in such Series 2004C IDFA Bonds by 13% per annum.

*Section 5.* Both the principal of and the interest on the Bonds of Series III and JJJ shall be payable in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts, at the office or agency of the Company in Plainfield, Indiana, or, at the option of the holder thereof, at the office or agency of the Company in the Borough of Manhattan, the City of New York,

State of New York, except that interest on the Bonds of Series III and JJJ may be paid, at the option of the Company, by check or draft mailed to the address of the person entitled thereto as it appears on the books of the Company maintained for that purpose.

*Section 6.* A single Series III Bond shall be issued and shall be numbered "III–1." A single Series JJJ Bond shall be issued and shall be numbered "JJJ–1."

The Bonds of Series III and JJJ shall be executed on behalf of the Company by the manual or facsimile signature of its President or an Executive Vice President or one of its Vice Presidents and shall have affixed thereto the seal of the Company or a facsimile thereof attested by the manual or facsimile signature of its Secretary or one of its Assistant Secretaries and shall be authenticated by the execution by the Trustee of the certificate endorsed on said bonds.

No service charge will be made by the Company for the transfer or for the exchange of Bonds of Series III and JJJ except, in the case of transfer, a charge sufficient to reimburse the Company for any tax or other governmental charge payable in connection therewith.

Pursuant to the provisions of Section 11 of Article II of the Indenture, Bonds of Series III and JJJ may be issued in temporary form, and if temporary bonds be issued, the Company shall, with all reasonable dispatch, at its own expense and without charge to the holders of the temporary bonds, prepare and execute definitive Bonds of Series III and JJJ and exchange the temporary bonds for such definitive bonds in the manner provided for in said section, provided, however, no presentation or surrender of temporary Bonds of Series III and JJJ shall be necessary in order for the holders entitled to interest thereon to receive such interest.

*Section 7.* Article IX of the Indenture, "Maintenance and Renewal Fund and Sinking Fund Provisions" as heretofore amended or supplemented shall not apply to the Bonds of Series BBB or to any subsequently created series of bonds (which includes the Bonds of Series III and JJJ) from and after the date on which no series of bonds created under the Indenture prior to the Bonds of Series BBB are outstanding.

*Section 8.* Section 22 of Article V of the Indenture as heretofore amended or supplemented which, among other things, requires an inspection of the mortgaged property every two years by an independent engineer, shall not apply to the Bonds of Series BBB or to any subsequently created series of bonds (which includes the Bonds of Series III and JJJ), from and after the date in which no series of bonds created under the Indenture prior to the Bonds of Series BBB are outstanding.

*Section 9.* The Company reserves the right, without consent or other action by the holders of the Bonds of Series BBB or of any subsequently created series of bonds (which includes the Bonds of Series III and JJJ), to amend the Indenture, as heretofore amended or supplemented, at any time after all bonds of any series created prior to the Bonds of Series BBB are no longer outstanding under the Indenture, as follows:

(a) by substituting for the words "in principal amount not greater than sixty per centum (60%) of" in Section 3 of Article IV thereof the following:

"in principal amount not greater than sixty–six and two–thirds per centum (66–2/3%) of ".

(b) by substituting for the words "shall exceed sixty per centum (60%) of the value of bondable property so acquired" in Section 9 of Article V thereof the following:

"shall exceed sixty–six and two–thirds per centum (66–2/3%) of the value of bondable property so acquired".

(c) by substituting for the words "shall be deemed to be paid within the meaning of this article; *provided*, that the date for the payment or redemption of such bonds shall be not more than one (1) year after such moneys shall have been so set apart or paid." in the first paragraph of Article XIV thereof the following:

"shall be deemed to be paid within the meaning of this article.".

(d) by substituting for the words "with the consent of holders of at least seventy–five per centum (75%) in aggregate principal amount of the bonds at the time outstanding;" in sub–section (a) of Section 3 of Article XVIII thereof the following:

"with the consent of holders of at least sixty–six and two–thirds per centum (66–2/3%) in aggregate principal amount of the bonds at the time outstanding;".

(e) by substituting for the words "holders (or persons entitled to vote the bonds) of not less than seventy–five per centum (75%) in aggregate principal amount of the bonds entitled to be voted" in sub–section (l) of Section 3 of Article XVIII thereof the following:

"holders (or persons entitled to vote the bonds) of not less than sixty–six and two–thirds per centum (66–2/3%) in aggregate principal amount of the bonds entitled to be voted".

(f) by substituting for the words "holders (or persons entitled to vote the bonds) of at least seventy–five per centum (75%) in principal amount of the bonds outstanding" in sub–section (m) of Section 3 of Article XVIII thereof the following:

"holders (or persons entitled to vote the bonds) of at least sixty–six and two–thirds per centum (66–2/3%) in principal amount of the bonds outstanding".

ARTICLE II.

ISSUANCE OF BONDS OF SERIES III AND JJJ.

*Section 1.* The Series III Bond, in the principal amount not exceeding seventy–seven million one hundred twenty–five thousand dollars ($77,125,000) and the Series JJJ Bond in the principal amount not exceeding seventy–seven million one hundred twenty–five thousand dollars ($77,125,000), may be executed by the Company and delivered to the Trustee for authentication, and shall be authenticated and delivered by the Trustee to or upon the order of the Company (which authentication and delivery may be made without awaiting the filing or recording of this Fifty–Sixth Supplemental Indenture), upon receipt by the Trustee of the resolutions, certificates, orders, opinions and other instruments required by the provisions of Section 3 of Article IV of the Indenture to be received by the Trustee as a condition to the authentication and delivery by the Trustee of bonds pursuant to said Section 3.

ARTICLE III.

INDENTURE AMENDMENTS.

*Section 1.* Article I of the Indenture, as heretofore amended, is hereby further amended (i) by adding immediately after subdivision "(95)" thereof an additional subdivision numbered "(96)" and reading as follows:

"(94) The term 'Fifty–Sixth Supplemental Indenture' shall mean the Fifty–Sixth Supplemental Indenture executed by the Company and the Trustee, dated as of December 1, 2004, supplementing and amending the Indenture, and the terms 'Series III Bond' shall mean the 'PSI Energy, Inc. First Mortgage Bonds, Series III, Due December 1, 2039,' and 'Series JJJ Bond' shall mean the 'PSI Energy, Inc. First Mortgage Bonds, Series JJJ, Due December 1, 2039,', created by the Fifty–Sixth Supplemental Indenture."

and (ii) by changing the numbering of the present subdivision "(96)" thereof to "(97)".

*Section 2.* Article VII of the Indenture, as heretofore amended, is hereby further amended by inserting therein immediately after Section 40 thereof, a new section designated "Section 41" and reading as follows:

"Section 41. The Series III Bond shall be deemed to have been paid and redeemed at any time if and to the extent that the Series 2004B IDFA Bonds are

redeemed pursuant to the IDFA Indenture relating thereto, in whole or in part, in an amount equal to 100% of the principal amount of the Series 2004B IDFA Bonds redeemed and all amounts owed by the Company to XL Capital under the Insurance Agreement have been indefeasibly paid in full. In such an event, the Company shall notify XL Capital and the Trustee that a like principal amount of the Bonds of Series III shall be deemed to have been paid and redeemed.

The Series JJJ Bond shall be deemed to have been paid and redeemed at any time if and to the extent that the Series 2004C IDFA Bonds are redeemed pursuant to the IDFA Indenture relating thereto, in whole or in part, in an amount equal to 100% of the principal amount of the Series 2004C IDFA Bonds redeemed and all amounts owed by the Company to XL Capital under the Insurance Agreement have been indefeasibly paid in full. In such an event, the Company shall notify XL Capital and the Trustee that a like principal amount of the Bonds of Series JJJ shall be deemed to have been paid and redeemed.

The Bonds of Series III and JJJ are not otherwise redeemable prior to their maturity. For clarity, the Bonds of Series III and/or Series JJJ may also be cancelled and discharged at the election of the Company upon the expiration of the Insurance Agreement or in the event that the Release Test (as defined in the Insurance Agreement) is satisfied. The Trustee may cancel and discharge the Series III and Series JJJ Bonds upon presentment thereof by the Company without making further inquiry. The terms "Series 2004B IDFA Bonds", "Series 2004C IDFA Bonds", "IDFA Indenture", "XL Capital" and "Insurance Agreement" shall have the respective meanings specified in the Fifty–Sixth Supplemental Indenture.

*Section 3.* The Bonds of Series III and JJJ shall not be entitled to the benefit of a sinking fund.

## ARTICLE IV.

## CONCERNING THE TRUSTEE.

The Trustee hereby accepts the trusts hereby declared and agrees to perform the same upon the terms and conditions in the Indenture and in this Fifty–Sixth Supplemental Indenture set forth. The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Fifty–Sixth Supplemental Indenture or the due execution hereof by the Company or for or in respect of the recitals contained herein, all of which recitals are made by the Company solely. In general, each and every term and condition contained in Article XVII of the Indenture shall apply to this Fifty–Sixth Supplemental Indenture.

ARTICLE V.

MISCELLANEOUS PROVISIONS.

*Section 1.* Wherever in the original Indenture or in any of the fifty–six supplemental indentures thereto reference is made to any article or section of the original Indenture, such reference shall be deemed to refer to such article or section as amended by such supplemental indentures.

*Section 2.* Upon the execution and delivery hereof, the Indenture shall thereupon be deemed to be amended as hereinabove set forth as fully and with the same effect as if the amendments made hereby were set forth in the original Indenture and each of the fifty–six supplemental indentures to the Indenture shall henceforth be read, taken and construed as one and the same instrument; but such amendments shall not operate so as to render invalid or improper any action heretofore taken under the original Indenture or said supplemental indentures.

*Section 3.* All the covenants, stipulations and agreements in this Fifty–Sixth Supplemental Indenture contained are and shall be for the sole and exclusive benefit of the parties hereto, their successors and assigns, and of the holders from time to time of the bonds.

*Section 4.* The table of contents to, and the headings of the different articles of, this Fifty–Sixth Supplemental Indenture are inserted for convenience of reference, and are not to be taken to be any part of the provisions hereof, nor to control or affect the meaning, construction or effect of the same.

*Section 5.* This Fifty–Sixth Supplemental Indenture may be simultaneously executed in any number of counterparts, and all such counterparts shall constitute but one and the same instrument.

*Section 6.* Whenever a payment of principal or interest in respect of the Bonds of Series III and JJJ are due on any day other than a business day (as hereinafter defined), such payment shall be payable on the first business day next following such date, and, in the case of a principal payment, interest on such principal payment shall accrue to the date of such principal payment. For the purposes of this Section 6 the term business day shall mean any day other than a day on which the Trustee is authorized by law to close.

[THE REMAINDER OF THIS PAGE HAS BEEN LEFT BLANK INTENTIONALLY.]

IN WITNESS WHEREOF, said PSI Energy, Inc. has caused this instrument to be executed in its corporate name by its President or one of its Vice Presidents and to be attested by its Secretary or one of its Assistant Secretaries and said LaSalle Bank National Association has caused this instrument to be executed in its corporate name by one of its First Vice Presidents and to be attested by one of its Assistant Secretaries, in several counterparts, all as of the day and year first above written.

PSI ENERGY, INC.

(CORPORATE SEAL)

By _____
James L. Turner
*Executive Vice President and*
*Chief Financial Officer*

ATTEST:

_____
Richard G. Beach, *Assistant Secretary*

Signed and delivered by PSI Energy, Inc.
in the presence of:

_____
Deborah L. Gates, *Witness*

_____
Julie M. Thompson, *Witness*

LASALLE BANK NATIONAL ASSOCIATION

(CORPORATE SEAL)

By _____
Victoria Y. Douyon
*First Vice President*

ATTEST:

_____
Kristine Brutsman, *Assistant Secretary*

Signed and delivered by LaSalle Bank National Association in the presence of:

_____
Debra Donaldson, *Witness*

_____
Alvita Griffin, *Witness*

STATE OF OHIO )

) ss:

COUNTY OF HAMILTON )

BE IT REMEMBERED, that on this 30th day of November, before me, the undersigned, a notary public in and for the County and State aforesaid, duly commissioned and qualified, personally appeared James L. Turner and Richard G. Beach, personally known to me to be the same persons whose names are subscribed to the foregoing instrument, and personally known to me to be the Executive Vice President and Chief Financial Officer, and an Assistant Secretary, respectively, of PSI Energy, Inc., an Indiana corporation, and acknowledged that they signed and delivered said instrument as their free and voluntary act as such Executive Vice President and Chief Financial Officer, and Assistant Secretary, respectively, and as the free and voluntary act of said PSI Energy, Inc., for the uses and purposes therein set forth; in pursuance of the power and authority granted to them by resolution of the Board of Directors of said Company.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal the day and year aforesaid.

(NOTARIAL SEAL)

*Notary Public*

My commission expires 9-28-08.

County of residence: Hamilton

STATE OF ILLINOIS )

) ss:

COUNTY OF COOK )

BE IT REMEMBERED, that on this 29th day of November, 2004, before me, the undersigned, a notary public in and for the County and State aforesaid, duly commissioned and qualified, personally appeared Victoria Y. Douyon and Kristine Brutsman personally known to me to be the same persons whose names are subscribed to the foregoing instrument, and personally known to me to be a First Vice President and an Assistant Secretary, respectively, of LaSalle Bank National Association, a national banking association, and acknowledged that they signed and delivered said instrument as their free and voluntary act as such First Vice President and Assistant Secretary, respectively, and as the free and voluntary act of said LaSalle Bank National Association, for the uses and purposes therein set forth; in pursuance of the power and authority granted to them by the bylaws of said association.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal the day and year aforesaid.

(NOTARIAL SEAL)

*Notary Public*

My commission expires 12–1–05.

County of residence: Cook

THE UNION LIGHT, HEAT AND POWER COMPANY

AND

DEUTSCHE BANK TRUST COMPANY AMERICAS, Trustee

# Indenture

Dated as of December 1, 2004

| Trust Indenture Act Section | Indenture Section |
|---|---|
| Section 310(a)(1) | 609 |
| (a)(2) | 609 |
| (a)(3) | Not Applicable |
| (a)(4) | Not Applicable |
| (b) | 608 |
| | 610 |
| Section 311(a) | 613 |
| (b) | 613 |
| Section 312(a) | 701 |
| | 702 |
| (b) | 702 |
| (c) | 702 |
| Section 313(a) | 703 |
| (b) | 703 |
| (c) | 703 |
| (d) | 703 |
| Section 314(a) | 704 |
| (a)(4) | 101 |
| | 1004 |
| (b) | Not Applicable |
| (c)(1) | 102 |
| (c)(2) | 102 |
| (c)(3) | Not Applicable |
| (d) | Not Applicable |
| (e) | 102 |
| Section 315(a) | 601 |
| (b) | 602 |
| (c) | 601 |
| (d) | 601 |
| (e) | 514 |
| Section 316(a) | 101 |
| (a)(1)(A) | 502 |
| | 512 |
| (a)(1)(B) | 513 |
| (a)(2) | Not Applicable |
| (b) | 508 |
| (c) | 104 |
| Section 317(a)(1) | 503 |
| (a)(2) | 504 |
| (b) | 1003 |
| Section 318(a) | 107 |

Note: This reconciliation and tie shall not, for any purpose, be deemed to be a part of the Indenture.

THE UNION LIGHT, HEAT AND POWER COMPANY

Indenture

Dated as of December 1, 2004

TABLE OF CONTENTS

INDENTURE, dated as of December 1, 2004, between The Union Light, Heat and Power Company, a corporation duly organized and existing under the laws of the Commonwealth of Kentucky (herein called the "Company"), having its principal office at 139 East Fourth Street, Cincinnati, Ohio 45202, and Deutsche Bank Trust Company Americas, a New York banking corporation, as Trustee (herein called the "Trustee").

Recitals of the Company

The Company has duly authorized the execution and delivery of this Indenture to provide for the issuance from time to time of its unsecured debentures, notes or other evidences of indebtedness (herein called the "Securities"), to be issued in one or more series as in this Indenture provided.

All things necessary to make this Indenture a valid agreement of the Company, in accordance with its terms, have been done.

Now, therefore, this Indenture witnesseth:

For and in consideration of the premises and the purchase of the Securities by the Holders thereof, it is mutually agreed, subject to Article Fourteen, if applicable, for the equal and proportionate benefit of the Holders of the Securities of each series thereof, as follows:

## ARTICLE ONE

## Definitions and Other Provisions of General Application

Section 101. Definitions.

For all purposes of this Indenture, except as otherwise expressly provided or unless the context otherwise requires:

(1) the terms defined in this Article have the meanings assigned to them in this Article and include the plural as well as the singular;

(2) all other terms used herein which are defined in the Trust Indenture Act, either directly or by reference therein, have the meanings assigned to them therein;

(3) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles;

(4) unless the context otherwise requires, any reference to an "Article" or a "Section" refers to an Article or a Section, as the case may be, of this Indenture; and

(5) the words "herein", "hereof" and "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision.

"Act", when used with respect to any Holder, has the meaning specified in Section 104.

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Authenticating Agent" means any Person authorized by the Trustee pursuant to Section 614 to act on behalf of the Trustee to authenticate Securities of one or more series.

"Board of Directors" means the board of directors of the Company, or any duly authorized committee of that board, or any Person duly authorized to act on behalf of that board.

"Board Resolution" means a copy of a resolution or resolutions certified by the Secretary or an Assistant Secretary of the Company to have been duly adopted by the Board of Directors and to be in full force and effect on the date of such certification, and delivered to the Trustee.

"Business Day", when used with respect to any Place of Payment, means each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in that Place of Payment are authorized or obligated by law or executive order to close.

"Commission" means the Securities and Exchange Commission, from time to time constituted, created under the Exchange Act, or, if at any time after the execution of this instrument such Commission is not existing and performing the duties now assigned to it under the Trust Indenture Act, then the body performing such duties at such time.

"Company" means the Person named as the "Company" in the first paragraph of this instrument until a successor Person shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "Company" shall mean such successor Person.

"Company Request" or "Company Order" means a written request or order signed in the name of the Company either by (i) its Chairman of the Board, its Vice Chairman, its President or a Vice President, and by its Treasurer, an Assistant Treasurer, its Secretary or an Assistant Secretary, and delivered to the Trustee, or (ii) any two Persons designated in a Board Resolution, or in a Company Order previously delivered to the Trustee signed by any two of the foregoing, and delivered to the Trustee.

"Corporate Trust Office" means the office of the Trustee for Securities of any series at which at any particular time its corporate trust business shall be principally administered, which office at the date of execution of this Indenture is located at

"Corporation" means a corporation, association, company, joint-stock company or business trust.

"Covenant Defeasance" has the meaning specified in Section 1303.

"Defaulted Interest" has the meaning specified in Section 307.

"Defeasance" has the meaning specified in Section 1302.

"Depositary" means, with respect to Securities of any series issuable in whole or in part in the form of one or more Global Securities, a clearing agency registered under the Exchange Act that is designated to act as Depositary for such Securities as contemplated by Section 301.

"Event of Default" has the meaning specified in Section 501.

"Exchange Act" means the Securities Exchange Act of 1934 and any statute successor thereto, in each case as amended from time to time.

"Expiration Date" has the meaning specified in Section 104.

"Global Security" means a Security that evidences all or part of the Securities of any series and bears the legend set forth in Section 204 (or such legend as may be specified as contemplated by Section 301 for such Securities).

"Holder" means a Person in whose name a Security is registered in the Security Register.

"Indenture" means this instrument as originally executed and as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof, including, for all purposes of this instrument and any such supplemental indenture, the provisions of the Trust Indenture Act that are deemed to be a part of and govern this instrument and any such supplemental indenture, respectively. The term "Indenture" shall also include the terms of particular series of Securities established as contemplated by Section 301.

"interest", when used with respect to an Original Issue Discount Security which by its terms bears interest only after Maturity, means interest payable after Maturity.

"Interest Payment Date", when used with respect to any Security, means the Stated Maturity of an installment of interest on such Security.

"Investment Company Act" means the Investment Company Act of 1940 and any statute successor thereto, in each case as amended from time to time.

"Junior Subordinated Securities" shall have the meaning specified in Section 1401.

"Maturity", when used with respect to any Security, means the date on which the principal of such Security or an installment of principal becomes due and payable as therein or herein provided, whether at the Stated Maturity or by declaration of acceleration, call for redemption or otherwise.

"Notice of Default" means a written notice of the kind specified in Section 501(4).

"Officers' Certificate" means a certificate signed in the same manner and by Persons as provided for in a Company Request or a Company Order, and delivered to the Trustee.

"Opinion of Counsel" means a written opinion of counsel, who may be an employee of or counsel for the Company.

"Original Issue Discount Security" means any Security which provides for an amount less than the principal amount thereof to be due and payable upon a declaration of acceleration of the Maturity thereof pursuant to Section 502.

"Outstanding", when used with respect to Securities, means, as of the date of determination, all Securities theretofore authenticated and delivered under this Indenture, except:

(1) Securities theretofore cancelled by the Trustee or delivered to the Trustee for cancellation;

(2) Securities for whose payment or redemption money in the necessary amount has been theretofore deposited with the Trustee or any Paying Agent (other than the Company) in trust or set aside and segregated in trust by the Company (if the Company shall act as its own Paying Agent) for the Holders of such Securities; provided that, if such Securities are to be redeemed, notice of such redemption has been duly given pursuant to this Indenture or provision therefor satisfactory to the Trustee has been made;

(3) Securities as to which Defeasance has been effected pursuant to Section 1302; and

(4) Securities which have been paid pursuant to Section 306 or in exchange for or in lieu of which other Securities have been authenticated and delivered pursuant to this Indenture, other than any such Securities in respect of which there shall have been presented to the Trustee proof satisfactory to it that such Securities are held by a bona fide purchaser in whose hands such Securities are valid obligations of the Company;

provided, however, that in determining whether the Holders of the requisite principal amount of the Outstanding Securities have given, made or taken any request, demand, authorization, direction, notice, consent, waiver or other action hereunder as of any date, (A) the principal amount of an Original Issue Discount Security which shall be deemed to be Outstanding shall be the amount of the principal thereof which would be due and payable as of such date upon acceleration of the

Maturity thereof to such date pursuant to Section 502, (B) if, as of such date, the principal amount payable at the Stated Maturity of a Security is not determinable, the principal amount of such Security which shall be deemed to be Outstanding shall be the amount as specified or determined as contemplated by Section 301, (C) the principal amount of a Security denominated in one or more foreign currencies or currency units which shall be deemed to be Outstanding shall be the U.S. dollar equivalent, determined as of such date in the manner provided as contemplated by Section 301, of the principal amount of such Security (or, in the case of a Security described in Clause (A) or (B) above, of the amount determined as provided in such Clause), and (D) Securities owned by the Company or any other obligor upon the Securities or any Affiliate of the Company or of such other obligor shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent, waiver or other action, only Securities which the Trustee actually knows to be so owned shall be so disregarded. Securities so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Securities and that the pledgee is not the Company or any other obligor upon the Securities or any Affiliate of the Company or of such other obligor.

"Paying Agent" means, if not the Company, then any Person authorized by the Company to pay the principal of or any premium or interest on any Securities on behalf of the Company.

"Person" means any individual, corporation, partnership, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Place of Payment", when used with respect to the Securities of any series, means the place or places where the principal of and any premium and interest on the Securities of that series are payable as specified as contemplated by Section 301.

"Predecessor Security" of any particular Security means every previous Security evidencing all or a portion of the same debt as that evidenced by such particular Security; and, for the purposes of this definition, any Security authenticated and delivered under Section 306 in exchange for or in lieu of a mutilated, destroyed, lost or stolen Security shall be deemed to evidence the same debt as the mutilated, destroyed, lost or stolen Security.

"Redemption Date", when used with respect to any Security to be redeemed, means the date fixed for such redemption by or pursuant to this Indenture.

"Redemption Price", when used with respect to any Security to be redeemed, means the price at which it is to be redeemed pursuant to this Indenture.

"Regular Record Date" for the interest payable on any Interest Payment Date on the Securities of any series means the date specified for that purpose as contemplated by Section 301.

"Responsible Officer", when used with respect to the Trustee, means any vice president, any assistant vice-president, any trust officer or assistant trust officer of the Trustee assigned to the Trustee's corporate trust department and customarily performing functions similar to those performed by any of the above designated officers and also means, with respect to a particular

corporate trust matter, any other officer to whom such matter is referred because of his or her knowledge of and familiarity with the particular subject.

"Securities" has the meaning stated in the first recital of this Indenture and more particularly means any Securities authenticated and delivered under this Indenture.

"Securities Act" means the Securities Act of 1933 and any statute successor thereto, in each case as amended from time to time.

"Security Register" and "Security Registrar" have the respective meanings specified in Section 305.

"Senior Debt" of the Company means the principal of, premium, if any, interest on and any other payment due pursuant to any of the following, whether outstanding at the date of execution of this Indenture or thereafter incurred, created or assumed: (a) all indebtedness of the Company evidenced by notes, debentures, bonds or other securities sold by the Company for money, excluding Junior Subordinated Securities, but including all first mortgage bonds of the Company outstanding from time to time; (b) all indebtedness of others of the kinds described in the preceding clause (a) assumed by or guaranteed in any manner by the Company, including through an agreement to purchase, contingent or otherwise; and (c) all renewals, extensions or refundings of indebtedness of the kinds described in any of the preceding clauses (a) and (b); unless, in the case of any particular indebtedness, renewal, extension or refunding, the instrument creating or evidencing the same or the assumption or guarantee of the same expressly provides that such indebtedness, renewal, extension or refunding is not superior in right of payment to or is pari passu with the Junior Subordinated Securities.

"Special Record Date" for the payment of any Defaulted Interest means a date fixed by the Trustee pursuant to Section 307.

"Stated Maturity", when used with respect to any Security or any installment of principal thereof or interest thereon, means the date specified in such Security as the fixed date on which the principal of such Security or such installment of principal or interest is due and payable.

"Subsidiary" means a corporation more than 50% of the outstanding voting stock of which is owned, directly or indirectly, by the Company or by one or more other Subsidiaries, or by the Company and one or more other Subsidiaries. For the purposes of this definition, "voting stock" means stock which ordinarily has voting power for the election of directors, whether at all times or only so long as no senior class of stock has such voting power by reason of any contingency.

"Trust Indenture Act" means the Trust Indenture Act of 1939 as in force at the date as of which this instrument was executed, except as provided in Section 905.

"Trustee" means the Person named as the "Trustee" in the first paragraph of this instrument until a successor Trustee shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "Trustee" shall mean or include each Person who is then a Trustee

hereunder, and if at any time there is more than one such Person, "Trustee" as used with respect to the Securities of any series shall mean the Trustee with respect to Securities of that series.

"U.S. Government Obligation" has the meaning specified in Section 1304.

"Vice President", when used with respect to the Company or the Trustee, means any vice president, whether or not designated by a number or a word or words added before or after the title "vice president".

Section 102. Compliance Certificates and Opinions.

Upon any application or request by the Company to the Trustee to take any action under any provision of this Indenture, the Company shall furnish to the Trustee such certificates and opinions as may be required under the Trust Indenture Act. Each such certificate or opinion shall be given in the form of an Officers' Certificate, if to be given by an officer of the Company, or an Opinion of Counsel, if to be given by counsel, and shall comply with the requirements of the Trust Indenture Act and any other requirements set forth in this Indenture.

Every certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture shall include,

(1) a statement that each individual signing such certificate or opinion has read such covenant or condition and the definitions herein relating thereto;

(2) a statement that, in the opinion of each such individual, he or she has made such examination or investigation as is necessary to enable him or her to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(3) a statement as to whether, in the opinion of each such individual, such condition or covenant has been complied with.

Section 103. Form of Documents Delivered to Trustee.

In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of an officer of the Company may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which his or her certificate or opinion is based are

erroneous. Any such certificate or opinion of counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of the Company stating that the information with respect to such factual matters is in the possession of the Company, unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

Section 104. Acts of Holders; Record Dates.

Any request, demand, authorization, direction, notice, consent, waiver or other action provided or permitted by this Indenture to be given, made or taken by Holders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in person or by agent duly appointed in writing; and, except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Trustee and, where it is hereby expressly required, to the Company. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of the Holders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and (subject to Section 601) conclusive in favor of the Trustee and the Company, if made in the manner provided in this Section.

The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by a certificate of a notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him or her the execution thereof. Where such execution is by a signer acting in a capacity other than his or her individual capacity, such certificate or affidavit shall also constitute sufficient proof of his or her authority. The fact and date of the execution of any such instrument or writing, or the authority of the Person executing the same, may also be proved in any other manner which the Trustee deems sufficient.

The ownership of Securities shall be proved by the Security Register.

Any request, demand, authorization, direction, notice, consent, waiver or other Act of the Holder of any Security shall bind every future Holder of the same Security and the Holder of every Security issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof in respect of anything done, omitted or suffered to be done by the Trustee or the Company in reliance thereon, whether or not notation of such action is made upon such Security.

The Company may set any day as a record date for the purpose of determining the Holders of Outstanding Securities of any series entitled to give, make or take any request, demand, authorization, direction, notice, consent, waiver or other action provided or permitted by this Indenture to be given, made or taken by Holders of Securities of such series, provided that the

Company may not set a record date for, and the provisions of this paragraph shall not apply with respect to, the giving or making of any notice, declaration, request or direction referred to in the next paragraph. If any record date is set pursuant to this paragraph, the Holders of Outstanding Securities of the relevant series on such record date, and no other Holders, shall be entitled to take the relevant action, whether or not such Holders remain Holders after such record date; provided that no such action shall be effective hereunder unless taken on or prior to the applicable Expiration Date by Holders of the requisite principal amount of Outstanding Securities of such series on such record date. Nothing in this paragraph shall be construed to prevent the Company from setting a new record date for any action for which a record date has previously been set pursuant to this paragraph (whereupon the record date previously set shall automatically and with no action by any Person be cancelled and of no effect), and nothing in this paragraph shall be construed to render ineffective any action taken by Holders of the requisite principal amount of Outstanding Securities of the relevant series on the date such action is taken. Promptly after any record date is set pursuant to this paragraph, the Company, at its own expense, shall cause notice of such record date, the proposed action by Holders and the applicable Expiration Date to be given to the Trustee in writing and to each Holder of Securities of the relevant series in the manner set forth in Section 106.

The Trustee may set any day as a record date for the purpose of determining the Holders of Outstanding Securities of any series entitled to join in the giving or making of (i) any Notice of Default, (ii) any declaration of acceleration referred to in Section 502, (iii) any request to institute proceedings referred to in Section 507(2) or (iv) any direction referred to in Section 512, in each case with respect to Securities of such series. If any record date is set pursuant to this paragraph, the Holders of Outstanding Securities of such series on such record date, and no other Holders, shall be entitled to join in such notice, declaration, request or direction, whether or not such Holders remain Holders after such record date; provided that no such action shall be effective hereunder unless taken on or prior to the applicable Expiration Date by Holders of the requisite principal amount of Outstanding Securities of such series on such record date. Nothing in this paragraph shall be construed to prevent the Trustee from setting a new record date for any action for which a record date has previously been set pursuant to this paragraph (whereupon the record date previously set shall automatically and with no action by any Person be cancelled and of no effect), and nothing in this paragraph shall be construed to render ineffective any action taken by Holders of the requisite principal amount of Outstanding Securities of the relevant series on the date such action is taken. Promptly after any record date is set pursuant to this paragraph, the Trustee, at the Company's expense, shall cause notice of such record date, the proposed action by Holders and the applicable Expiration Date to be given to the Company in writing and to each Holder of Securities of the relevant series in the manner set forth in Section 106.

With respect to any record date set pursuant to this Section, the party hereto which sets such record date may designate any day as the "Expiration Date" and from time to time may change the Expiration Date to any earlier or later day; provided that no such change shall be effective unless notice of the proposed new Expiration Date is given to the other party hereto in writing, and to each Holder of Securities of the relevant series in the manner set forth in Section 106, on or prior to the existing Expiration Date. If an Expiration Date is not designated with respect to any record date set pursuant to this Section, the party hereto which set such record date shall be deemed to have initially designated the 180th day after such record date as the Expiration Date with respect thereto,

subject to its right to change the Expiration Date as provided in this paragraph. Notwithstanding the foregoing, no Expiration Date shall be later than the 180th day after the applicable record date.

Without limiting the foregoing, a Holder entitled hereunder to take any action hereunder with regard to any particular Security may do so with regard to all or any part of the principal amount of such Security or by one or more duly appointed agents each of which may do so pursuant to such appointment with regard to all or any part of such principal amount.

Section 105. Notices, Etc., to Trustee and Company.

Any request, demand, authorization, direction, notice, consent, waiver or Act of Holders or other document provided or permitted by this Indenture to be made upon, given or furnished to, or filed with,

(1) the Trustee by any Holder or by the Company shall be sufficient for every purpose hereunder if made, given, furnished or filed in writing to or with the Trustee at its Corporate Trust Office, Attention: Corporate Trust Administration, or

(2) the Company by the Trustee or by any Holder shall be sufficient for every purpose hereunder (unless otherwise herein expressly provided) if in writing and mailed, first–class postage prepaid, to the Company addressed to it at the address of its principal office specified in the first paragraph of this instrument or at any other address previously furnished in writing to the Trustee by the Company.

Section 106. Notice to Holders; Waiver.

Where this Indenture provides for notice to Holders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and mailed, to each Holder affected by such event, at his or her address as it appears in the Security Register, not later than the latest date (if any), and not earlier than the earliest date (if any), prescribed for the giving of such notice. In any case where notice to Holders is given by mail, neither the failure to mail such notice, nor any defect in any notice so mailed, to any particular Holder shall affect the sufficiency of such notice with respect to other Holders. Any notice when mailed to a Holder in the aforesaid manner shall be conclusively deemed to have been received by such Holder whether or not actually received by such Holder. Where this Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

In case by reason of the suspension of regular mail service or by reason of any other cause it shall be impracticable to give such notice by mail, then such notification as shall be made with the approval of the Trustee shall constitute a sufficient notification for every purpose hereunder.

Section 107. Conflict with Trust Indenture Act.

If any provision hereof limits, qualifies or conflicts with a provision of the Trust Indenture Act which is required under such Act to be a part of and govern this Indenture, the latter provision shall control. If any provision of this Indenture modifies or excludes any provision of the Trust Indenture Act which may be so modified or excluded, the latter provision shall be deemed to apply to this Indenture as so modified or to be excluded, as the case may be.

Section 108. Effect of Headings and Table of Contents.

The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

Section 109. Successors and Assigns.

All covenants and agreements in this Indenture by the Company shall bind its successors and assigns, whether so expressed or not.

Section 110. Separability Clause.

In case any provision in this Indenture or in the Securities shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 111. Benefits of Indenture.

Nothing in this Indenture or in the Securities, express or implied, shall give to any Person, other than the parties hereto, their successors hereunder, the Holders, and the holders of any Senior Debt, any benefit or any legal or equitable right, remedy or claim under this Indenture.

Section 112. Governing Law.

This Indenture and the Securities shall be governed by and construed in accordance with the law of the State of New York.

Section 113. Legal Holidays.

In any case where any Interest Payment Date, Redemption Date or Stated Maturity of any Security shall not be a Business Day at any Place of Payment, then (notwithstanding any other provision of this Indenture or of the Securities (other than a provision of any Security which

specifically states that such provision shall apply in lieu of this Section)) payment of interest or principal (and premium, if any) need not be made at such Place of Payment on such date, but may be made on the next succeeding Business Day at such Place of Payment with the same force and effect as if made on the Interest Payment Date or Redemption Date, or at the Stated Maturity, and no interest shall accrue with respect to such payment for the period from and after such Interest Payment Date, Redemption Date or Stated Maturity, as the case may be, to such next succeeding Business Day.

Section 114. Certain Matters Relating to Currencies.

Whenever any action or Act is to be taken hereunder by the Holders of Securities denominated in different currencies or currency units, then for purposes of determining the principal amount of Securities held by such Holders, the aggregate principal amount of the Securities denominated in a foreign currency or currency unit shall be deemed to be that amount of Dollars that could be obtained for such principal amount on the basis of a spot exchange rate specified to the Trustee for such series in an Officers' Certificate for exchanging such foreign currency or currency unit into Dollars as of the date of the taking of such action or Act by the Holders of the requisite percentage in principal amount of the Securities.

The Trustee shall segregate moneys, funds and accounts held by the Trustee in one currency or currency unit from any moneys, funds or accounts held in any other currencies or currency units, notwithstanding any provision herein that would otherwise permit the Trustee to commingle such amounts.

Section 115. Immunity of Incorporators, Stockholders, Officers and Directors.

No recourse shall be had for the payment of the principal of (and premium, if any), or the interest, if any, on any Securities of any series, or for any claim based thereon, or upon any obligation, covenant or agreement of this Indenture, against any incorporator, stockholder, officer or director, as such, past, present or future, of the Company or of any successor corporation, either directly or indirectly through the Company or any successor corporation, whether by virtue of any constitution, statute or rule of law or by the enforcement of any assessment of penalty or otherwise; it being expressly agreed and understood that this Indenture and all the Securities of each series are solely corporate obligations, and that no personal liability whatever shall attach to, or is incurred by, any incorporator, stockholder, officer or director, past, present or future, of the Company or of any successor corporation, either directly or indirectly through the Company or any successor corporation, because of the incurring of the indebtedness hereby authorized or under or by reason of any of the obligations, covenants or agreements contained in this Indenture or in any of the Securities of any series, or to be implied herefrom or therefrom; and that all such personal liability is hereby expressly released and waived as a condition of, and as part of the consideration for, the execution of this Indenture and the issuance of the Securities of each series.

Section 116. Counterparts.

This Indenture may be executed in any number of counterparts, each of which shall be an original; but such counterparts shall together constitute but one and the same instrument.

Section 117. Assignment to Affiliate.

The Company will have the right at all times to assign by indenture supplemental hereto any of its rights or obligations under the Indenture to a direct, indirect, or wholly owned Affiliate of the Company; provided that, in the event of any such assignment, the Company will remain liable for all such obligations.

## ARTICLE TWO

## Security Forms

Section 201. Forms Generally.

The Securities of each series shall be in substantially the form set forth in this Article, or in such other form as shall be established by or pursuant to a Board Resolution or in one or more indentures supplemental hereto, in each case with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Indenture, and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may be required to comply with the rules of any securities exchange or Depositary therefor or as may, consistently herewith, be determined by the officers executing such Securities, as evidenced by their execution thereof. If the form of Securities of any series is established by action taken pursuant to a Board Resolution, a copy of an appropriate record of such action shall be certified by the Secretary or an Assistant Secretary of the Company and delivered to the Trustee at or prior to the delivery of the Company Order contemplated by Section 303 for the authentication and delivery of such Securities.

The definitive Securities shall be printed, lithographed or engraved on steel engraved borders or may be produced in any other manner, all as determined by the officers executing such Securities, as evidenced by their execution of such Securities.

Section 202. Form of Face of Security.

[Insert any legend required by the Internal Revenue Code and the

regulations thereunder.]

THE UNION LIGHT, HEAT AND POWER COMPANY

No. $

CUSIP NO.

The Union Light, Heat and Power Company, a corporation duly organized and existing under the laws of the Commonwealth of Kentucky (herein called the "Company", which term includes any successor Person under the Indenture hereinafter referred to), for value received, hereby promises to pay to , or registered assigns, the principal sum of Dollars on [if the Security is to bear interest prior to Maturity, insert: , and to pay interest thereon from or from the most recent Interest Payment Date to which interest has been paid or duly provided for, on and in each year, commencing , at the rate of % per annum, until the principal hereof is paid or made available for payment. The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in such Indenture, be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest, which shall be the or (whether or not a Business Day), as the case may be, next preceding such Interest Payment Date. Any such interest not so punctually paid or duly provided for will forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on a Special Record Date for the payment of such Defaulted Interest to be fixed by the Trustee, notice whereof shall be given to Holders of Securities of this series not less than 10 days prior to such Special Record Date, or be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Securities of this series may be listed, and upon such notice as may be required by such exchange, all as more fully provided in said Indenture].

[If the Security is not to bear interest prior to Maturity, insert: The principal of this Security shall not bear interest except in the case of a default in payment of principal upon acceleration, upon redemption or at Stated Maturity and in such case the overdue principal and any overdue premium shall bear interest at the rate of % per annum (to the extent that the payment of such interest shall be legally enforceable), from the dates such amounts are due until they are paid or made available for payment. Interest on any overdue principal or premium shall be payable on demand. Any such interest on overdue principal or premium which is not paid on demand shall bear interest at the rate of % per annum (to the extent that the payment of such interest on interest shall be legally enforceable), from the date of such demand until the amount so demanded is paid or made available for payment. Interest on any overdue interest shall be payable on demand.]

Payment of the principal of (and premium, if any) and [if applicable, insert: any such] interest on this Security will be made at the office or agency of the Company maintained for that purpose in , in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts [if applicable, insert: ;provided,

however, that at the option of the Company payment of interest may be made by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register].

Any payment on this Security due on any day which is not a Business Day in the City of New York need not be made on such day, but may be made on the next succeeding Business Day with the same force and effect as if made on the due date and no interest shall accrue for the period from and after such date.

Reference is hereby made to the further provisions of this Security set forth on the reverse hereof, [if subordinated, insert: including, without limitation, provisions subordinating the payment of the principal hereof and any premium and interest hereon to the payment in full of all Senior Debt as defined in the Indenture] which such further provisions shall for all purposes have the same effect as if set forth at this place.

Unless the certificate of authentication hereon has been executed by the Trustee referred to on the reverse hereof by manual signature, this Security shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

In Witness Whereof, the Company has caused this instrument to be duly executed.

THE UNION LIGHT, HEAT AND POWER COMPANY

By _____

Section 203. Form of Reverse of Security.

This Security is one of a duly authorized issue of securities of the Company (herein called the "Securities"), issued and to be issued in one or more series under an Indenture, dated as of , 2004 (herein called the "Indenture", which term shall have the meaning assigned to it in such instrument), between the Company and Deutsche Bank Trust Company Americas, as Trustee (herein called the "Trustee", which term includes any successor trustee under the Indenture), and reference is hereby made to the Indenture for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Company, the Trustee and the Holders of the Securities and of the terms upon which the Securities are, and are to be, authenticated and delivered. This Security is one of the series designated on the face hereof [if applicable, insert: , limited in aggregate principal amount to $ ].

[If applicable, insert: The Securities of this series are subject to redemption upon not less than 30 days' notice by mail, [if applicable, insert: (1) on in any year commencing with the year and ending with the year through operation of the sinking fund for this series at a Redemption Price equal to 100% of the principal amount, and (2)] at any time [if applicable, insert: on or after , ], as a whole or in part, at the election of the Company, at the following Redemption Prices (expressed as percentages of the principal amount): If redeemed [if applicable,

insert: on or before , %, and if redeemed] during the 12-month period beginning of the years indicated,

.

| Year | Redemption Price | Year | Redemption Price |
|---|---|---|---|

and thereafter at a Redemption Price equal to % of the principal amount, together in the case of any such redemption [if applicable, insert: (whether through operation of the sinking fund or otherwise)] with accrued interest to the Redemption Date, but interest installments whose Stated Maturity is on or prior to such Redemption Date will be payable to the Holders of such Securities, or one or more Predecessor Securities, of record at the close of business on the relevant Record Dates referred to on the face hereof, all as provided in the Indenture.]

[If applicable, insert: The Securities of this series are subject to redemption upon not less than 30 days' notice by mail, (1) on in any year commencing with the year and ending with the year through operation of the sinking fund for this series at the Redemption Prices for redemption through operation of the sinking fund (expressed as percentages of the principal amount) set forth in the table below, and (2) at any time [if applicable, insert: on or after ], as a whole or in part, at the election of the Company, at the Redemption Prices for redemption otherwise than through operation of the sinking fund (expressed as percentages of the principal amount) set forth in the table below: If redeemed during the 12-month period beginning of the years indicated,

| Year | Redemption Price For Redemption Through Operation of the Sinking Fund | Redemption Price For Redemption Otherwise Than Through Operation of the Sinking Fund |
|---|---|---|

and thereafter at a Redemption Price equal to % of the principal amount, together in the case of any such redemption (whether through operation of the sinking fund or otherwise) with accrued interest to the Redemption Date, but interest installments whose Stated Maturity is on or prior to such Redemption Date will be payable to the Holders of such Securities, or one or more Predecessor Securities, of record at the close of business on the relevant Record Dates referred to on the face hereof, all as provided in the Indenture.]

[If applicable, insert: Notwithstanding the foregoing, the Company may not, prior to , redeem any Securities of this series as contemplated by [if applicable, insert: Clause (2) of] the preceding paragraph as a part of, or in anticipation of, any refunding operation by the application, directly or indirectly, of moneys borrowed having an interest cost to the Company (calculated in accordance with generally accepted financial practice) of less than % per annum.]

[If applicable, insert: The sinking fund for this series provides for the redemption on in each year beginning with the year and ending with the year of [if applicable, insert: not less than $ ("mandatory sinking fund") and not more than] $ aggregate principal amount of Securities of this series. Securities of this series acquired or redeemed by the Company otherwise than through [if applicable, insert: mandatory] sinking fund payments may be credited against subsequent [if applicable, insert: mandatory] sinking fund payments otherwise required to be made [if applicable, insert: , in the inverse order in which they become due].]

[If the Security is subject to redemption of any kind, insert: In the event of redemption of this Security in part only, a new Security or Securities of this series and of like tenor for the unredeemed portion hereof will be issued in the name of the Holder hereof upon the cancellation hereof.]

[If subordinated, insert: The indebtedness evidenced by the Securities of this series is, to the extent and in the manner provided in the Indenture, expressly subordinate and subject in right of payment to the prior payment in full of all Senior Debt of the Company (as defined in the Indenture) whether outstanding at the date of the Indenture or thereafter incurred, and this Security is issued subject to the provisions of the Indenture with respect to such subordination. Each holder and owner of this Security, by accepting the same, agrees to and shall be bound by such provisions and authorizes the Trustee in his or her behalf to take such action as may be necessary or appropriate to effectuate the subordination so provided and appoints the Trustee his or her attorney-in-fact for such purpose.]

[If applicable, insert: The Indenture contains provisions for defeasance at any time of [the entire indebtedness of this Security] [or] [certain restrictive covenants and Events of Default with respect to this Security] [, in each case] upon compliance with certain conditions set forth in the Indenture.]

[If the Security is not an Original Issue Discount Security, insert: If an Event of Default with respect to Securities of this series shall occur and be continuing, the principal of the Securities of this series may be declared due and payable in the manner and with the effect provided in the Indenture.]

[If the Security is an Original Issue Discount Security, insert: If an Event of Default with respect to Securities of this series shall occur and be continuing, an amount of principal of the Securities of this series may be declared due and payable in the manner and with the effect provided in the Indenture. Such amount shall be equal to insert: formula for determining the amount. Upon payment (i) of the amount of principal so declared due and payable and (ii) of interest on any overdue principal, premium and interest (in each case to the extent that the payment of such interest shall be legally enforceable), all of the Company's obligations in respect of the payment of the principal of and premium and interest, if any, on the Securities of this series shall terminate.]

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Securities of each series to be affected under the Indenture at any time by the Company and the Trustee with the consent of the Holders of a majority in principal amount of the Securities at the

time Outstanding of each series to be affected. The Indenture also contains provisions permitting the Holders of a majority in principal amount of the Securities of each series at the time Outstanding, on behalf of the Holders of all Securities of such series, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Security shall be conclusive and binding upon such Holder and upon all future Holders of this Security and of any Security issued upon the registration of transfer hereof or in exchange herefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Security.

As provided in and subject to the provisions of the Indenture, the Holder of this Security shall not have the right to institute any proceeding with respect to the Indenture or for the appointment of a receiver or trustee or for any other remedy thereunder, unless such Holder shall have previously given the Trustee written notice of a continuing Event of Default with respect to the Securities of this series, the Holders of not less than 35% in principal amount of the Securities of this series at the time Outstanding shall have made written request to the Trustee to institute proceedings in respect of such Event of Default as Trustee and offered the Trustee indemnity reasonably satisfactory to the Trustee, and the Trustee shall not have received from the Holders of a majority in principal amount of Securities of this series at the time Outstanding a direction inconsistent with such request, and shall have failed to institute any such proceeding, for 60 days after receipt of such notice, request and offer of indemnity. The foregoing shall not apply to any suit instituted by the Holder of this Security for the enforcement of any payment of principal hereof or any premium or interest hereon on or after the respective due dates expressed herein.

No reference herein to the Indenture and no provision of this Security or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and any premium and interest on this Security at the times, place and rate, and in the coin or currency, herein prescribed.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Security is registrable in the Security Register, upon surrender of this Security for registration of transfer at the office or agency of the Company in any place where the principal of and any premium and interest on this Security are payable, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his or he attorney duly authorized in writing, and thereupon one or more new Securities of this series and of like tenor, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees.

The Securities of this series are issuable only in registered form without coupons in denominations of $ and any integral multiple thereof. As provided in the Indenture and subject to certain limitations therein set forth, Securities of this series are exchangeable for a like aggregate principal amount of Securities of this series and of like tenor of a different authorized denomination, as requested by the Holder surrendering the same.

No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Prior to due presentment of this Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name this Security is registered as the owner hereof for all purposes, whether or not this Security be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

All terms used in this Security which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

Section 204. Form of Legend for Global Securities.

Unless otherwise specified as contemplated by Section 301 for the Securities evidenced thereby, every Global Security authenticated and delivered hereunder shall bear a legend in substantially the following form (or such other form as a securities exchange or Depositary may request or require):

This Security is a Global Security within the meaning of the Indenture hereinafter referred to and is registered in the name of a Depositary or a nominee thereof. This Security may not be exchanged in whole or in part for a Security registered, and no transfer of this Security in whole or in part may be registered, in the name of any Person other than such Depositary or a nominee thereof, except in the limited circumstances described in the Indenture.

Section 205. Form of Trustee's Certificate of Authentication.

The Trustee's certificates of authentication shall be in substantially the following form:

This is one of the Securities of the series designated therein referred to in the within–mentioned Indenture.

DEUTSCHE BANK TRUST COMPANY
AMERICAS,
As Trustee

By _____
Authorized Signatory

## ARTICLE THREE

### The Securities

Section 301. Amount Unlimited; Issuable in Series.

The aggregate principal amount of Securities which may be authenticated and delivered under this Indenture is unlimited.

The Securities may be issued in one or more series. There shall be established in or pursuant to a Board Resolution and, subject to Section 303, set forth, or determined in the manner provided, in an Officers' Certificate, or established in one or more indentures supplemental hereto, prior to the issuance of Securities of any series:

(1) the title of the Securities of the series (which shall distinguish the Securities of the series from Securities of any other series);

(2) any limit upon the aggregate principal amount of the Securities of the series which may be authenticated and delivered under this Indenture (except for Securities authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, other Securities of the series pursuant to Section 304, 305, 306, 906 or 1107 and except for any Securities which, pursuant to Section 303, are deemed never to have been authenticated and delivered hereunder);

(3) the Person to whom any interest on a Security of the series shall be payable, if other than the Person in whose name that Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest;

(4) the date or dates on which the principal of any Securities of the series is payable;

(5) the rate or rates at which any Securities of the series shall bear interest, if any, the date or dates from which any such interest shall accrue, the Interest Payment Dates on which any such interest shall be payable, the manner of determination of such Interest Payment Dates and the Regular Record Date for any such interest payable on any Interest Payment Date;

(6) the right, if any, to extend the interest payment periods and the duration of such extension;

(7) the place or places where the principal of and any premium and interest on any Securities of the series shall be payable;

(8) the period or periods within which, the price or prices at which and the terms and conditions upon which any Securities of the series may be redeemed, in whole or in part, at

the option of the Company and, if other than by a Board Resolution, the manner in which any election by the Company to redeem the Securities shall be evidenced;

(9) the obligation, if any, of the Company to redeem or purchase any Securities of the series pursuant to any sinking fund or analogous provisions or at the option of the Holder thereof and the period or periods within which, the price or prices at which and the terms and conditions upon which any Securities of the series shall be redeemed or purchased, in whole or in part, pursuant to such obligation;

(10) the denominations in which any Securities of the series shall be issuable;

(11) if the amount of principal of or any premium or interest on any Securities of the series may be determined with reference to an index or pursuant to a formula, the manner in which such amounts shall be determined;

(12) if other than the currency of the United States of America, the currency, currencies or currency units in which the principal of or any premium or interest on any Securities of the series shall be payable and the manner of determining the equivalent thereof in the currency of the United States of America for any purpose, including for purposes of the definition of "Outstanding" in Section 101;

(13) if the principal of or any premium or interest on any Securities of the series is to be payable, at the election of the Company or the Holder thereof, in one or more currencies or currency units other than that or those in which such Securities are stated to be payable, the currency, currencies or currency units in which the principal of or any premium or interest on such Securities as to which such election is made shall be payable, the periods within which and the terms and conditions upon which such election is to be made and the amount so payable (or the manner in which such amount shall be determined);

(14) if other than the entire principal amount thereof, the portion of the principal amount of any Securities of the series which shall be payable upon declaration of acceleration of the Maturity thereof pursuant to Section 502;

(15) if the principal amount payable at the Stated Maturity of any Securities of the series will not be determinable as of any one or more dates prior to the Stated Maturity, the amount which shall be deemed to be the principal amount of such Securities as of any such date for any purpose thereunder or hereunder, including the principal amount thereof which shall be due and payable upon any Maturity other than the Stated Maturity or which shall be deemed to be Outstanding as of any date prior to the Stated Maturity (or, in any such case, the manner in which such amount deemed to be the principal amount shall be determined);

(16) if applicable, that the Securities of the series, in whole or any specified part, shall be defeasible pursuant to Section 1302 or Section 1303 or both such Sections;

(17) if applicable, that any Securities of the series shall be issuable in whole or in part in the form of one or more Global Securities and, in such case, the respective Depositaries for

such Global Securities, the form of any legend or legends which shall be borne by any such Global Security in addition to or in lieu of that set forth in Section 204 and any circumstances in addition to or in lieu of those set forth in Clause (2) of the last paragraph of Section 305 in which any such Global Security may be exchanged in whole or in part for Securities registered, and any transfer of such Global Security in whole or in part may be registered, in the name or names of Persons other than the Depositary for such Global Security or a nominee thereof;

(18) any addition to or change in the Events of Default which applies to any Securities of the series and any change in the right of the Trustee or the requisite Holders of such Securities to declare the principal amount thereof due and payable pursuant to Section 502;

(19) any addition to or change in the covenants set forth in Article Ten which applies to Securities of the series;

(20) the applicability of, or any addition to or change in, Article Fourteen with respect to the Securities of a series;

(21) any other terms of the series (which terms shall not be inconsistent with the provisions of this Indenture.

All Securities of any one series shall be substantially identical except as to date and principal amount and except as may otherwise be provided in or pursuant to the Board Resolution referred to above and (subject to Section 303) set forth, or determined in the manner provided, in the Officers' Certificate referred to above or in any such indenture supplemental hereto.

If any of the terms of the series are established by action taken pursuant to a Board Resolution, a copy of an appropriate record of such action shall be certified by the Secretary or an Assistant Secretary of the Company and delivered to the Trustee at or prior to the delivery of the Officers' Certificate setting forth the terms of the series.

Section 302. Denominations.

The Securities of each series shall be issuable only in registered form without coupons and only in such denominations as shall be specified as contemplated by Section 301. In the absence of any such specified denomination with respect to the Securities of any series, the Securities of such series shall be issuable in denominations of $1,000 and any integral multiple thereof.

Section 303. Execution, Authentication, Delivery and Dating.

The Securities shall be executed on behalf of the Company by its Chairman of the Board, its Vice Chairman, its President, one of its Vice Presidents, or its Treasurer. The signature of any of these officers on the Securities may be manual or facsimile.

Securities bearing the manual or facsimile signatures of individuals who were at any time the proper officers of the Company shall bind the Company, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Securities or did not hold such offices at the date of such Securities.

At any time and from time to time after the execution and delivery of this Indenture, the Company may deliver Securities of any series executed by the Company to the Trustee for authentication, together with a Company Order for the authentication and delivery of such Securities, and the Trustee in accordance with the Company Order shall authenticate and deliver such Securities. If the form or terms of the Securities of the series have been established by or pursuant to a Board Resolution as permitted by Sections 201 and 301, in authenticating such Securities, and accepting the additional responsibilities under this Indenture in relation to such Securities, the Trustee shall be entitled to receive, and (subject to Section 601) shall be fully protected in relying upon, an Opinion of Counsel stating,

(1) if the form of such Securities has been established by or pursuant to Board Resolution as permitted by Section 201, that such form has been established in conformity with the provisions of this Indenture;

(2) if the terms of such Securities have been established by or pursuant to Board Resolution as permitted by Section 301, that such terms have been established in conformity with the provisions of this Indenture; and

(3) that such Securities, when authenticated and delivered by the Trustee and issued by the Company in the manner and subject to any conditions specified in such Opinion of Counsel, will constitute valid and legally binding obligations of the Company enforceable in accordance with their terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights to general equity principles and to such other matters as such counsel shall set forth therein.

If such form or terms have been so established, the Trustee shall not be required to authenticate such Securities if the issue of such Securities pursuant to this Indenture will affect the Trustee's own rights, duties or immunities under the Securities and this Indenture or otherwise in a manner which is not reasonably acceptable to the Trustee.

Notwithstanding the provisions of Section 301 and of the preceding paragraph, if all Securities of a series are not to be originally issued at one time, it shall not be necessary to deliver the Officers' Certificate otherwise required pursuant to Section 301 or the Company Order and Opinion of Counsel otherwise required pursuant to such preceding paragraph at or prior to the authentication of each Security of such series if such documents (with appropriate variations to reflect such future issuance) are delivered at or prior to the authentication upon original issuance of the first Security of such series to be issued.

Each Security shall be dated the date of its authentication.

No Security shall be entitled to any benefit under this Indenture or be valid or obligatory for any purpose unless there appears on such Security a certificate of authentication substantially in the form provided for herein executed by the Trustee by manual signature, and such certificate upon any Security shall be conclusive evidence, and the only evidence, that such Security has been duly authenticated and delivered hereunder. Notwithstanding the foregoing, if any Security shall have been authenticated and delivered hereunder but never issued and sold by the Company, and the Company shall deliver such Security to the Trustee for cancellation as provided in Section 309, for all purposes of this Indenture such Security shall be deemed never to have been authenticated and delivered hereunder and shall never be entitled to the benefits of this Indenture.

Section 304. Temporary Securities.

Pending the preparation of definitive Securities of any series, the Company may execute, and upon Company Order the Trustee shall authenticate and deliver, temporary Securities which are printed, lithographed, typewritten, mimeographed or otherwise produced, in any authorized denomination, substantially of the tenor of the definitive Securities in lieu of which they are issued and with such appropriate insertions, omissions, substitutions and other variations as the officers executing such Securities may determine, as evidenced by their execution of such Securities.

If temporary Securities of any series are issued, the Company will cause definitive Securities of that series to be prepared without unreasonable delay. After the preparation of definitive Securities of such series, the temporary Securities of such series shall be exchangeable for definitive Securities of such series upon surrender of the temporary Securities of such series at the office or agency of the Company in a Place of Payment for that series, without charge to the Holder. Upon surrender for cancellation of any one or more temporary Securities of any series, the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor one or more definitive Securities of the same series, of any authorized denominations and of like tenor and aggregate principal amount. Until so exchanged, the temporary Securities of any series shall in all respects be entitled to the same benefits under this Indenture as definitive Securities of such series and tenor.

Section 305. Registration, Registration of Transfer and Exchange.

The Company shall cause to be kept at the Corporate Trust Office of the Trustee a register (the register maintained in such office and in any other office or agency of the Company in a Place of Payment being herein sometimes collectively referred to as the "Security Register") in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for the registration of Securities and of transfers of Securities. The Trustee is hereby appointed "Security Registrar" for the purpose of registering Securities and transfers of Securities as herein provided.

Upon surrender for registration of transfer of any Security of a series at the office or agency of the Company in a Place of Payment for that series, the Company shall execute, and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more

new Securities of the same series, of any authorized denominations and of like tenor and aggregate principal amount.

At the option of the Holder, Securities of any series may be exchanged for other Securities of the same series, of any authorized denominations and of like tenor and aggregate principal amount, upon surrender of the Securities to be exchanged at such office or agency. Whenever any Securities are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and deliver, the Securities which the Holder making the exchange is entitled to receive.

All Securities issued upon any registration of transfer or exchange of Securities shall be the valid obligations of the Company, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Securities surrendered upon such registration of transfer or exchange.

Every Security presented or surrendered for registration of transfer or for exchange shall (if so required by the Company or the Trustee) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed, by the Holder thereof or his or her attorney duly authorized in writing.

No service charge shall be made for any registration of transfer or exchange of Securities, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration of transfer or exchange of Securities, other than exchanges pursuant to Section 304, 906 or 1107 not involving any transfer.

If the Securities of any series (or of any series and specified tenor) are to be redeemed in part, the Company shall not be required (A) to issue, register the transfer of or exchange any Securities of that series (or of that series and specified tenor, as the case may be) during a period beginning at the opening of business 15 days before the day of the mailing of a notice of redemption of any such Securities selected for redemption under Section 1103 and ending at the close of business on the day of such mailing, or (B) to register the transfer of or exchange any Security so selected for redemption in whole or in part, except the unredeemed portion of any Security being redeemed in part.

The provisions of Clauses (1), (2), (3) and (4) below shall apply only to Global Securities:

(1) Each Global Security authenticated under this Indenture shall be registered in the name of the Depositary designated for such Global Security or a nominee thereof and delivered to such Depositary or nominee thereof or custodian therefor, and each such Global Security shall constitute a single Security for all purposes of this Indenture.

(2) Notwithstanding any other provision in this Indenture, no Global Security may be exchanged in whole or in part for Securities registered, and no transfer of a Global Security in whole or in part may be registered, in the name of any Person other than the Depositary for such Global Security or a nominee thereof unless (A) such Depositary (i) has notified the Company that it is unwilling or unable to continue as Depositary for such Global Security or (ii) has ceased to be a clearing agency registered under the Exchange Act, (B) there shall have occurred and be continuing an Event of Default with respect to such Global

Security or (C) there shall exist such circumstances, if any, in addition to or in lieu of the foregoing as have been specified for this purpose as contemplated by Section 301.

(3) Subject to Clause (2) above, any exchange of a Global Security for other Securities may be made in whole or in part, and all Securities issued in exchange for a Global Security or any portion thereof shall be registered in such names as the Depositary for such Global Security shall direct.

(4) Every Security authenticated and delivered upon registration of transfer of, or in exchange for or in lieu of, a Global Security or any portion thereof, whether pursuant to this Section, Section 304, 306, 906 or 1107 or otherwise, shall be authenticated and delivered in the form of, and shall be, a Global Security, unless such Security is registered in the name of a Person other than the Depositary for such Global Security or a nominee thereof.

Section 306. Mutilated, Destroyed, Lost and Stolen Securities.

If any mutilated Security is surrendered to the Trustee, the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor a new Security of the same series and of like tenor and principal amount and bearing a number not contemporaneously outstanding.

If there shall be delivered to the Company and the Trustee (i) evidence to their satisfaction of the destruction, loss or theft of any Security and (ii) such security or indemnity as may be required by them to save each of them and any agent of either of them harmless, then, in the absence of notice to the Company or the Trustee that such Security has been acquired by a bona fide purchaser, the Company shall execute and the Trustee shall authenticate and deliver, in lieu of any such destroyed, lost or stolen Security, a new Security of the same series and of like tenor and principal amount and bearing a number not contemporaneously outstanding.

In case any such mutilated, destroyed, lost or stolen Security has become or is about to become due and payable, the Company in its discretion may, instead of issuing a new Security, pay such Security.

Upon the issuance of any new Security under this Section, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) connected therewith.

Every new Security of any series issued pursuant to this Section in lieu of any destroyed, lost or stolen Security shall constitute an original additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Security shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Securities of that series duly issued hereunder.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities.

Section 307. Payment of Interest; Interest Rights Preserved.

Except as otherwise provided as contemplated by Section 301 with respect to any series of Securities, interest on any Security which is payable, and is punctually paid or duly provided for, on any Interest Payment Date shall be paid to the Person in whose name that Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest.

Any interest on any Security of any series which is payable, but is not punctually paid or duly provided for, on any Interest Payment Date (herein called "Defaulted Interest") shall forthwith cease to be payable to the Holder on the relevant Regular Record Date by virtue of having been such Holder, and such Defaulted Interest may be paid by the Company, at its election in each case, as provided in Clause (1) or (2) below:

(1) The Company may elect to make payment of any Defaulted Interest to the Persons in whose names the Securities of such series (or their respective Predecessor Securities) are registered at the close of business on a Special Record Date for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Company shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Security of such series and the date of the proposed payment, and at the same time the Company shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest as in this Clause provided. Thereupon the Trustee shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than 15 days and not less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Company of such Special Record Date and, in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be given to each Holder of Securities of such series in the manner set forth in Section 106, not less than 10 days prior to such Special Record Date. Notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor having been so mailed, such Defaulted Interest shall be paid to the Persons in whose names the Securities of such series (or their respective Predecessor Securities) are registered at the close of business on such Special Record Date and shall no longer be payable pursuant to the following Clause (2).

(2) The Company may make payment of any Defaulted Interest on the Securities of any series in any other lawful manner not inconsistent with the requirements of any securities exchange on which such Securities may be listed, and upon such notice as may be required

by such exchange, if, after notice given by the Company to the Trustee of the proposed payment pursuant to this Clause, such manner of payment shall be deemed practicable by the Trustee.

Subject to the foregoing provisions of this Section, each Security delivered under this Indenture upon registration of transfer of or in exchange for or in lieu of any other Security shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Security.

Section 308. Persons Deemed Owners.

Prior to due presentment of a Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name such Security is registered as the owner of such Security for the purpose of receiving payment of principal of and any premium and (subject to Section 307) any interest on such Security and for all other purposes whatsoever, whether or not such Security be overdue, and neither the Company, the Trustee nor any agent of the Company or the Trustee shall be affected by notice to the contrary.

None of the Company, the Trustee, any Paying Agent (if not the Company) or the Security Registrar shall have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests of a Global Security or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Section 309. Cancellation.

All Securities surrendered for payment, redemption, registration of transfer or exchange or for credit against any sinking fund payment shall, if surrendered to any Person other than the Trustee, be delivered to the Trustee and shall be promptly cancelled by it. The Company may at any time deliver to the Trustee for cancellation any Securities previously authenticated and delivered hereunder which the Company may have acquired in any manner whatsoever, and may deliver to the Trustee (or to any other Person for delivery to the Trustee) for cancellation any Securities previously authenticated hereunder which the Company has not issued and sold, and all Securities so delivered shall be promptly cancelled by the Trustee. No Securities shall be authenticated in lieu of or in exchange for any Securities cancelled as provided in this Section, except as expressly permitted by this Indenture. All cancelled Securities held by the Trustee shall be disposed of as directed by a Company Order; provided, however, that the Trustee shall not be required to destroy such cancelled Securities.

Section 310. Computation of Interest.

Except as otherwise specified as contemplated by Section 301 for Securities of any series, interest on the Securities of each series shall be computed on the basis of a 360-day year of twelve 30-day months.

Section 311. CUSIP Numbers.

The Company in issuing the Securities may use "CUSIP" numbers (if then generally in use), and, if so, the Trustee may use "CUSIP" numbers in notices of redemption as a convenience to Holders; provided that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Securities or as contained in any notice of a redemption and that reliance may be placed only on the other identification numbers printed on the Securities, and any such redemption shall not be affected by any defect in or omission of such numbers.

## ARTICLE FOUR

### Satisfaction and Discharge

Section 401. Satisfaction and Discharge of Indenture.

This Indenture shall upon Company Request cease to be of further effect (except as to any surviving rights of registration of transfer or exchange of Securities herein expressly provided for), and the Trustee, at the expense of the Company, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture, when

(1) either

(A) all Securities theretofore authenticated and delivered (other than (i) Securities which have been destroyed, lost or stolen and which have been replaced or paid as provided in Section 306 and (ii) Securities for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust, as provided in Section 1003) have been delivered to the Trustee for cancellation; or

(B) all such Securities not theretofore delivered to the Trustee for cancellation

(i) have become due and payable, or

(ii) will become due and payable at their Stated Maturity within one year, or

(iii) are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Company,

and the Company, in the case of (i), (ii) or (iii) above, has deposited or caused to be deposited with the Trustee as trust funds in trust for the purpose, money in an amount sufficient to pay and discharge the entire indebtedness on such Securities not theretofore delivered to the Trustee for cancellation, for principal and any premium and interest to the

date of such deposit (in the case of Securities which have become due and payable) or to the Stated Maturity or Redemption Date, as the case may be;

(2) the Company has paid or caused to be paid all other sums payable hereunder by the Company; and

(3) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture have been complied with.

Notwithstanding the satisfaction and discharge of this Indenture, the obligations of the Company to the Trustee under Section 607, the obligations of the Company to any Authenticating Agent under Section 614 and, if money shall have been deposited with the Trustee pursuant to subclause (B) of Clause (1) of this Section, the obligations of the Trustee under Section 402 and the last paragraph of Section 1003 shall survive.

Section 402. Application of Trust Money.

Subject to the provisions of the last paragraph of Section 1003 and to Article Fourteen, if applicable, all money deposited with the Trustee pursuant to Section 401 shall be held in trust and applied by it, in accordance with the provisions of the Securities and this Indenture, to the payment, either directly or through any Paying Agent (including the Company acting as its own Paying Agent) as the Trustee may determine, to the Persons entitled thereto, of the principal and any premium and interest for whose payment such money has been deposited with the Trustee.

## ARTICLE FIVE

## Remedies

Section 501. Events of Default.

"Event of Default", wherever used herein with respect to Securities of any series, means any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(1) default in the payment of any interest upon any Security of that series when it becomes due and payable, and continuance of such default for a period of 30 days; or

(2) default in the payment of the principal of or any premium on any Security of that series at its Maturity; or

(3) default in the deposit of any sinking fund payment, when and as due by the terms of a Security of that series; or

(4) default in the performance, or breach, of any covenant or warranty of the Company in this Indenture (other than a covenant or warranty a default in whose performance or whose breach is elsewhere in this Section specifically dealt with or which has expressly been included in this Indenture solely for the benefit of a series of Securities other than that series), and continuance of such default or breach for a period of 90 days after there has been given, by registered or certified mail, to the Company by the Trustee or to the Company and the Trustee by the Holders of at least 35% in principal amount of the Outstanding Securities of that series a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder; or

(5) the entry by a court having jurisdiction in the premises of (A) a decree or order for relief in respect of the Company in an involuntary case or proceeding under any applicable Federal or state bankruptcy, insolvency, reorganization or other similar law or (B) a decree or order adjudging the Company a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Company under any applicable Federal or state law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Company or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order for relief or any such other decree or order unstayed and in effect for a period of 90 consecutive days; or

(6) the commencement by the Company of a voluntary case or proceeding under any applicable Federal or state bankruptcy, insolvency, reorganization or other similar law or of any other case or proceeding to be adjudicated a bankrupt or insolvent, or the consent by it to the entry of a decree or order for relief in respect of the Company in an involuntary case or proceeding under any applicable Federal or state bankruptcy, insolvency, reorganization or other similar law or to the commencement of any bankruptcy or insolvency case or proceeding against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under any applicable Federal or state law, or the consent by it to the filing of such petition or to the appointment of, or taking possession of the Company or of any substantial part of its property by, a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official or the making by the Company of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due, or the taking of corporate action by the Company in furtherance of any such action; or

(7) any other Event of Default established pursuant to Section 301 with respect to Securities of that series.

Section 502. Acceleration of Maturity; Rescission and Annulment.

If an Event of Default (other than an Event of Default specified in Section 501(5) or 501(6)) with respect to Securities of any series at the time Outstanding occurs and is continuing, then in

every such case the Trustee or the Holders of not less than 35% in principal amount of the Outstanding Securities of that series may declare the principal amount of all the Securities of that series (or, if any Securities of that series are Original Issue Discount Securities, such portion of the principal amount of such Securities as may be specified by the terms thereof) to be due and payable immediately, by a notice in writing to the Company (and to the Trustee if given by Holders), and upon any such declaration such principal amount (or specified amount) shall become immediately due and payable. If an Event of Default specified in Section 501(5) or 501(6) with respect to Securities of any series at the time Outstanding occurs, the principal amount of all the Securities of that series (or, if any Securities of that series are Original Issue Discount Securities, such portion of the principal amount of such Securities as may be specified by the terms thereof) shall automatically, and without any declaration or other action on the part of the Trustee or any Holder, become immediately due and payable.

At any time after such a declaration of acceleration with respect to Securities of any series has been made and before a judgment or decree for payment of the money due has been obtained by the Trustee as hereinafter in this Article provided, the Holders of a majority in principal amount of the Outstanding Securities of that series, by written notice to the Company and the Trustee, may rescind and annul such declaration and its consequences if,

(1) the Company has paid or deposited with the Trustee a sum sufficient to pay (A) all overdue interest on all Securities of that series, (B) the principal of (and premium, if any, on) any Securities of that series which have become due otherwise than by such declaration of acceleration and any interest thereon at the rate or rates prescribed therefor in such Securities, (C) all sums paid or advanced by the Trustee hereunder and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel; and

(2) all Events of Default with respect to Securities of that series, other than the non–payment of the principal of Securities of that series which have become due solely by such declaration of acceleration, have been cured or waived as provided in Section 513.

No such rescission shall affect any subsequent default or impair any right consequent thereon.

Section 503. Collection of Indebtedness and Suits for Enforcement by Trustee.

The Company covenants that if

(1) default is made in the payment of any interest on any Security when such interest becomes due and payable and such default continues for a period of 30 days, or

(2) default is made in the payment of the principal of (or premium, if any, on) any Security at the Maturity thereof,

the Company will, upon demand of the Trustee, pay to it, for the benefit of the Holders of such Securities, the whole amount then due and payable on such Securities for principal and any premium and interest and such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel.

If an Event of Default with respect to Securities of any series occurs and is continuing, the Trustee may in its discretion proceed to protect and enforce its rights and the rights of the Holders of Securities of such series by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

Section 504. Trustee May File Proofs of Claim.

In case of any judicial proceeding relative to the Company (or any other obligor upon the Securities), its property or its creditors, the Trustee shall be entitled and empowered, by intervention in such proceeding or otherwise, to take any and all actions authorized under the Trust Indenture Act in order to have claims of the Holders and the Trustee allowed in any such proceeding. In particular, the Trustee shall be authorized to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same; and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amount due it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 607.

No provision of this Indenture shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting the Securities or the rights of any Holder thereof or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding; provided, however, that the Trustee may, on behalf of the Holders, vote for the election of a trustee in bankruptcy or similar official and be a member of a creditors' or other similar committee.

Section 505. Trustee May Enforce Claims Without Possession of Securities.

All rights of action and claims under this Indenture or the Securities may be prosecuted and enforced by the Trustee without the possession of any of the Securities or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Holders of the Securities in respect of which such judgment has been recovered.

Section 506. Application of Money Collected.

Any money collected by the Trustee pursuant to this Article, subject to Article Fourteen, if applicable, shall be applied in the following order, at the date or dates fixed by the Trustee and, in case of the distribution of such money on account of principal or any premium or interest, upon presentation of the Securities and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

First: to the payment of all amounts due the Trustee under Section 607;

Second: to the payment of the amounts then due and unpaid for principal of and any premium and interest on the Securities in respect of which or for the benefit of which such money has been collected, ratably, without preference or priority of any kind, according to the amounts due and payable on such Securities for principal and any premium and interest, respectively; and

Third: the balance, if any, to the Company.

Section 507. Limitation on Suits.

No Holder of any Security of any series shall have any right to institute any proceeding, judicial or otherwise, with respect to this Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless

(1) such Holder has previously given written notice to the Trustee of a continuing Event of Default with respect to the Securities of that series;

(2) the Holders of not less than 35% in principal amount of the Outstanding Securities of that series shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee hereunder;

(3) such Holder or Holders have offered to the Trustee indemnity reasonably satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request;

(4) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and

(5) no direction inconsistent with such written request has been given to the Trustee during such 60–day period by the Holders of a majority in principal amount of the Outstanding Securities of that series; it being understood and intended that no one or more of such Holders shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other of such Holders, or to obtain or to seek to obtain priority or preference over any other of such

Holders or to enforce any right under this Indenture, except in the manner herein provided and for the equal and ratable benefit of all of such Holders.

Section 508. Unconditional Right of Holders to Receive Principal, Premium and Interest.

Notwithstanding any other provision in this Indenture, the Holder of any Security shall have the right, which is absolute and unconditional, to receive payment of the principal of and any premium and (subject to Section 307) interest on such Security on the respective Stated Maturities expressed in such Security (or, in the case of redemption, on the Redemption Date) and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Holder.

Section 509. Restoration of Rights and Remedies.

If the Trustee or any Holder has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or to such Holder, then and in every such case, subject to any determination in such proceeding, the Company, the Trustee and the Holders shall be restored severally and respectively to their former positions hereunder and thereafter all rights and remedies of the Trustee and the Holders shall continue as though no such proceeding had been instituted.

Section 510. Rights and Remedies Cumulative.

Except as otherwise provided with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities in the last paragraph of Section 306, no right or remedy herein conferred upon or reserved to the Trustee or to the Holders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

Section 511. Delay or Omission Not Waiver.

No delay or omission of the Trustee or of any Holder of any Securities to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article or by law to the Trustee or to the Holders may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or by the Holders, as the case may be.

Section 512. Control by Holders.

The Holders of a majority in principal amount of the Outstanding Securities of any series shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee, with respect to the Securities of such series, provided that

(1) such direction shall not be in conflict with any rule of law or with this Indenture, and

(2) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction.

Section 513. Waiver of Past Defaults.

The Holders of not less than a majority in principal amount of the Outstanding Securities of any series may on behalf of the Holders of all the Securities of such series waive any past default hereunder with respect to such series and its consequences, except a default

(1) in the payment of the principal of or any premium or interest on any Security of such series, or

(2) in respect of a covenant or provision hereof which under Article Nine cannot be modified or amended without the consent of the Holder of each Outstanding Security of such series affected.

Upon any such waiver, such default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

Section 514. Undertaking for Costs.

In any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken, suffered or omitted by it as Trustee, a court may require any party litigant in such suit to file an undertaking to pay the costs of such suit, and may assess costs against any such party litigant, in the manner and to the extent provided in the Trust Indenture Act; provided that this Section shall not apply to any suit instituted by the Trustee or to any suit instituted by any Holder, or group of Holders, holding in the aggregate more than 10% in principal amount of Outstanding Securities (of any series), or to any suit instituted by a Holder for the enforcement of the payment of the principal of or any premium or interest on any Security on or after the Stated Maturity thereof (or, in the case of redemption, on or after the Redemption Date).

Section 515. Waiver of Usury, Stay or Extension Laws.

The Company covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any

usury, stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Indenture; and the Company (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

## ARTICLE SIX

## The Trustee

Section 601. Certain Duties and Responsibilities.

The duties and responsibilities of the Trustee shall be as provided by the Trust Indenture Act. Notwithstanding the foregoing, no provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it. Whether or not therein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section.

Section 602. Notice of Defaults.

If a default occurs hereunder with respect to Securities of any series, the Trustee shall give the Holders of Securities of such series notice of such default as and to the extent provided by the Trust Indenture Act, unless such default shall have been cured or waived; provided, however, that in the case of any default of the character specified in Section 501(4) with respect to Securities of such series, no such notice to Holders shall be given until at least 30 days after the occurrence thereof. For the purpose of this Section, the term "default" means any event which is, or after notice or lapse of time or both would become, an Event of Default with respect to Securities of such series.

Section 603. Certain Rights of Trustee.

Subject to the provisions of Section 601:

(1) the Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(2) any request or direction of the Company mentioned herein shall be sufficiently evidenced by a Company Request or Company Order, and any resolution of the Board of Directors shall be sufficiently evidenced by a Board Resolution;

(3) whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon an Officers' Certificate;

(4) the Trustee may consult with counsel of its selection and the advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon;

(5) the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the Holders pursuant to this Indenture, unless such Holders shall have offered to the Trustee security or indemnity reasonably satisfactory to the Trustee against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction;

(6) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit.

(7) the Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder.

Section 604. Not Responsible for Recitals or Issuance of Securities.

The recitals contained herein and in the Securities, except the Trustee's certificates of authentication, shall be taken as the statements of the Company, and neither the Trustee nor any Authenticating Agent assumes any responsibility for their correctness. The Trustee makes no representations as to the validity or sufficiency of this Indenture or of the Securities. Neither the Trustee nor any Authenticating Agent shall be accountable for the use or application by the Company of Securities or the proceeds thereof.

Section 605. May Hold Securities.

The Trustee, any Authenticating Agent, any Paying Agent, any Security Registrar or any other agent of the Company, in its individual or any other capacity, may become the owner or

pledgee of Securities and, subject to Sections 608 and 613, may otherwise deal with the Company with the same rights it would have if it were not Trustee, Authenticating Agent, Paying Agent, Security Registrar or such other agent.

Section 606. Money Held in Trust.

Money held by the Trustee in trust hereunder need not be segregated from other funds except to the extent required by law. The Trustee shall be under no liability for interest on any money received by it hereunder except as otherwise agreed in writing with the Company.

Section 607. Compensation and Reimbursement.

The Company agrees

(1) to pay to the Trustee from time to time such compensation as shall be agreed to in writing between the Company and the Trustee for all services rendered by it hereunder (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust);

(2) except as otherwise expressly provided herein, to reimburse the Trustee upon its request for all reasonable, out-of-pocket expenses, disbursements and advances incurred or made by the Trustee in accordance with any provision of this Indenture (including the reasonable compensation and the expenses and disbursements of its agents and counsel)(with reasonable documentation of any fees and expenses for which reimbursement is sought, including copies of invoices from third parties, and in the case of charges for counsel, a breakdown of the hourly time and short summary of services rendered by date and service provider, a summary of the charges, hourly rate and total hours provided by each service provider), except any such expense, disbursement or advance as may be attributable to its negligence or bad faith; and

(3) to indemnify the Trustee for, and to hold it harmless against, any loss, liability or expense incurred without negligence or bad faith on its part, arising out of or in connection with the acceptance or administration of the trust or trusts hereunder, including the reasonable costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder.

The Trustee shall have a lien prior to the Securities as to all property and funds held by it hereunder for any amount owing it or any predecessor Trustee pursuant to this Section 607, except with respect to funds held in trust for the benefit of the Holders of particular Securities.

When the Trustee incurs expenses or renders services in connection with an Event of Default specified in Section 501(5) or Section 501(6), the expenses (including the reasonable charges and expenses of its counsel) and the compensation for the services are intended to constitute expenses of administration under any applicable Federal or State bankruptcy, insolvency or other similar law.

The provisions of this Section shall survive the termination of this Indenture.

Section 608. Conflicting Interests.

If the Trustee has or shall acquire a conflicting interest within the meaning of the Trust Indenture Act, the Trustee shall either eliminate such interest or resign, to the extent and in the manner provided by, and subject to the provisions of, the Trust Indenture Act and this Indenture. To the extent permitted by such Act, the Trustee shall not be deemed to have a conflicting interest by virtue of being a trustee under this Indenture with respect to Securities of more than one series.

Section 609. Corporate Trustee Required; Eligibility.

There shall at all times be one (and only one) Trustee hereunder with respect to the Securities of each series, which may be Trustee hereunder for Securities of one or more other series. Each Trustee shall be a Person that is eligible pursuant to the Trust Indenture Act to act as such and has a combined capital and surplus of at least $50,000,000. If any such Person publishes reports of condition at least annually, pursuant to law or to the requirements of its supervising or examining authority, then for the purposes of this Section and to the extent permitted by the Trust Indenture Act, the combined capital and surplus of such Person shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee with respect to the Securities of any series shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect hereinafter specified in this Article.

Section 610. Resignation and Removal; Appointment of Successor.

No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Trustee in accordance with the applicable requirements of Section 611.

The Trustee may resign at any time with respect to the Securities of one or more series by giving written notice thereof to the Company. If the instrument of acceptance by a successor Trustee required by Section 611 shall not have been delivered to the Trustee within 30 days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee with respect to the Securities of such series.

The Trustee may be removed at any time with respect to the Securities of any series by Act of the Holders of a majority in principal amount of the Outstanding Securities of such series, delivered to the Trustee and to the Company.

If at any time:

(1) the Trustee shall fail to comply with Section 608 after written request therefor by the Company or by any Holder who has been a bona fide Holder of a Security for at least six months, or

(2) the Trustee shall cease to be eligible under Section 609 and shall fail to resign after written request therefor by the Company or by any such Holder, or

(3) the Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of the Trustee or of its property shall be appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, (A) the Company by a Board Resolution may remove the Trustee with respect to all Securities, or (B) subject to Section 514, any Holder who has been a bona fide Holder of a Security for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee with respect to all Securities and the appointment of a successor Trustee or Trustees.

If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Trustee for any cause, with respect to the Securities of one or more series, the Company, by a Board Resolution, shall promptly appoint a successor Trustee or Trustees with respect to the Securities of that or those series (it being understood that any such successor Trustee may be appointed with respect to the Securities of one or more or all of such series and that at any time there shall be only one Trustee with respect to the Securities of any particular series) and shall comply with the applicable requirements of Section 611. If, within one year after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Trustee with respect to the Securities of any series shall be appointed by Act of the Holders of a majority in principal amount of the Outstanding Securities of such series delivered to the Company and the retiring Trustee, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment in accordance with the applicable requirements of Section 611, become the successor Trustee with respect to the Securities of such series and to that extent supersede the successor Trustee appointed by the Company. If no successor Trustee with respect to the Securities of any series shall have been so appointed by the Company or the Holders and accepted appointment in the manner required by Section 611, any Holder who has been a bona fide Holder of a Security of such series for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee with respect to the Securities of such series.

The Company shall give notice of each resignation and each removal of the Trustee with respect to the Securities of any series and each appointment of a successor Trustee with respect to the Securities of any series to all Holders of Securities of such series in the manner provided in Section 106. Each notice shall include the name of the successor Trustee with respect to the Securities of such series and the address of its Corporate Trust Office.

Section 611. Acceptance of Appointment by Successor.

In case of the appointment hereunder of a successor Trustee with respect to all Securities, every such successor Trustee so appointed shall execute, acknowledge and deliver to the Company and to the retiring Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee; but, on the request of the Company or the successor Trustee, such retiring Trustee shall, upon payment of its charges, execute and deliver an instrument transferring to such successor Trustee all the rights, powers and trusts of the retiring Trustee and shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder.

In case of the appointment hereunder of a successor Trustee with respect to the Securities of one or more (but not all) series, the Company, the retiring Trustee and each successor Trustee with respect to the Securities of one or more series shall execute and deliver an indenture supplemental hereto wherein each successor Trustee shall accept such appointment and which (1) shall contain such provisions as shall be necessary or desirable to transfer and confirm to, and to vest in, each successor Trustee all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series to which the appointment of such successor Trustee relates, (2) if the retiring Trustee is not retiring with respect to all Securities, shall contain such provisions as shall be deemed necessary or desirable to confirm that all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series as to which the retiring Trustee is not retiring shall continue to be vested in the retiring Trustee, and (3) shall add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, it being understood that nothing herein or in such supplemental indenture shall constitute such Trustees co-trustees of the same trust and that each such Trustee shall be trustee of a trust or trusts hereunder separate and apart from any trust or trusts hereunder administered by any other such Trustee; and upon the execution and delivery of such supplemental indenture the resignation or removal of the retiring Trustee shall become effective to the extent provided therein and each such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series to which the appointment of such successor Trustee relates; but, on request of the Company or any successor Trustee, such retiring Trustee shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder with respect to the Securities of that or those series to which the appointment of such successor Trustee relates.

Upon request of any such successor Trustee, the Company shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Trustee all such rights, powers and trusts referred to in the first or second preceding paragraph, as the case may be.

No successor Trustee shall accept its appointment unless at the time of such acceptance such successor Trustee shall be qualified and eligible under this Article.

Section 612. Merger, Conversion, Consolidation or Succession to Business.

Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation succeeding to all or substantially all the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder, provided such corporation shall be otherwise qualified and eligible under this Article, without the execution or filing of any paper or any further act on the part of any of the parties hereto. In case any Securities shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger, conversion or consolidation to such authenticating Trustee may adopt such authentication and deliver the Securities so authenticated with the same effect as if such successor Trustee had itself authenticated such Securities.

Section 613. Preferential Collection of Claims Against Company.

If and when the Trustee shall be or become a creditor of the Company (or any other obligor upon the Securities), the Trustee shall be subject to the provisions of the Trust Indenture Act regarding the collection of claims against the Company (or any such other obligor). For purposes of Section 311(b) (4) and (6) of the Trust Indenture Act, the following terms shall mean:

(a) "cash transaction" means any transaction in which full payment for goods or securities sold is made within seven days after delivery of the goods or securities in currency or in checks or other orders drawn upon banks or bankers and payable upon demand; and

(b) "self–liquidating paper" means any draft, bill of exchange, acceptance or obligation which is made, drawn, negotiated or incurred by the Company for the purpose of financing the purchase, processing, manufacturing, shipment, storage or sale of goods, wares or merchandise and which is secured by documents evidencing title to, possession of, or a lien upon, the goods, wares or merchandise or the receivables or proceeds arising from the sale of the goods, wares or merchandise previously constituting the security, provided the security is received by the Trustee simultaneously with the creation of the creditor relationship with the Company arising from the making, drawing, negotiating or incurring of the draft, bill of exchange, acceptance or obligation.

Section 614. Appointment of Authenticating Agent.

From time to time the Trustee may appoint one or more Authenticating Agents with respect to one or more series of Securities, which may include the Company or any of its Affiliates, with power to act on behalf of the Trustee to authenticate Securities of such series issued upon original issue and upon exchange, registration of transfer or partial redemption thereof or pursuant to Section 306, and Securities so authenticated shall be entitled to the benefits of this Indenture and shall be valid and obligatory for all purposes as if authenticated by the Trustee hereunder. Wherever reference is made in this Indenture to the authentication and delivery of Securities by the Trustee or the Trustee's certificate of authentication, such reference shall be deemed to include authentication

and delivery on behalf of the Trustee by an Authenticating Agent and a certificate of authentication executed on behalf of the Trustee by an Authenticating Agent. Each Authenticating Agent shall be acceptable to the Company and shall at all times be a corporation organized and doing business under the laws of the United States of America, any State thereof or the District of Columbia, authorized under such laws to act as Authenticating Agent, having a combined capital and surplus of not less than $50,000,000 and subject to supervision or examination by Federal or State authority. If such Authenticating Agent publishes reports of condition at least annually, pursuant to law or to the requirements of said supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such Authenticating Agent shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time an Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, such Authenticating Agent shall resign immediately in the manner and with the effect specified in this Section.

Any corporation into which an Authenticating Agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which such Authenticating Agent shall be a party, or any corporation succeeding to the corporate agency or corporate trust business of an Authenticating Agent, shall continue to be an Authenticating Agent, provided such corporation shall be otherwise eligible under this Section, without the execution or filing of any paper or any further act on the part of the Trustee or the Authenticating Agent.

An Authenticating Agent may resign at any time by giving written notice thereof to the Trustee and to the Company. The Trustee may at any time terminate the agency of an Authenticating Agent by giving written notice thereof to such Authenticating Agent and to the Company. Upon receiving such a notice of resignation or upon such a termination, or in case at any time such Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, the Trustee may appoint a successor Authenticating Agent which shall be acceptable to the Company. Any successor Authenticating Agent upon acceptance of its appointment hereunder shall become vested with all the rights, powers and duties of its predecessor hereunder, with like effect as if originally named as an Authenticating Agent. No successor Authenticating Agent shall be appointed unless eligible under the provisions of this Section.

The Company agrees to pay to each Authenticating Agent from time to time reasonable compensation for its services under this Section.

If an appointment with respect to one or more series is made pursuant to this Section, the Securities of such series may have endorsed thereon, in addition to the Trustee's certificate of authentication, an alternative certificate of authentication in the following form:

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

DEUTSCHE BANK TRUST COMPANY
AMERICAS
As Trustee

By _____
As Authenticating Agent

By _____
Authorized Officer

Section 615. Indemnification.

The Company agrees to indemnify the Trustee for, and hold it harmless against, any loss, liability or expense incurred by it, arising out of or in connection with the acceptance or administration of this Indenture or the trusts hereunder or the performance of its duties hereunder or under any related document, including the reasonable costs and expenses of defending itself against or investigating any claim or liability with respect to the Securities, except to the extent that any such loss, liability or expense was due to its own negligence or bad faith. The Company need not pay for any settlement made without its consent. The obligations of the Company to the Trustee under this Section shall survive the satisfaction and discharge of this Indenture and payment in full and/or retirement of the Securities.

## ARTICLE SEVEN

## Holders' Lists and Reports by Trustee and Company

Section 701. Company to Furnish Trustee Names and Addresses of Holders.

The Company will furnish or cause to be furnished to the Trustee:

(1) on each Regular Record Date, a list, in such form as the Trustee may reasonably require, of the names and addresses of the Holders of Securities of each series as of such Regular Record Date, and

(2) at such other times as the Trustee may request in writing, within 30 days after the receipt by the Company of any such request, a list of similar form and content as of a date not more than 15 days prior to the time such list is furnished;

provided, however, that if and so long as the Trustee shall be the Security Registrar, no such list need be furnished.

Section 702. Preservation of Information; Communications to Holders.

The Trustee shall preserve, in as current a form as is reasonably practicable, the names and addresses of Holders contained in the most recent list as provided in Section 701 and the names and addresses of Holders received by the Trustee in its capacity as Security Registrar. The Trustee may destroy any list furnished to it as provided in Section 701 upon receipt of a new list so furnished.

The rights of Holders to communicate with other Holders with respect to their rights under this Indenture or under the Securities, and the corresponding rights and privileges of the Trustee, shall be as provided by the Trust Indenture Act.

Every Holder of Securities, by receiving and holding the same, agrees with the Company and the Trustee that neither the Company nor the Trustee nor any agent of either of them shall be held accountable by reason of any disclosure of information as to names and addresses of Holders made pursuant to the Trust Indenture Act.

Section 703. Reports by Trustee.

The Trustee shall transmit to Holders such reports concerning the Trustee and its actions under this Indenture as may be required pursuant to the Trust Indenture Act at the times and in the manner provided pursuant thereto. If required by Section 313(a) of the Trust Indenture Act, the Trustee shall, within sixty days after each May 15 following the date of this Indenture deliver to Holders a brief report, dated as of such May 15, which complies with the provisions of such Section 313(a).

A copy of each such report shall, at the time of such transmission to Holders, be filed by the Trustee with each stock exchange upon which any Securities are listed, with the Commission and with the Company.

Section 704. Reports by Company.

The Company shall file with the Trustee and the Commission, and transmit to Holders, such information, documents and other reports, and such summaries thereof, as may be required pursuant to the Trust Indenture Act at the times and in the manner provided pursuant to such Act; provided that any such information, documents or reports required to be filed with the Commission pursuant to Section 13 or 15(d) of the Exchange Act shall be filed with the Trustee within 15 days after the same is so required to be filed with the Commission and provided further that all information, documents or reports filed with the Commission on behalf of the Company shall be deemed to have been delivered to the Trustee on the date on which such items are posted on the Commission's website on the Internet at www.sec.gov.

## ARTICLE EIGHT

### Consolidation, Merger and Sale

Section 801. Consolidations and Mergers Permitted.

Nothing contained in this Indenture or in any of the Securities shall prevent any consolidation or merger of the Company with or into any other corporation or corporations (whether or not affiliated with the Company), or successive consolidations or mergers in which the Company or its successor or successors shall be a party or parties, or shall prevent any sale, conveyance, transfer or other disposition of the property of the Company or its successor or successors as an entirety, or substantially as an entirety, to any other corporation (whether or not affiliated with the Company or its successor or successors) authorized to acquire and operate the same; provided, however, the Company hereby covenants and agrees that, upon any such consolidation, merger, sale, conveyance, transfer or other disposition, the due and punctual payment of the principal of (premium, if any) and interest on all of the Securities of all series in accordance with the terms of each series, according to their tenor, and the due and punctual performance and observance of all the covenants and conditions of this Indenture with respect to each series or established with respect to such series to be kept or performed by the Company, shall be expressly assumed, by supplemental indenture (which shall conform to the provisions of the Trust Indenture Act as then in effect) satisfactory in form to the Trustee executed and delivered to the Trustee by the entity formed by such consolidation, or into which the Company shall have been merged, or by the entity which shall have acquired such property.

Section 802. Rights and Duties of Successor Company.

In case of any such consolidation, merger, sale, conveyance, transfer or other disposition and upon the assumption by the successor corporation, by supplemental indenture, executed and delivered to the Trustee and satisfactory in form to the Trustee, of the due and punctual payment of the principal of, premium, if any, and interest on all of the Securities of all series outstanding and the due and punctual performance of all of the covenants and conditions of this Indenture or established with respect to each series of the Securities to be performed by the Company with respect to each series, such successor corporation shall succeed to and be substituted for the Company, with the same effect as if it had been named herein as the party of the first part, and thereupon the predecessor corporation shall be relieved of all obligations and covenants under this Indenture and the Securities. Such successor corporation thereupon may cause to be signed, and may issue either in its own name or in the name of the Company or any other predecessor obligor on the Securities, any or all of the Securities issuable hereunder which theretofore shall not have been signed by the Company and delivered to the Trustee; and, upon the order of such successor company, instead of the Company, and subject to all the terms, conditions and limitations in this Indenture prescribed, the Trustee shall authenticate and shall deliver any Securities which previously shall have been signed and delivered by the officers of the predecessor Company to the Trustee for authentication, and any Securities which such successor corporation thereafter shall cause to be signed and delivered to the Trustee for that purpose. All the Securities so issued shall in all respects have the same legal rank and benefit under this Indenture as the Securities theretofore or

thereafter issued in accordance with the terms of this Indenture as though all of such Securities had been issued at the date of the execution hereof.

Nothing contained in this Indenture or in any of the Securities shall prevent the Company from merging into itself or acquiring by purchase or otherwise all or any part of the property of any other corporation (whether or not affiliated with the Company).

Section 803. Opinion of Counsel.

The Trustee may receive an Opinion of Counsel as conclusive evidence that any such consolidation, merger, sale, conveyance, transfer or other disposition, and any such assumption, comply with the provisions of this Article.

## ARTICLE NINE

## Supplemental Indentures

Section 901. Supplemental Indentures Without Consent of Holders.

Without the consent of any Holders, the Company, when authorized by a Board Resolution, and the Trustee, at any time and from time to time, may enter into one or more indentures supplemental hereto, in form satisfactory to the Trustee, for any of the following purposes:

(1) to evidence the succession of another Person to the Company and the assumption by any such successor of the covenants of the Company herein and in the Securities pursuant to Article Eight or Section 117; or

(2) to add to the covenants of the Company for the benefit of the Holders of all or any series of Securities (and if such covenants are to be for the benefit of less than all series of Securities, stating that such covenants are expressly being included solely for the benefit of such series) or to surrender any right or power herein conferred upon the Company; provided, however, that in respect of any such additional covenant, such supplemental indenture may provide for a particular period of grace after default (which period may be shorter or longer than that allowed in the case of other defaults) or may provide for an immediate enforcement upon such default or may limit the remedies available to the Trustee upon such default or may limit the right of the Holders of a majority in aggregate principal amount of the Securities of such series to waive such default; or

(3) to add any additional Events of Default for the benefit of the Holders of all or any series of Securities (and if such additional Events of Default are to be for the benefit of less than all series of Securities, stating that such additional Events of Default are expressly being included solely for the benefit of such series); or

(4) to add to or change any of the provisions of this Indenture to such extent as shall be necessary to permit or facilitate the issuance of Securities in bearer form, registrable or not

registrable as to principal, and with or without interest coupons, or to permit or facilitate the issuance of Securities in uncertificated form; or

(5) to add to, change or eliminate any of the provisions of this Indenture in respect of one or more series of Securities, provided that any such addition, change or elimination (A) shall neither (i) apply to any Security of any series created prior to the execution of such supplemental indenture and entitled to the benefit of such provision nor (ii) modify the rights of the Holder of any such Security with respect to such provision or (B) shall become effective only when there is no such Security Outstanding; or

(6) to secure the Securities; or

(7) to establish the form or terms of Securities of any series as permitted by Sections 201 and 301; or

(8) to evidence and provide for the acceptance of appointment hereunder by a successor Trustee with respect to the Securities of one or more series and to add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by one or more successor Trustees, pursuant to the requirements of Section 611; or

(9) to cure any ambiguity, to correct or supplement any provision herein which may be defective or inconsistent with any other provision herein, or to make any other provisions with respect to matters or questions arising under this Indenture, provided that such action pursuant to this Clause (9) shall not adversely affect the interests of the Holders of Securities of any series in any material respect.

The Trustee is hereby authorized to join with the Company in the execution of any such supplemental indenture, and to make any further appropriate agreements and stipulations which may be therein contained.

Any supplemental indenture authorized by the provisions of this Section may be executed by the Company and the Trustee without the consent of the holders of any of the Securities at the time outstanding, notwithstanding any of the provisions of Section 902.

Section 902. Supplemental Indentures With Consent of Holders.

With the consent of the Holders of not less than a majority in principal amount of the Outstanding Securities of each series affected by such supplemental indenture, by Act of said Holders delivered to the Company and the Trustee, the Company, when authorized by a Board Resolution, and the Trustee may enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of modifying in any manner the rights of the Holders of Securities of such series under this Indenture; provided, however, that no such supplemental indenture shall, without the consent of the Holder of each Outstanding Security affected thereby,

(1) change the Stated Maturity of the principal of, or any installment of principal of or interest on, any Security, or reduce the principal amount thereof or the rate of interest thereon or any premium payable upon the redemption thereof, or reduce the amount of the principal of an Original Issue Discount Security or any other Security which would be due and payable upon a declaration of acceleration of the Maturity thereof pursuant to Section 502, or change any Place of Payment where, or the coin or currency in which, any Security or any premium or interest thereon is payable, affect the applicability of Article Fourteen to any Security, or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of redemption, on or after the Redemption Date), or

(2) reduce the percentage in principal amount of the Outstanding Securities of any series, the consent of whose Holders is required for any such supplemental indenture, or the consent of whose Holders is required for any waiver (of compliance with certain provisions of this Indenture or certain defaults hereunder and their consequences) provided for in this Indenture, or

(3) modify any of the provisions of this Section, Section 513 or Section 1007, except to increase any such percentage or to provide that certain other provisions of this Indenture cannot be modified or waived without the consent of the Holder of each Outstanding Security affected thereby; provided, however, that this clause shall not be deemed to require the consent of any Holder with respect to changes in the references to "the Trustee" and concomitant changes in this Section and Section 1007, or the deletion of this proviso, in accordance with the requirements of Sections 611 and 901(8).

A supplemental indenture which changes or eliminates any covenant or other provision of this Indenture which has expressly been included solely for the benefit of one or more particular series of Securities, or which modifies the rights of the Holders of Securities of such series with respect to such covenant or other provision, shall be deemed not to affect the rights under this Indenture of the Holders of Securities of any other series; provided that no such supplemental indenture shall modify any provision of this Indenture so as to adversely affect the rights of any holder of outstanding Senior Debt to the benefits of Article Fourteen.

It shall not be necessary for any Act of Holders under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such Act shall approve the substance thereof.

Section 903. Execution of Supplemental Indentures.

In executing, or accepting the additional trusts created by, any supplemental indenture permitted by this Article or the modifications thereby of the trusts created by this Indenture, the Trustee shall be entitled to receive, and (subject to Section 601) shall be fully protected in relying upon, an Opinion of Counsel stating that the execution of such supplemental indenture is authorized or permitted by this Indenture. The Trustee may, but shall not be obligated to, enter into

any such supplemental indenture which affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

Section 904. Effect of Supplemental Indentures.

Upon the execution of any supplemental indenture under this Article, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this Indenture for all purposes; and every Holder of Securities theretofore or thereafter authenticated and delivered hereunder shall be bound thereby.

Section 905. Conformity with Trust Indenture Act.

Every supplemental indenture executed pursuant to this Article shall conform to the requirements of the Trust Indenture Act as then in effect.

Section 906. Reference in Securities to Supplemental Indentures.

Securities of any series authenticated and delivered after the execution of any supplemental indenture pursuant to this Article may, and shall if required by the Trustee, bear a notation in form approved by the Trustee as to any matter provided for in such supplemental indenture. If the Company shall so determine, new Securities of any series so modified as to conform, in the opinion of the Trustee and the Company, to any such supplemental indenture may be prepared and executed by the Company and authenticated and delivered by the Trustee in exchange for Outstanding Securities of such series.

## ARTICLE TEN

## Covenants

Section 1001. Payment of Principal, Premium and Interest.

The Company covenants and agrees for the benefit of each series of Securities that it will duly and punctually pay the principal of and any premium and interest on the Securities of that series in accordance with the terms of the Securities and this Indenture.

Section 1002. Maintenance of Office or Agency.

The Company will maintain in each Place of Payment for any series of Securities an office or agency where Securities of that series may be presented or surrendered for payment, where Securities of that series may be surrendered for registration of transfer or exchange and where

notices and demands to or upon the Company in respect of the Securities of that series and this Indenture may be served. The Company will give prompt written notice to the Trustee of the location, and any change in the location, of such office or agency. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office of the Trustee, and the Company hereby appoints the Trustee as its agent to receive all such presentations, surrenders, notices and demands.

The Company may also from time to time designate one or more other offices or agencies where the Securities of one or more series may be presented or surrendered for any or all such purposes and may from time to time rescind such designations; provided, however, that no such designation or rescission shall in any manner relieve the Company of its obligation to maintain an office or agency in each Place of Payment for Securities of any series for such purposes. The Company will give prompt written notice to the Trustee of any such designation or rescission and of any change in the location of any such other office or agency.

Section 1003. Money for Securities Payments to Be Held in Trust.

If the Company shall at any time act as its own Paying Agent with respect to any series of Securities, it will, on or before each due date of the principal of or any premium or interest on any of the Securities of that series, segregate and hold in trust for the benefit of the Persons entitled thereto a sum sufficient to pay the principal and any premium and interest so becoming due until such sums shall be paid to such Persons or otherwise disposed of as herein provided and will promptly notify the Trustee of its action or failure so to act.

Whenever the Company shall have one or more Paying Agents for any series of Securities, it will, on or before each due date of the principal of or any premium or interest on any Securities of that series, deposit with a Paying Agent a sum sufficient to pay such amount, such sum to be held as provided by the Trust Indenture Act, and (unless such Paying Agent is the Trustee) the Company will promptly notify the Trustee of its action or failure so to act.

The Company will cause each Paying Agent for any series of Securities other than the Trustee to execute and deliver to the Trustee an instrument in which such Paying Agent shall agree with the Trustee, subject to the provisions of this Section, that such Paying Agent will (1) comply with the provisions of the Trust Indenture Act applicable to it as a Paying Agent and (2) during the continuance of any default by the Company (or any other obligor upon the Securities of that series) in the making of any payment in respect of the Securities of that series, upon the written request of the Trustee, forthwith pay to the Trustee all sums held in trust by such Paying Agent for payment in respect of the Securities of that series.

The Company may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or for any other purpose, pay, or by Company Order direct any Paying Agent to pay, to the Trustee all sums held in trust by the Company or such Paying Agent, such sums to be held by the Trustee upon the same trusts as those upon which such sums were held by the Company

or such Paying Agent; and, upon such payment by any Paying Agent to the Trustee, such Paying Agent shall be released from all further liability with respect to such money.

Any money deposited with the Trustee or any Paying Agent, or then held by the Company, in trust for the payment of the principal of or any premium or interest on any Security of any series and remaining unclaimed for 18 months after such principal, premium or interest has become due and payable shall be paid to the Company on Company Request, or (if then held by the Company) shall be discharged from such trust; and the Holder of such Security shall thereafter, as an unsecured general creditor, look only to the Company for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Company as trustee thereof, shall thereupon cease; provided, however, that the Trustee or such Paying Agent, before being required to make any such repayment, may at the expense of the Company cause to be published once, in a newspaper published in the English language, customarily published on each Business Day and of general circulation in the Borough of Manhattan, The City of New York, New York, notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication, any unclaimed balance of such money then remaining will be repaid to the Company.

Section 1004. Statement by Officers as to Default.

The Company will deliver to the Trustee, within 120 days after the end of each fiscal year of the Company ending after the date hereof, an Officers' Certificate, stating whether or not to the best knowledge of the signers thereof the Company is in default in the performance and observance of any of the terms, provisions and conditions of this Indenture (without regard to any period of grace or requirement of notice provided hereunder) and, if the Company shall be in default, specifying all such defaults and the nature and status thereof of which they may have knowledge.

Section 1005. Maintenance of Properties.

The Company will cause all properties used or useful in the conduct of its business or the business of any Subsidiary to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and will cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as in the judgment of the Company may be necessary so that the business carried on in connection therewith may be properly and advantageously conducted at all times; provided, however, that nothing in this Section shall prevent the Company from discontinuing the operation or maintenance of any of such properties if such discontinuance is, in the judgment of the Company, desirable in the conduct of its business or the business of any Subsidiary.

Section 1006. Payment of Taxes and Other Claims.

The Company will pay or discharge or cause to be paid or discharged, before the same shall become delinquent, (1) all taxes, assessments and governmental charges levied or imposed upon the

Company or any Subsidiary or upon the income, profits or property of the Company or any Subsidiary, and (2) all lawful claims for labor, materials and supplies which, if unpaid, might by law become a lien upon the property of the Company or any Subsidiary; provided, however, that the Company shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings.

Section 1007. Waiver of Certain Covenants.

Except as otherwise specified as contemplated by Section 301 for Securities of such series, the Company may, with respect to the Securities of any series, omit in any particular instance to comply with any term, provision or condition set forth in any covenant provided pursuant to Section 301(18), 901(2) or 901(7) for the benefit of the Holders of such series if before the time for such compliance the Holders of at least a majority in principal amount of the Outstanding Securities of such series shall, by Act of such Holders, either waive such compliance in such instance or generally waive compliance with such term, provision or condition, but no such waiver shall extend to or affect such term, provision or condition except to the extent so expressly waived, and, until such waiver shall become effective, the obligations of the Company and the duties of the Trustee in respect of any such term, provision or condition shall remain in full force and effect.

Section 1008. Calculation of Original Issue Discount.

The Company shall file with the Trustee promptly at the end of each calendar year a written notice specifying the amount of original issue discount (including daily rates and accrual periods) accrued on Outstanding Securities as of the end of such year.

## ARTICLE ELEVEN

## Redemption of Securities

Section 1101. Applicability of Article.

Securities of any series which are redeemable before their Stated Maturity shall be redeemable in accordance with their terms and (except as otherwise specified as contemplated by Section 301 for such Securities) in accordance with this Article.

Section 1102. Election to Redeem; Notice to Trustee.

The election of the Company to redeem any Securities shall be evidenced by a Board Resolution or in another manner specified as contemplated by Section 301 for such Securities. In case of any redemption at the election of the Company the Company shall, at least 45 days prior to

the Redemption Date fixed by the Company (unless a shorter notice shall be satisfactory to the Trustee), notify the Trustee of such Redemption Date and of the principal amount of Securities of such series to be redeemed. In the case of any redemption of Securities prior to the expiration of any restriction on such redemption provided in the terms of such Securities or elsewhere in this Indenture, the Company shall furnish the Trustee with an Officers' Certificate evidencing compliance with such restriction.

Section 1103. Selection by Trustee of Securities to Be Redeemed.

If less than all the Securities of any series are to be redeemed (unless all the Securities of such series and of a specified tenor are to be redeemed or unless such redemption affects only a single Security), the particular Securities to be redeemed shall be selected not more than 60 days prior to the Redemption Date by the Trustee, from the Outstanding Securities of such series not previously called for redemption, by such method as the Trustee shall deem fair and appropriate and which may provide for the selection for redemption of a portion of the principal amount of any Security of such series, provided that the unredeemed portion of the principal amount of any Security shall be in an authorized denomination (which shall not be less than the minimum authorized denomination) for such Security. If less than all the Securities of such series are to be redeemed (unless such redemption affects only a single Security), the particular Securities to be redeemed shall be selected not more than 60 days prior to the Redemption Date by the Trustee, from the Outstanding Securities of such series not previously called for redemption in accordance with the preceding sentence.

The Trustee shall promptly notify the Company in writing of the Securities selected for redemption as aforesaid and, in case of any Securities selected for partial redemption as aforesaid, the principal amount thereof to be redeemed.

The provisions of the two preceding paragraphs shall not apply with respect to any redemption affecting only a single Security, whether such Security is to be redeemed in whole or in part. In the case of any such redemption in part, the unredeemed portion of the principal amount of the Security shall be in an authorized denomination (which shall not be less than the minimum authorized denomination) for such Security.

For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to the redemption of Securities shall relate, in the case of any Securities redeemed or to be redeemed only in part, to the portion of the principal amount of such Securities which has been or is to be redeemed.

Section 1104. Notice of the Redemption.

Notice of redemption shall be given by mail not less than 30 nor more than 60 days prior to the Redemption Date, to each Holder of Securities to be redeemed, at his or her address appearing in the Security Register.

All notices of redemption shall identify the Securities to be redeemed and shall state:

(1) the Redemption Date;

(2) the Redemption Price;

(3) if less than all the Outstanding Securities of any series consisting of more than a single Security are to be redeemed, the identification (and, in the case of partial redemption of any such Securities, the principal amounts) of the particular Securities to be redeemed and, if less than all the Outstanding Securities of any series consisting of a single Security are to be redeemed, the principal amount of the particular Security to be redeemed;

(4) that on the Redemption Date the Redemption Price will become due and payable upon each such Security to be redeemed and, if applicable, that interest thereon will cease to accrue on and after said date;

(5) the place or places where each such Security is to be surrendered for payment of the Redemption Price; and

(6) that the redemption is for a sinking fund, if such is the case.

Notice of redemption of Securities to be redeemed at the election of the Company shall be given by the Company or, at the Company's request, by the Trustee in the name and at the expense of the Company and shall be irrevocable.

The notice if mailed in the manner herein provided shall be conclusively presumed to have been given, whether or not the Holder receives such notice. In any case, failure to give such notice by mail or any defect in the notice to the Holder of any Security designated for redemption as a whole or in part shall not affect the validity of the proceedings for the redemption of any other Security.

Section 1105. Deposit of Redemption Price.

On or before any Redemption Date, the Company shall deposit with the Trustee or with a Paying Agent (or, if the Company is acting as its own Paying Agent, segregate and hold in trust as provided in Section 1003) an amount of money sufficient to pay the Redemption Price of, and (except if the Redemption Date shall be an Interest Payment Date) accrued interest on, all the Securities which are to be redeemed on that date.

Section 1106. Securities Payable on Redemption Date.

Notice of redemption having been given as aforesaid, the Securities so to be redeemed shall, on the Redemption Date, become due and payable at the Redemption Price therein specified, and from and after such date (unless the Company shall default in the payment of the Redemption Price

and accrued interest) such Securities shall cease to bear interest. Upon surrender of any such Security for redemption in accordance with said notice, such Security shall be paid by the Company at the Redemption Price, together with accrued interest to the Redemption Date; provided, however, that, unless otherwise specified as contemplated by Section 301, installments of interest whose Stated Maturity is on or prior to the Redemption Date will be payable to the Holders of such Securities, or one or more Predecessor Securities, registered as such at the close of business on the relevant Record Dates according to their terms and the provisions of Section 307.

Section 1107. Securities Redeemed in Part.

Any Security which is to be redeemed only in part shall be surrendered at a Place of Payment therefor (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder thereof or his or her attorney duly authorized in writing), and the Company shall execute, and the Trustee shall authenticate and deliver to the Holder of such Security without service charge, a new Security or Securities of the same series and of like tenor, of any authorized denomination as requested by such Holder, in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Security so surrendered; provided, however, that a Depositary need not surrender a Global Security for a partial redemption and may be authorized to make a notation on such Global Security of such partial redemption. In the case of a partial redemption of a Global Security, the Depositary, and in turn, the participants in the Depositary shall have the responsibility to select any Securities to be redeemed by random lot.

## ARTICLE TWELVE

## Sinking Funds

Section 1201. Applicability of Article.

The provisions of this Article shall be applicable to any sinking fund for the retirement of Securities of any series except as otherwise specified as contemplated by Section 301 for such Securities.

The minimum amount of any sinking fund payment provided for by the terms of any Securities is herein referred to as a "mandatory sinking fund payment", and any payment in excess of such minimum amount provided for by the terms of such Securities is herein referred to as an "optional sinking fund payment". If provided for by the terms of any Securities, the cash amount of any sinking fund payment may be subject to reduction as provided in Section 1202. Each sinking fund payment shall be applied to the redemption of Securities as provided for by the terms of such Securities.

Section 1202. Satisfaction of Sinking Fund Payments with Securities.

The Company (1) may deliver Outstanding Securities of a series (other than any previously called for redemption) and (2) may apply as a credit Securities of a series which have been redeemed either at the election of the Company pursuant to the terms of such Securities or through the application of permitted optional sinking fund payments pursuant to the terms of such Securities, in each case in satisfaction of all or any part of any sinking fund payment with respect to any Securities of such series required to be made pursuant to the terms of such Securities as and to the extent provided for by the terms of such Securities; provided that the Securities to be so credited have not been previously so credited. The Securities to be so credited shall be received and credited for such purpose by the Trustee at the Redemption Price, as specified in the Securities so to be redeemed, for redemption through operation of the sinking fund and the amount of such sinking fund payment shall be reduced accordingly.

Section 1203. Redemption of Securities for Sinking Fund.

Not less than 45 days prior to each sinking fund payment date for any Securities, the Company will deliver to the Trustee an Officers' Certificate specifying the amount of the next ensuing sinking fund payment for such Securities pursuant to the terms of such Securities, the portion thereof, if any, which is to be satisfied by payment of cash and the portion thereof, if any, which is to be satisfied by delivering and crediting Securities pursuant to Section 1202 and will also deliver to the Trustee any Securities to be so delivered. Not less than 30 days prior to each such sinking fund payment date, the Trustee shall select the Securities to be redeemed upon such sinking fund payment date in the manner specified in Section 1103 and cause notice of the redemption thereof to be given in the name of and at the expense of the Company in the manner provided in Section 1104. Such notice having been duly given, the redemption of such Securities shall be made upon the terms and in the manner stated in Sections 1106 and 1107.

## ARTICLE THIRTEEN

## Defeasance and Covenant Defeasance

Section 1301. Company's Option to Effect Defeasance or Covenant Defeasance.

The Company may elect, at its option at any time, to have Section 1302 or Section 1303 applied to any Securities or any series of Securities, as the case may be, designated pursuant to Section 301 as being defeasible pursuant to such Section 1302 or 1303, in accordance with any applicable requirements provided pursuant to Section 301 and upon compliance with the conditions set forth below in this Article. Any such election shall be evidenced by a Board Resolution or in another manner specified as contemplated by Section 301 for such Securities.

Section 1302. Defeasance and Discharge.

Upon the Company's exercise of its option (if any) to have this Section applied to any Securities or any series of Securities, as the case may be, the Company shall be deemed to have been discharged from its obligations with respect to such Securities as provided in this Section on and after the date the conditions set forth in Section 1304 are satisfied (hereinafter called "Defeasance"). For this purpose, such Defeasance means that the Company shall be deemed to have paid and discharged the entire indebtedness represented by such Securities and to have satisfied all its other obligations under such Securities and this Indenture insofar as such Securities are concerned (and the Trustee, at the expense of the Company, shall execute proper instruments acknowledging the same), subject to the following which shall survive until otherwise terminated or discharged hereunder: (1) the rights of Holders of such Securities to receive, solely from the trust fund described in Section 1304 and as more fully set forth in such Section, payments in respect of the principal of and any premium and interest on such Securities when payments are due, (2) the Company's obligations with respect to such Securities under Sections 304, 305, 306, 1002 and 1003, (3) the rights, powers, trusts, duties and immunities of the Trustee hereunder and (4) this Article. Subject to compliance with this Article, the Company may exercise its option (if any) to have this Section applied to any Securities notwithstanding the prior exercise of its option (if any) to have Section 1303 applied to such Securities.

Section 1303. Covenant Defeasance.

Upon the Company's exercise of its option (if any) to have this Section applied to any Securities or any series of Securities, as the case may be, (1) the Company shall be released from its obligations under Section 801(3), Sections 1005 through 1006, inclusive, and any covenants provided pursuant to Section 301(19), 901(2) or 901(7) for the benefit of the Holders of such Securities and (2) the occurrence of any event specified in Sections 501(4) (with respect to any of Section 801(3), Sections 1005 through 1006, inclusive, and any such covenants provided pursuant to Section 301(19), 901(2) or 901(7)), and 501(7) shall be deemed not to be or result in an Event of Default in each case with respect to such Securities as provided in this Section on and after the date the conditions set forth in Section 1304 are satisfied (hereinafter called "Covenant Defeasance"). For this purpose, such Covenant Defeasance means that, with respect to such Securities, the Company may omit to comply with and shall have no liability in respect of any term, condition or limitation set forth in any such specified Section (to the extent so specified in the case of Section 501(4)) or Article Fourteen, whether directly or indirectly by reason of any reference elsewhere herein to any such Section or Article or by reason of any reference in any such Section or Article to any other provision herein or in any other document, but the remainder of this Indenture and such Securities shall be unaffected thereby.

Section 1304. Conditions to Defeasance or Covenant Defeasance.

The following shall be the conditions to the application of Section 1302 or Section 1303 to any Securities or any series of Securities, as the case may be:

(1) The Company shall irrevocably have deposited or caused to be deposited with the Trustee (or another trustee which satisfies the requirements contemplated by Section 609

and agrees to comply with the provisions of this Article applicable to it) as trust funds in trust for the purpose of making the following payments, specifically pledged as security for, and dedicated solely to, the benefit of the Holders of such Securities, (A) money in an amount, or (B) U.S. Government Obligations which through the scheduled payment of principal and interest in respect thereof in accordance with their terms will provide, not later than one day before the due date of any payment, money in an amount, or (C) a combination thereof, in each case sufficient, in the opinion of a firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, to pay and discharge, and which shall be applied by the Trustee (or any such other qualifying trustee) to pay and discharge, the principal of and any premium and interest on such Securities on the respective Stated Maturities, in accordance with the terms of this Indenture and such Securities. As used herein, "U.S. Government Obligation" means (x) any security which is (i) a direct obligation of the United States of America for the payment of which the full faith and credit of the United States of America is pledged or (ii) an obligation of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which, in either case (i) or (ii), is not callable or redeemable at the option of the issuer thereof, and (y) any depositary receipt issued by a bank (as defined in Section 3(a)(2) of the Securities Act) as custodian with respect to any U.S. Government Obligation which is specified in Clause (x) above and held by such bank for the account of the holder of such depositary receipt, or with respect to any specific payment of principal of or interest on any U.S. Government Obligation which is so specified and held, provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depositary receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of principal or interest evidenced by such depositary receipt.

(2) In the event of an election to have Section 1302 apply to any Securities or any series of Securities, as the case may be, the Company shall have delivered to the Trustee an Opinion of Counsel stating that (A) the Company has received from, or there has been published by, the Internal Revenue Service a ruling or (B) since the date of this instrument, there has been a change in the applicable Federal income tax law, in either case (A) or (B) to the effect that, and based thereon such opinion shall confirm that, the Holders of such Securities will not recognize gain or loss for Federal income tax purposes as a result of the deposit, Defeasance and discharge to be effected with respect to such Securities and will be subject to Federal income tax on the same amount, in the same manner and at the same times as would be the case if such deposit, Defeasance and discharge were not to occur.

(3) In the event of an election to have Section 1303 apply to any Securities or any series of Securities, as the case may be, the Company shall have delivered to the Trustee an Opinion of Counsel to the effect that the Holders of such Securities will not recognize gain or loss for Federal income tax purposes as a result of the deposit and Covenant Defeasance to be effected with respect to such Securities and will be subject to Federal income tax on the same amount, in the same manner and at the same times as would be the case if such deposit and Covenant Defeasance were not to occur.

(4) The Company shall have delivered to the Trustee an Officers' Certificate to the effect that neither such Securities nor any other Securities of the same series, if then listed on any securities exchange, will be delisted as a result of such deposit.

(5) No event which is, or after notice or lapse of time or both would become, an Event of Default with respect to such Securities or any other Securities shall have occurred and be continuing at the time of such deposit or, with regard to any such event specified in Sections 501(5) and (6), at any time on or prior to the 90th day after the date of such deposit (it being understood that this condition shall not be deemed satisfied until after such 90th day).

(6) Such Defeasance or Covenant Defeasance shall not cause the Trustee to have a conflicting interest within the meaning of the Trust Indenture Act (assuming all Securities are in default within the meaning of such Act).

(7) Such Defeasance or Covenant Defeasance shall not result in a breach or violation of, or constitute a default under, any other agreement or instrument to which the Company is a party or by which it is bound.

(8) Such Defeasance or Covenant Defeasance shall not result in the trust arising from such deposit constituting an investment company within the meaning of the Investment Company Act unless such trust shall be registered under such Act or exempt from registration thereunder.

(9) At the time of such deposit, (A) no default in the payment of any principal of or premium or interest on any Senior Debt shall have occurred and be continuing, (B) no event of default with respect to any Senior Debt shall have resulted in such Senior Debt becoming, and continuing to be, due and payable prior to the date on which it would otherwise have become due and payable (unless payment of such Senior Debt has been made or duly provided for), and (C) no other event of default with respect to any Senior Debt shall have occurred and be continuing permitting (after notice or lapse of time or both) the holders of such Senior Debt (or a trustee on behalf of such holders) to declare such Senior Debt due and payable prior to the date on which it would otherwise have become due and payable.

(10) The Company shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent with respect to such Defeasance or Covenant Defeasance have been complied with.

Section 1305. Deposited Money and U.S. Government Obligations to Be Held in Trust; Miscellaneous Provisions.

Subject to the provisions of the last paragraph of Section 1003, all money and U.S. Government Obligations (including the proceeds thereof) deposited with the Trustee or other qualifying trustee (solely for purposes of this Section and Section 1306, the Trustee and any such

other trustee are referred to collectively as the "Trustee") pursuant to Section 1304 in respect of any Securities shall be held in trust and applied by the Trustee, in accordance with the provisions of such Securities and this Indenture, to the payment, either directly or through any such Paying Agent (including the Company acting as its own Paying Agent) as the Trustee may determine, to the Holders of such Securities, of all sums due and to become due thereon in respect of principal and any premium and interest, but money so held in trust need not be segregated from other funds except to the extent required by law.

Money and U.S. Government Obligations so held in trust shall not be subject to the provisions of Article Fourteen.

The Company shall pay and indemnify the Trustee against any tax, fee or other charge imposed on or assessed against the U.S. Government Obligations deposited pursuant to Section 1304 or the principal and interest received in respect thereof other than any such tax, fee or other charge which by law is for the account of the Holders of Outstanding Securities.

Anything in this Article to the contrary notwithstanding, the Trustee shall deliver or pay to the Company from time to time upon Company Request any money or U.S. Government Obligations held by it as provided in Section 1304 with respect to any Securities which, in the opinion of a firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, are in excess of the amount thereof which would then be required to be deposited to effect the Defeasance or Covenant Defeasance, as the case may be, with respect to such Securities.

Section 1306. Reinstatement.

If the Trustee or the Paying Agent is unable to apply any money in accordance with this Article with respect to any Securities by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, then the obligations under this Indenture and such Securities from which the Company has been discharged or released pursuant to Section 1302 or 1303 shall be revived and reinstated as though no deposit had occurred pursuant to this Article with respect to such Securities, until such time as the Trustee or Paying Agent is permitted to apply all money held in trust pursuant to Section 1305 with respect to such Securities in accordance with this Article; provided, however, that if the Company makes any payment of principal of or any premium or interest on any such Security following such reinstatement of its obligations, the Company shall be subrogated to the rights (if any) of the Holders of such Securities to receive such payment from the money so held in trust.

## ARTICLE FOURTEEN

### Junior Subordinated Securities

Section 1401. Certain Securities Subordinate to Senior Debt.

As provided pursuant to Section 301 or in a supplemental indenture, the Company may issue one or more series of Securities subject to the provisions of this Article Fourteen, and each Holder of a Security of a series so issued ("Junior Subordinated Securities"), whether upon original issue or upon transfer or assignment thereof, accepts and agrees to be bound by such provisions.

The payment of the principal of, premium, if any, and interest on all Junior Subordinated Securities issued with respect to which this Article Fourteen applies shall, to the extent and in the manner hereinafter set forth, be subordinate and subject in right of payment to the prior payment in full of all Senior Debt, whether outstanding at the date of this Indenture or thereafter incurred.

No provision of this Article Fourteen shall prevent the occurrence of any default or Event of Default hereunder.

Section 1402. Payment Over of Proceeds Upon Default.

In the event and during the continuation of any default in the payment of principal, premium, interest or any other payment due on any Senior Debt continuing beyond the period of grace, if any, specified in the instrument evidencing such Senior Debt, unless and until such default shall have been cured or waived or shall have ceased to exist, or in the event that the maturity of any Senior Debt has been accelerated because of a default, then no payment shall be made by the Company with respect to the principal (including redemption and sinking fund payments) of, or premium, if any, or interest on the Junior Subordinated Securities.

In the event that, notwithstanding the foregoing, any payment shall be received by the Trustee or any holder when such payment is prohibited by the preceding paragraph of this Section 1402, such payment shall be held in trust for the benefit of, and shall be paid over or delivered to, the holders of Senior Debt or their respective representatives, or to the trustee or trustees under any indenture pursuant to which any of such Senior Debt may have been issued, as their respective interests may appear, but only to the extent that the holders of the Senior Debt (or their representative or representatives or a trustee) notify the Trustee within 90 days of such payment of the amounts then due and owing on the Senior Debt and only the amounts specified in such notice to the Trustee shall be paid to the holders of Senior Debt.

Section 1403. Payment Over of Proceeds Upon Dissolution, Etc.

Upon any payment by the Company, or distribution of assets of the Company of any kind or character, whether in cash, property or securities, to creditors upon any dissolution or winding–up or liquidation or reorganization of the Company, whether voluntary or involuntary or in bankruptcy, insolvency, receivership or other proceedings, all amounts due or to become due upon all Senior Debt shall first be paid in full, or payment thereof provided for in money in accordance with its terms, before any payment is made on account of the principal (and premium, if any) or interest on the Junior Subordinated Securities; and upon any such dissolution or winding–up or liquidation or reorganization any payment by the Company, or distribution of assets of the Company of any kind

or character, whether in cash, property or securities, to which the Holders of the Junior Subordinated Securities or the Trustee would be entitled, except for the provisions of this Article Fourteen, shall be paid by the Company or by any receiver, trustee in bankruptcy, liquidating trustee, agent or other person making such payment or distribution, or by the Holders of the Junior Subordinated Securities or by the Trustee under this Indenture if received by them or it, directly to the holders of Senior Debt (pro rata to such holders on the basis of the respective amounts of Senior Debt held by such holders, as calculated by the Company) or their representative or representatives, or to the trustee or trustees under any indenture pursuant to which any instruments evidencing any Senior Debt may have been issued, as their respective interests may appear, to the extent necessary to pay all Senior Debt in full, in money or money's worth, after giving effect to any concurrent payment or distribution to or for the holders of Senior Debt, before any payment or distribution is made to the holders of Junior Subordinated Securities or to the Trustee.

In the event that, notwithstanding the foregoing, any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities, prohibited by the foregoing, shall be received by the Trustee or the holders of the Junior Subordinated Securities before all Senior Debt is paid in full, or provision is made for such payment in money in accordance with its terms, such payment or distribution shall be held in trust for the benefit of and shall be paid over or delivered to the holders of Senior Debt or their representative or representatives, or to the trustee or trustees under any indenture pursuant to which any instruments evidencing any Senior Debt may have been issued, as their respective interests may appear, as calculated by the Company, for application to the payment of all Senior Debt remaining unpaid to the extent necessary to pay all Senior Debt in full in money in accordance with its terms, after giving effect to any concurrent payment or distribution to or for the holders of such Senior Debt.

For purposes of this Article Fourteen, the words, "cash, property or securities" shall not be deemed to include shares of stock of the Company as reorganized or readjusted, or securities of the Company or any other corporation provided for by a plan of reorganization or readjustment, the payment of which is subordinated at least to the extent provided in this Article Fourteen with respect to the Junior Subordinated Securities to the payment of all Senior Debt which may at the time be outstanding; provided that (i) the Senior Debt is assumed by the new corporation, if any, resulting from any such reorganization or readjustment, and (ii) the rights of the holders of the Senior Debt are not, without the consent of such holders, altered by such reorganization or readjustment. The consolidation of the Company with, or the merger of the Company into, another corporation or the liquidation or dissolution of the Company following the conveyance or transfer of its property as an entirety, or substantially as an entirety, to another corporation upon the terms and conditions provided for in Article Eight hereof shall not be deemed a dissolution, winding-up, liquidation or reorganization for the proposes of this Section 1403 if such other corporation shall, as a part of such consolidation, merger, conveyance or transfer, comply with the conditions stated in Article Eight hereof. Nothing in Section 1402 or in this Section 1403 shall apply to claims of, or payments to, the Trustee under or pursuant to Section 607.

Section 1404. Subrogation to Rights of Holders of Senior Debt.

Subject to the payment in full of all Senior Debt, the rights of the holders of the Junior Subordinated Securities shall be subrogated to the rights of the holders of Senior Debt to receive

payments or distributions of cash, property or securities of the Company applicable to the Senior Debt; and, for the purposes of such subrogation, no payment or distributions to the holders of the Senior Debt of any cash, property or securities to which the holders of the Junior Subordinated Securities or the Trustee would be entitled except for the provisions of this Article Fourteen, and no payment over pursuant to the provisions of this Article Fourteen, to or for the benefit of the holders of Senior Debt by holders of the Junior Subordinated Securities or the Trustee, shall, as between the Company, its creditors other than holders of Senior Debt, and the Holders of the Junior Subordinated Securities, be deemed to be a payment by the Company to or on account of the Senior Debt. It is understood that the provisions of this Article Fourteen are and are intended solely for the purposes of defining the relative rights of the holders of the Junior Subordinated Securities, on the one hand, and the holders of the Senior Debt on the other hand.

Nothing contained in this Article Fourteen or elsewhere in this Indenture or in the Junior Subordinated Securities is intended to or shall impair, as between the Company, its creditors other than the holders of Senior Debt, and the holders of the Junior Subordinated Securities, the obligation of the Company, which is absolute and unconditional, to pay to the holders of the Junior Subordinated Securities the principal of (and premium, if any) and interest on the Junior Subordinated Securities as and when the same shall become due and payable in accordance with their terms, or is intended to or shall affect the relative rights of the holders of the Junior Subordinated Securities and creditors of the Company other than the holders of the Senior Debt, nor shall anything herein or therein prevent the Trustee or the holder of any Junior Subordinated Security from exercising all remedies otherwise permitted by applicable law upon default under this Indenture, subject to the rights, if any, under this Article Fourteen of the holders of Senior Debt in respect of cash, property or securities of the Company received upon the exercise of any such remedy.

Upon any payment or distribution of assets of the Company referred to in this Article Fourteen, the Trustee, subject to the provision of Article Six, and the Holders of the Junior Subordinated Securities shall be entitled to rely upon any order or decree made by any court of competent jurisdiction in which such dissolution, winding–up, liquidation or reorganization, liquidation or reorganization proceedings are pending, or a certificate of the receiver, trustee in bankruptcy, liquidation trustee, agent or other person making such payment or distribution, delivered to the Trustee or to the Holders of the Junior Subordinated Securities, for the purposes of ascertaining the persons entitled to participate in such distribution, the holders of the Senior Debt and other indebtedness of the Company, the amount hereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to this Article Fourteen.

Section 1405. Trustee to Effectuate Subordination.

Each Holder of a Junior Subordinated Security by his or her acceptance thereof authorizes and directs the Trustee in his or her behalf to take such action as may be necessary or appropriate to effectuate the subordination provided in this Article Fourteen and appoints the Trustee his or her attorney–in–fact for any and all such purposes.

Section 1406. Notice to Trustee.

The Company shall give prompt written notice to a Responsible Officer of the Trustee of any fact known to the Company which would prohibit the making of any payment of monies to or by the Trustee in respect of the Junior Subordinated Securities pursuant to the provisions of this Article Fourteen. Notwithstanding the provisions of this Article Fourteen or any other provision of this Indenture, the Trustee shall not be charged with knowledge of the existence of any facts which would prohibit the making of any payment of monies to or by the Trustee in respect of the Junior Subordinated Securities pursuant to the provisions of this Article Fourteen, unless and until a Responsible Officer of the Trustee shall have received written notice thereof at the Principal Office of the Trustee from the Company or a holder or holders of Senior Debt or from any trustee therefor; and before the receipt of any such written notice, the Trustee, subject to the provisions of Article Six, shall be entitled in all respects to assume that no such facts exist; provided, however, that if the Trustee shall not have received the notice provided for in this Section 1406 at least two Business Days prior to the date upon which by the terms hereof any money may become payable for any purpose (including, without limitation, the payment of the principal of (or premium, if any) or interest on any Junior Subordinated Security), then, anything herein contained to the contrary notwithstanding, the Trustee shall have full power and authority to receive such money and to apply the same to the purposes for which they were received, and shall not be affected by any notice to the contrary which may be received by it within two Business Days prior to such date.

The Trustee, subject to the provisions of Article Six, shall be entitled to rely on the delivery to it of a written notice by a person representing himself to be a holder of Senior Debt (or a trustee on behalf of such holder) to establish that such notice has been given by a holder of Senior Debt or a trustee on behalf of any such holder or holders. In the event that the Trustee determines in good faith that further evidence is required with respect to the right of any person as a holder of Senior Debt to participate in any payment or distribution pursuant to this Article Fourteen, the Trustee may request such person to furnish evidence to the reasonable satisfaction of the Trustee as to the amount of Senior Debt held by such Person, the extent to which such person is entitled to participate in such payment or distribution and any other facts pertinent to the rights of such person under this Article Fourteen, and if such evidence is not furnished the Trustee may defer any payment to such person pending judicial determination as to the right of such person to receive such payment.

Section 1407. Rights of Trustee as Holder of Senior Debt; Preservation of Trustee's Rights.

The Trustee in its individual capacity shall be entitled to all the rights set forth in this Article Fourteen in respect of any Senior Debt at any time held by it, to the same extent as any other holder of Senior Debt, and nothing in this Indenture shall deprive the Trustee of any of its rights as such holder.

Nothing in this Article Fourteen shall apply to claims of, or payments to, the Trustee under or pursuant to Section 607.

Section 1408. No Waiver of Subordination Provisions.

No right of any present or future holder of any Senior Debt to enforce subordination as herein provided shall at any time in any way be prejudiced or impaired by any act or failure to act on the part of the Company or by any act or failure to act, in good faith, by any such holder, or by any noncompliance by the Company with the terms, provisions and covenants of this Indenture, regardless of any knowledge thereof which any such holder may have or otherwise be charged with.

Without in any way limiting the generality of the foregoing paragraph, the holders of Senior Debt may, at any time and from time to time, without the consent of or notice to the Trustee or the holders of the Junior Subordinated Securities, without incurring responsibility to the holders of the Junior Subordinated Securities and without impairing or releasing the subordination provided in this Article or the obligations hereunder of the holders of the Junior Subordinated Securities to the holders of Senior Debt, do any one or more of the following: (i) change the manner, place or terms of payment or extend the time of payment of, or renew or alter, Senior Debt, or otherwise amend or supplement in any manner Senior Debt or any instrument evidencing the same or any agreement under which Senior Debt is outstanding; (ii) sell, exchange, release or otherwise deal with any property pledged, mortgaged or otherwise securing Senior Debt; (iii) release any person liable in any manner for the collection of Senior Debt; and (iv) exercise or refrain from exercising any rights against the Company and any other person.

This instrument may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

In Witness Whereof, the parties hereto have caused this Indenture to be duly executed as of the day and year first above written.

THE UNION LIGHT, HEAT AND POWER COMPANY

By _____
Wendy L. Aumiller
Treasurer

DEUTSCHE BANK TRUST COMPANY AMERICAS
as Trustee

By _____
George F. Kubin
Vice President

**Exhibit 10.yy**

Adopted pursuant to resolutions of the Cinergy Corp.

Benefits Committee on December 17, 20

**AMENDMENT TO THE**

**CINERGY CORP. NON-UNION EMPLOYEES' PENSION PLAN**

The Cinergy Corp. Non-Union Employees' Pension Plan, as amended and restated effective January 1, 2003, is hereby amended, effective as of January 1, 2005 or such other date specified below.

**(1) Explanation of Amendment**

The Amendment (i) clarifies the actuarial factors applicable to level income forms of benefit, (ii) clarifies that nonresident aliens with no United States source income are not eligible to participate in the Plan, (iii) reduces the amount to which an involuntary cash-out applies from $5,000 to $1,000, (iv) provides that, for purposes of the traditional program, accrued vacation pay will be taken into account when determining the highest average earnings of a participant in the phased retirement program and when determining the highest average earnings of a Participant whose highest average annual earnings for any three consecutive calendar years out of his last ten years of participation do not occur during the final three years of his participation, (v) increases the multiplier, for purposes of the traditional program formula, from 1.4 percent to 1.55 percent for years of participation in excess of 35 for participants who terminate employment on or after January 1, 2005 and (vi) deletes the exclusion of employees of Vestar, Inc.

**(2) Amendment**

(a) For annuity starting dates beginning on or after July 1, 2004, Section 1.5(c) of the Plan is hereby amended and restated in its entirety to read as follows:

"Lump Sums and Level Income Forms of Payment:

With respect to any lump sum payment under Subsection 7.2(f) (Cash Balance Account Single Sum) or Section 8.3 (Small Benefits), and any level income form of payment that may be payable under Subsection 7.2(d) (Life Annuity Level Income Option) or Subsection 7.2(e) (100 Percent Contingent Annuitant Level Income Option) that may be payable under the Plan during a Plan Year, the Actuarial Equivalent will be calculated using the applicable mortality table as prescribed from time to time by the Secretary of the Treasury (for distributions with Annuity Starting Dates after December 30, 2002, the mortality table prescribed in Revenue Ruling 2001-62) and an interest rate equal to the "applicable interest rate" under Code subsection 417(e) as specified by the Commissioner of Internal Revenue in revenue rulings, notices or other guidance published in the Internal Revenue Bulletin (currently based on the annual rate of interest on 30-year Treasury securities) for the fifth full calendar month preceding the first day of the Plan Year in which the Annuity Starting Date occurs."

(b) Section 1.5 of the Plan is hereby amended by adding the following at the end thereof:

"(g) Special Rule for Level Income Option:

In the case of a Participant who had an accrued benefit under the Plan as of June 30, 2004, no benefit determination of the level income option form of payment will produce an amount with respect to the accrued benefit under the Plan as of June 30, 2004 that is less than that which would have been produced utilizing both the actuarial assumptions specified in the Plan as in effect on June 30, 2004 and the annual pension accrued as of June 30, 2004, determined under the provisions of the Plan as then in effect."

(c) Section 1.38 of the Plan is hereby amended by adding the following at the end thereof:

"Notwithstanding the foregoing provisions of this Section, an Eligible Employee shall not include any individual who is a nonresident alien and who receives no earned income (within the meaning of Section 911(d)(2) of the Code) from an Employer which constitutes income from sources within the United States (within the meaning of Section 861(a)(3) of the Code)."

(d) Effective as of January 1, 2003, Section 1.38 is hereby amended by deleting the following sentence from such Section:

"Notwithstanding the foregoing provisions of this Section 1.38, Eligible Employee shall not include any Employee of Vestar, Inc. whose Employment Commencement Date is after December 31, 2002."

(e) Section 1.52 of the Plan is hereby amended by adding the following at the end thereof:

"Notwithstanding the foregoing, in the event that the Participant's highest average annual Earnings occurs other than during his last 36 months of Participation, the Participant's Highest Average Earnings shall be calculated as if the Accrued Vacation Pay, if any, that was received by the Participant was received during the last month that occurs during the period that is used for purposes of determining the Participant's Highest Average Earnings.

Notwithstanding the foregoing, but only with respect to a Participant who is in the Employer's phased retirement program, in the event that the Participant receives Accrued Vacation Pay in the Plan Year immediately following the Plan Year in which he begins to participate in the phased retirement program, the Participant's Highest Average Earnings shall be calculated as if such Accrued Vacation Pay was received by the Participant during the last month that occurs during the period that is used for purposes of determining the Participant's Highest Average Earnings."

(f) Section 4.1 of the Plan is hereby amended and restated in its entirety to read as follows:

"Normal Retirement Pension Formula

Except as otherwise expressly provided in this Article, a Participant who retires on or after his Normal Retirement Date will be entitled to a Nonforfeitable Annual Pension under this Plan equal to the sum of (a) plus (b), where (a) is equal to:

(1) 1.1 percent of the Participant's Highest Average Earnings plus

(2) 0.5 percent of the amount by which his Highest Average Earnings exceed his applicable Covered Compensation, multiplied by the number of his years of Participation not in excess of 35;

and (b) is equal to:

(1) except as provided in Subsection (2) below, 1.4 percent of the Participant's Highest Average Earnings, multiplied by the number of his years of Participation in excess of 35, and

(2) for each Participant whose Severance from Service occurs on or after January 1, 2005, 1.55 percent of the Participant's Highest Average Earnings, multiplied by the number of his years of Participation in excess of 35."

(g) Section 4.1A(b) of the Plan is hereby amended by adding the following at the end thereof:

"If at the time that the Participant first becomes a Cash Balance Participant in accordance with Subsection 3.2(c) he has at least 35 years of Participation in the Cinergy Corp. Union Employees' Retirement Income Plan or the Cinergy Corp. Non-Union Employees' Pension Plan under a formula other than a cash balance formula, his opening balance in his Cash Balance Account (as of the date he becomes a Cash Balance Participant) shall be determined as provided above in this Subsection (b) except that his accrued benefit (payable in the form of an annuity for the life of the Participant beginning at the later of the Participant's normal retirement date under the transferor plan or the first day immediately prior to the date the Participant becomes or again becomes a Cash Balance Participant) with respect to which assets (and liabilities) were transferred from the Cinergy Corp. Union Employees' Retirement Income Plan or Cinergy Corp. Non-Union Employees' Pension Plan) shall be determined as if his years of Participation in excess of 35 were multiplied by 1.55 percent, rather than by 1.4 percent, in the pension formula contained in the applicable transferor plan."

(h) Effective with respect to distributions made on or after March 1, 2005, Section 8.3 of the Plan is hereby amended by deleting the amount of "$5,000" each place it appears therein and substituting therefore the amount of "$1,000."

IN WITNESS WHEREOF, Cinergy Corp. has caused this Amendment to be executed and approved by its duly authorized officer.

By: /s/ Timothy J. Verhagen
Timothy J. Verhagen
Vice President of Human Resources

Date: December 17, 2004

Adopted pursuant to resolutions of the Cinergy Corp.

Benefits Committee on December 17, 20(

**AMENDMENT TO THE**

**CINERGY CORP. NON-UNION EMPLOYEES' 401(K) PLAN**

The Cinergy Corp. Non-Union Employees' 401(k) Plan, as amended and restated effective January 1, 2003, is hereby amended, effective as of January 1, 2005 or such other date specified below.

**Explanation of Amendment**

The amendment (i) clarifies that nonresident aliens with no United States source income are not eligible to participate in the Plan, (ii) provides that individuals who were terminated in connection with the transition of certain information technology-related responsibilities from the Company will be entitled to receive a profit-sharing contribution for 2004 even if they are not employed by the Company and its affiliates on December 31, 2004, (iii) clarifies the Plan's disability provisions, (iv) reduces the amount to which an involuntary cash-out applies from $5,000 to $1,000 and provides that such determination shall be made after taking into account rollover contributions and (v) clarifies the Plan's ERISA Section 404(c) provisions.

**Amendment**

(a) Section 2.1(o) of the Plan is hereby amended and restated in its entirety to provide as follows:

> **"Eligible Employee"** means an Employee on the payroll of an Employer who has attained age 18, provided, however, that an "Eligible Employee" shall not include (1) an Employee whose terms and conditions of employment are governed by a collective bargaining agreement unless the collective bargaining agreement provides for such participation, (2) a "leased employee" (as defined in Section 3.3), (3) an individual who is classified by the Employer as a summer laborer or a summer employee and (4) an individual who is a nonresident alien and who receives no earned income (within the meaning of Section 911(d)(2) of the Code) from an Employer which constitutes income from sources within the United States (within the meaning of Section 861(a)(3) of the Code)."

(b) Effective as of January 1, 2004, Section 4.10(a) of the Plan is hereby amended and restated in its entirety to provide as follows:

"**Balanced Profit Sharing Contributions**. Each Employer may, in its discretion, make a Balanced Profit Sharing Contribution to the Plan for a Plan Year in an amount determined by the Company. Any Balanced Profit Sharing Contribution made by an Employer for a Plan Year shall be allocated among Balanced Program Employees (as defined in Subsection 4.10(c) below) who are employed with the Employer as Balanced

Program Employees on the last day of the Plan Year, provided, however, that any Balanced Profit Sharing Contribution made by an Employer for the Plan Year ending on December 31, 2004 shall be allocated among (i) Balanced Program Employees (as defined in Subsection 4.10(c) below) who are employed with the Employer as Balanced Program Employees on the last day of the Plan Year and (ii) any individual who was a Balanced Program Employee during at least one day of the Plan Year and who voluntarily terminated employment with the Company and its Affiliates, between August 7, 2004 and October 31, 2004, and commenced employment with Computer Sciences Corporation, International Business Machines Corporation or dbaDirect Inc., or one of their affiliates, in connection with the transition of certain information technology–related responsibilities from the Company. The allocable share of each such Balanced Program Employee described in the preceding sentence shall be in the ratio which his Profit Sharing Earnings (as defined in Subsection 4.10(c) below) bears to the aggregate of such Profit Sharing Earnings for all such Balanced Program Employees."

(c) Effective as of January 1, 2004, Section 4.10(b) of the Plan is hereby amended and restated in its entirety to provide as follows:

"**Investor Profit Sharing Contributions**. Each Employer may, in its discretion, make an Investor Profit Sharing Contribution to the Plan for a Plan Year in an amount determined by the Company. Any Investor Profit Sharing Contribution made by an Employer for a Plan Year shall be allocated among Investor Program Employees (as defined in Subsection 4.10(c) below) who are employed with the Employer as Investor Program Employees on the last day of the Plan Year, provided, however, that any Investor Profit Sharing Contribution made by an Employer for the Plan Year ending on December 31, 2004 shall be allocated among (i) Investor Program Employees (as defined in Subsection 4.10(c) below) who are employed with the Employer as Investor Program Employees on the last day of the Plan Year and (ii) any individual who was an Investor Program Employee during at least one day of the Plan Year and who voluntarily terminated employment with the Company and its Affiliates, between August 7, 2004 and October 31, 2004, and commenced employment with Computer Sciences Corporation, International Business Machines Corporation or dbaDirect Inc., or one of their affiliates, in connection with the transition of certain information technology–related responsibilities from the Company. The allocable share of each such Investor Program Employee described in the preceding sentence shall be in the ratio which his Profit Sharing Earnings (as defined in Subsection 4.10(c) below) bears to the aggregate of such Profit Sharing Earnings for all such Investor Program Employees."

(d) The first sentence of Section 5.3 of the Plan is hereby amended and restated in its entirety to provide as follows:

"Upon a Member's termination of employment for any reason, including retirement or death, or upon a Member's Disability, the Member's Profit Sharing Account shall be distributable as provided in Article 6."

(e) The first sentence of Section 6.1 of the Plan is hereby amended and restated in its entirety to provide as follows:

"Upon a Member's termination of employment for any reason, including retirement or death, or upon a Member's Disability, the vested amount of the Member's Account will be distributable to the Member, or to the Member's Beneficiary in case of the Member's death."

(f) Effective with respect to distributions on or after March 28, 2005, Section 6.2(b) of the Plan is hereby amended and restated in its entirety to provide as follows:

"If the vested portion of the Member's Account to be distributed pursuant to Section 6.1 does not exceed $1,000, then the distribution will be made as soon as practicable following termination of employment. If the value of the vested portion of the Member's Account exceeds $1,000, then the distribution will be made as of any Valuation Date elected by the Member, subject to (a) through (g)."

(g) Effective with respect to distributions on or after March 28, 2005, the first sentence of the second paragraph of Section 6.3(c) of the Plan is hereby amended and restated in its entirety to provide as follows:

"If a Member dies prior to commencement of distribution of his Account, and the value of the vested portion of his Account balance exceeds $1,000, the Member's Beneficiary may elect to receive distribution of the vested portion of the Member's Account in a lump sum or in annual installments over a period not exceeding the greater of ten years or the Beneficiary's life expectancy as of the date payments commence."

(h) Section 7.3 of the Plan is hereby amended by adding the following at the end thereof:

"(d) **ERISA Section 404(c).** The Plan is intended to be an "ERISA Section 404(c) plan" as defined in Department of Labor Regulations Section 2550.404c–1(b). Pursuant to Department of Labor Regulations Section 2550.404c–1(d)(2)(ii)(E)(4)(viii), the Benefits Committee shall be the fiduciary that shall ensure that (i) sufficient procedures are in place so that information relating to the purchase, holding and sale of Cinergy Stock, and the exercise of voting, tender and similar rights with respect to such securities by Members and Beneficiaries, is maintained in accordance with procedures which are designed to safeguard the confidentiality of such information, except to the extent necessary to comply with federal laws or state laws not preempted by ERISA, (ii) such procedures are being followed and (iii) an independent fiduciary has been appointed to carry out activities relating to any situations which the Benefits Committee determines involve a potential for undue employer influence upon Members and Beneficiaries with regard to the direct or indirect exercise of shareholder rights."

(i) Effective with respect to distributions on or after March 28, 2005, Paragraph 2 of Section 6 of the Addendum to the Plan is hereby amended and restated in its entirety to provide as follows:

"2. Rollovers Included in Determining Value of Account Balance for Involuntary Distributions. For purposes of Subsection 6.2 of the Plan, the value of a participant's nonforfeitable account balance shall be determined after taking into account that portion of the account balance that is attributable to rollover contributions (and earnings allocable thereto) within the meaning of Sections 402(c), 403(a)(4), 403(b)(8), 408(d)(3)(A)(ii), and 457(e)(16) of the Code. If the value of the participant's nonforfeitable account balance as so determined is $1,000 or less, the Plan shall immediately distribute the participant's entire nonforfeitable account balance."

IN WITNESS WHEREOF, Cinergy Corp. has caused this Amendment to be executed and approved by its duly authorized officer.

By: /s/ Timothy J. Verhagen
Timothy J. Verhagen
Vice President of Human Resources

Date: December 17, 2004

Adopted pursuant to resolutions of the Cinergy Corp.

Benefits Committee on December 17, 200

**AMENDMENT TO THE**

**CINERGY CORP. UNION EMPLOYEES' 401(K) PLAN**

The Cinergy Corp. Union Employees' 401(k) Plan, as amended and restated effective January 1, 2003, is hereby amended, effective as of January 1, 2005 or such other date specified below.

**Explanation of Amendment**

The amendment (i) clarifies that nonresident aliens with no United States source income are not eligible to participate in the Plan, (ii) clarifies the Plan's disability provisions, (iii) reduces the amount to which an involuntary cash–out applies from $5,000 to $1,000 and provides that such determination shall be made after taking into account rollover contributions and (iv) clarifies the Plan's ERISA Section 404(c) provisions.

**Amendment**

(a) Section 2.1(o) of the Plan is hereby amended and restated in its entirety to provide as follows:

**"Eligible Employee"** means an Employee on the payroll of an Employer who has attained age 18 and whose terms and conditions of employment are governed by a collective bargaining agreement that provides for participation in the Plan, provided, however, that an "Eligible Employee" shall not include (1) a "leased employee" (as defined in Section 3.3), (2) an individual who is classified by the Employer as a summer laborer or a summer employee and (3) an individual who is a nonresident alien and who receives no earned income (within the meaning of Section 911(d)(2) of the Code) from an Employer which constitutes income from sources within the United States (within the meaning of Section 861(a)(3) of the Code)."

(b) The first sentence of Section 5.3 of the Plan is hereby amended and restated in its entirety to provide as follows:

"Upon a Member's termination of employment for any reason, including retirement or death, or upon a Member's Disability, the Member's Profit Sharing Account shall be distributable as provided in Article 6."

(c) The first sentence of Section 6.1 of the Plan is hereby amended and restated in its entirety to provide as follows:

"Upon a Member's termination of employment for any reason, including retirement or death, or upon a Member's Disability the vested amount of the Member's Account will

be distributable to the Member, or to the Member's Beneficiary in case of the Member's death."

(d) Effective with respect to distributions on or after March 28, 2005, Section 6.2(b) of the Plan is hereby amended and restated in its entirety to provide as follows:

"If the vested portion of the Member's Account to be distributed pursuant to Section 6.1 does not exceed $1,000, then the distribution will be made as soon as practicable following termination of employment. If the value of the vested portion of the Member's Account exceeds $1,000, then the distribution will be made as of any Valuation Date elected by the Member, subject to (a) through (g)."

(e) Effective with respect to distributions on or after March 28, 2005, the first sentence of the second paragraph of Section 6.3(c) of the Plan is hereby amended and restated in its entirety to provide as follows:

"If a Member dies prior to commencement of distribution of his Account, and the value of the vested portion of his Account balance exceeds $1,000, the Member's Beneficiary may elect to receive distribution of the vested portion of the Member's Account in a lump sum or in annual installments over a period not exceeding the greater of ten years or the Beneficiary's life expectancy as of the date payments commence."

(f) Section 7.3 of the Plan is hereby amended by adding the following at the end thereof:

"(d) **ERISA Section 404(c).** The Plan is intended to be an "ERISA Section 404(c) plan" as defined in Department of Labor Regulations Section 2550.404c–1(b). Pursuant to Department of Labor Regulations Section 2550.404c–1(d)(2)(ii)(E)(4)(viii), the Benefits Committee shall be the fiduciary that shall ensure that (i) sufficient procedures are in place so that information relating to the purchase, holding and sale of Cinergy Stock, and the exercise of voting, tender and similar rights with respect to such securities by Members and Beneficiaries, is maintained in accordance with procedures which are designed to safeguard the confidentiality of such information, except to the extent necessary to comply with federal laws or state laws not preempted by ERISA, (ii) such procedures are being followed and (iii) an independent fiduciary has been appointed to carry out activities relating to any situations which the Benefits Committee determines involve a potential for undue employer influence upon Members and Beneficiaries with regard to the direct or indirect exercise of shareholder rights."

(g) Effective with respect to distributions on or after March 28, 2005, Paragraph 2 of Section 5 of the Addendum to the Plan is hereby amended and restated in its entirety to provide as follows:

"2. Rollovers Included in Determining Value of Account Balance for Involuntary Distributions. For purposes of Subsection 6.2 of the Plan, the value of a participant's nonforfeitable account balance shall be determined after taking into account that portion of the account balance that is attributable to rollover contributions (and earnings

allocable thereto) within the meaning of Sections 402(c), 403(a)(4), 403(b)(8), 408(d)(3)(A)(ii), and 457(e)(16) of the Code. If the value of the participant's nonforfeitable account balance as so determined is $1,000 or less, the Plan shall immediately distribute the participant's entire nonforfeitable account balance."

IN WITNESS WHEREOF, Cinergy Corp. has caused this Amendment to be executed and approved by its duly authorized officer.

By: /s/ Timothy J. Verhagen
Timothy J. Verhagen
Vice President of Human Resources

Date: December 17, 2004

**Exhibit 10.nnn**

Adopted pursuant to resolutions of the Cinergy Corp.

Benefits Committee on December 17, 2004

**AMENDMENT TO THE**

**CINERGY CORP. UNION EMPLOYEES' SAVINGS INCENTIVE PLAN**

The Cinergy Corp. Union Employees' Savings Incentive Plan, as amended and restated effective January 1, 2003, is hereby amended, effective as of January 1, 2005 or such other date specified below.

**Explanation of Amendment**

The amendment (i) provides that those employees whose terms of employment are governed by the collective bargaining agreement with the International Brotherhood of Electrical Workers Local Union 1347 will be permitted to make pre–tax and after–tax contributions from overtime pay, (ii) clarifies that nonresident aliens with no United States source income are not eligible to participate in the Plan, (iii) clarifies that the portion of the Plan that benefits employees whose terms of employment are governed by the collective bargaining agreement with the International Brotherhood of Electrical Workers Local Union 1347 will no longer be a "401(k) safe harbor" plan after December 31, 2004, (iv) clarifies the Plan's disability provisions, (v) reduces the amount to which an involuntary cash–out applies from $5,000 to $1,000 and provides that such determination shall be made after taking into account rollover contributions and (vi) clarifies the Plan's ERISA Section 404(c) provisions.

**Amendment**

(a) Section 2.1(k) of the Plan is hereby amended and restated in its entirety to provide as follows:

""**Compensation"** means—

(1) for purposes of Sections 4.1, 4.2 and 4.3, the Employee's "base compensation";

(2) for purposes of Section 4.4, "compensation" as defined in Section 414(s) of the Code; and

(3) for purposes of Sections 2.1(w) and 4.6, "compensation" as defined in Section 415(c)(3) of the Code.

The following provisions shall apply for purposes of determining an Employee's "base compensation".

(A) For Employees whose terms of employment are not governed by the collective bargaining agreement with the International Brotherhood of Electrical Workers Local Union 1347, **"base compensation"** means the Employee's base rate of

pay, exclusive of any allowances, premiums, bonuses, overtime pay, or other forms or types of compensation, for the applicable period.

(B) For Employees whose terms of employment are governed by the collective bargaining agreement with the International Brotherhood of Electrical Workers Local Union 1347, **"base compensation"** means (i) for purposes of Sections 4.1 and 4.2, the sum of the Employee's base rate of pay and overtime pay, exclusive of any allowances, premiums, bonuses, or other forms or types of compensation, for the applicable period and (ii) for purposes of Section 4.3, the Employee's base rate of pay, exclusive of any allowances, premiums, bonuses, overtime pay, or other forms or types of compensation, for the applicable period.

(C) For Employees paid on an hourly basis, the "base rate of pay" means the Employee's hourly base rate of pay multiplied by the Employee's hours worked during the applicable period.

(D) For all Employees, "base compensation" shall be determined prior to any reductions for Deferred Compensation Contributions and other elective contributions made by the Employer on the Employee's behalf during or for the Plan Year that are not includable in gross income under Section 125 of the Code, Section 402(e)(3) of the Code, Section 402(h) of the Code, Section 403(b) of the Code or, for Plan Years beginning on or after January 1, 2001, Section 132(f) of the Code.

The Compensation of each Employee that may be taken into account under the Plan for a Plan Year will not exceed $210,000 (as adjusted by the Secretary of the Treasury pursuant to Section 401(a)(17) of the Code). For purposes of this Subsection 2.1(k), Compensation shall include any elective amounts that are not includible in the gross income of the employee by reason of Section 132(f)(4) of the Code."

(b) Section 2.1(o) of the Plan is hereby amended and restated in its entirety to provide as follows:

**"Eligible Employee"** means an Employee on the payroll of an Employer who has attained age 18 and whose terms and conditions of employment are governed by a collective bargaining agreement that provides for participation in the Plan, provided, however, that an "Eligible Employee" shall not include (1) a "leased employee" (as defined in Section 3.3), (2) an individual who is classified by the Employer as a summer laborer or a summer employee and (3) an individual who is a nonresident alien and who receives no earned income (within the meaning of Section 911(d)(2) of the Code) from an Employer which constitutes income from sources within the United States (within the meaning of Section 861(a)(3) of the Code)."

(c) Section 4.9(a) of the Plan is hereby amended and restated in its entirety to provide as follows:

"Except for the portion of the Plan that benefits those Employees whose terms of employment are governed by the collective bargaining agreement with the International Brotherhood of Electrical Workers Local Union 1347, the Plan is intended to satisfy the actual deferral percentage test contained in Section 4.4(b) of the Plan and, with respect to Employer Matching Contributions, the actual contribution percentage test contained in Section 4.4(c) of the Plan, respectively, by meeting the requirements of the design-based safe harbors contained in Section 401(k)(12) and 401(m)(11) of the Code. Sections 4.9(b) and 4.9(c) shall not apply to those Employees who are covered by the collective bargaining agreement with the International Brotherhood of Electrical Workers Local Union 1347."

(d) The first sentence of Section 5.3 of the Plan is hereby amended and restated in its entirety to provide as follows:

"Upon a Member's termination of employment for any reason, including retirement or death, or upon a Member's Disability, the Member's Profit Sharing Account shall be distributable as provided in Article 6."

(e) The first sentence of Section 6.1 of the Plan is hereby amended and restated in its entirety to provide as follows:

"Upon a Member's termination of employment for any reason, including retirement or death, or upon a Member's Disability, the vested amount of the Member's Account will be distributable to the Member, or to the Member's Beneficiary in case of the Member's death."

(f) Effective with respect to distributions on or after March 28, 2005, Section 6.2(b) of the Plan is hereby amended and restated in its entirety to provide as follows:

"If the vested portion of the Member's Account to be distributed pursuant to Section 6.1 does not exceed $1,000, then the distribution will be made as soon as practicable following termination of employment. If the value of the vested portion of the Member's Account exceeds $1,000, then the distribution will be made as of any Valuation Date elected by the Member, subject to (a) through (g)."

(g) Effective with respect to distributions on or after March 28, 2005, the first sentence of the second paragraph of Section 6.3(c) of the Plan is hereby amended and restated in its entirety to provide as follows:

"If a Member dies prior to commencement of distribution of his Account, and the value of the vested portion of his Account balance exceeds $1,000, the Member's Beneficiary may elect to receive distribution of the vested portion of the Member's Account in a lump sum or in annual installments over a period not exceeding the greater of ten years or the Beneficiary's life expectancy as of the date payments commence."

(h) Section 7.3 of the Plan is hereby amended by adding the following at the end thereof:

"(d) **ERISA Section 404(c).** The Plan is intended to be an "ERISA Section 404(c) plan" as defined in Department of Labor Regulations Section 2550.404c–1(b). Pursuant to Department of Labor Regulations Section 2550.404c–1(d)(2)(ii)(E)(4)(viii), the Benefits Committee shall be the fiduciary that shall ensure that (i) sufficient procedures are in place so that information relating to the purchase, holding and sale of Cinergy Stock, and the exercise of voting, tender and similar rights with respect to such securities by Members and Beneficiaries, is maintained in accordance with procedures which are designed to safeguard the confidentiality of such information, except to the extent necessary to comply with federal laws or state laws not preempted by ERISA, (ii) such procedures are being followed and (iii) an independent fiduciary has been appointed to carry out activities relating to any situations which the Benefits Committee determines involve a potential for undue employer influence upon Members and Beneficiaries with regard to the direct or indirect exercise of shareholder rights."

(i) Effective with respect to distributions on or after March 28, 2005, Paragraph 2 of Section 5 of the Addendum to the Plan is hereby amended and restated in its entirety to provide as follows:

"2. Rollovers Included in Determining Value of Account Balance for Involuntary Distributions. For purposes of Subsection 6.2 of the Plan, the value of a participant's nonforfeitable account balance shall be determined after taking into account that portion of the account balance that is attributable to rollover contributions (and earnings allocable thereto) within the meaning of Sections 402(c), 403(a)(4), 403(b)(8), 408(d)(3)(A)(ii), and 457(e)(16) of the Code. If the value of the participant's nonforfeitable account balance as so determined is $1,000 or less, the Plan shall immediately distribute the participant's entire nonforfeitable account balance."

IN WITNESS WHEREOF, Cinergy Corp. has caused this Amendment to be executed and approved by its duly authorized officer.

By: /s/ Timothy J. Verhagen
Timothy J. Verhagen
Vice President of Human Resources

Date: December 17, 2004

# AMENDMENT TO THE

# CINERGY CORP. EXCESS PENSION PLAN

The Cinergy Corp. Excess Pension Plan, as amended and restated effective as of January 1, 1998 and as further amended from time to time (the "Plan"), is hereby amended effective as of January 1, 2005.

## (1) Explanation of Amendment

The Plan is amended to provide that a Participant's benefit under the Plan, if any, shall be determined without taking into account the provision of the Cinergy Corp. Non–Union Employees' Pension Plan which provides that, in the event the Participant's highest average annual earnings occurs other than during his last 36 months of participation, the Participant's highest average earnings shall be calculated as if the accrued vacation pay, if any, that was received by the Participant was received during the last month that occurs during the period that is used for purposes of determining the Participant's highest average earnings.

## (2) Amendment

Section 1.22 of the Plan is hereby by adding the following to the end thereof:

"Notwithstanding the foregoing, a Participant's benefit under the Plan shall be calculated without taking into account the provision in Cinergy's Pension Plan which provides that, in the event the Participant's highest average annual Earnings (as defined in Cinergy's Pension Plan) occurs other than during his last 36 months of Participation (as defined in Cinergy's Pension Plan), the Participant's Highest Average Earnings (as defined in Cinergy's Pension Plan) shall be calculated as if the Accrued Vacation Pay (as defined in Cinergy's Pension Plan), if any, that was received by the Participant was received during the last month that occurs during the period that is used for purposes of determining the Participant's Highest Average Earnings (as defined in Cinergy's Pension Plan)."

IN WITNESS WHEREOF, Cinergy Corp. has caused this Amendment to be executed and approved by its duly authorized officer as of the date set forth above.

By: /s/ Timothy J. Verhagen
12/17/04
Timothy J. Verhagen
Vice President of Human Resources

## Summary Sheet of Compensation Arrangement Between Cinergy Corp. and its Non–Employee Directors

Effective January 1, 2005, the fees paid to the non–employee Directors of the Cinergy Corp. Board of Directors will consist of:

| Type of Fee | Amount |
|---|---|
| Annual Board Retainer | $60,000 (payable 50% each in cash and stock) |
| Annual Committee Retainer | $ 8,500 |
| Annual Committee Chair Retainer | $ 8,500 |
| Annual Lead Director Retainer | $ 5,000 |
| Board Meeting Attendance | $ 2,000 ($1,250 if attended by conference call) |
| Committee Meeting Attendance | $ 2,000 ($1,250 if attended by conference call) |
| Annual Equity Award | 450 units of Cinergy common stock |

In addition, when a non–employee Director is first elected to the Board, he or she is granted a non–qualified stock option to purchase 12,500 shares of Cinergy common stock. Cinergy also reimburses all non–employee Directors for expenses incurred to attend and participate at Board and Committee meetings.

**Exhibit 21**

## Subsidiary Listing

As of December 31, 2004, the following is a listing of the subsidiaries of each registrant in which Cinergy Corp. has a greater than 10% ownership interest in and their state or country of incorporation or organization indented to show degree of remoteness from registrant.

| Name of Company (Indentation indicates subsidiary relationship) | State or Country of Organization or Incorporation |
|---|---|
| **Cinergy Corp.** (1) | Delaware |
| **Cinergy Services, Inc.** | Delaware |
| **CC Funding Trust I** | Delaware |
| **CC Funding Trust II** | Delaware |
| **Cinergy Receivables Company LLC** | Delaware |
| **Cinergy Risk Solutions Ltd.** | Vermont |
| **The Cincinnati Gas & Electric Company** (1) | Ohio |
| Cinergy Power Investments, Inc. | Ohio |
| The Union Light, Heat and Power Company (1) | Kentucky |
| Tri-State Improvement Company | Ohio |
| Miami Power Corporation | Indiana |
| KO Transmission Company | Kentucky |
| **PSI Energy, Inc.** (1) | Indiana |
| South Construction Company, Inc. | Indiana |
| **Cinergy Investments, Inc.** | Delaware |
| **Cinergy-Cadence, Inc.** | Indiana |
| Cadence Network, Inc. | Delaware |
| **Cinergy Capital & Trading, Inc.** | Indiana |
| Brownsville Power I, LLC | Delaware |
| Caledonia Power I, LLC | Delaware |
| CinPower I, LLC | Delaware |
| Cinergy Canada, Inc. | Canada |
| Cinergy Climate Change Investments, LLC | Delaware |
| **Cinergy Limited Holdings, LLC** | Delaware |
| **Cinergy Marketing & Trading, LP** | Delaware |
| Ohio River Valley Propane, LLC | Delaware |
| Cinergy General Holdings, LLC | Delaware |
| **Cinergy Mexico Limited, LLC** | Delaware |
| **Cinergy Mexico Holdings, L.P.** | Delaware |
| Cinergy Mexico Marketing & Trading, LLC | Delaware |
| Cinergy Mexico General, LLC | Delaware |
| **Cinergy Retail Power Limited, Inc.** | Delaware |
| Cinergy Retail Power, L.P. | Delaware |
| Cinergy Retail Power General, Inc. | Texas |
| Cinergy Retail Sales, LLC | Delaware |
| CinFuel Resources, Inc. | Delaware |
| **LH1, LLC** | Delaware |

(1) Companies indicated are registrants with the Securities and Exchange Commission.

| Name of Company (Indentation indicates subsidiary relationship) | State or Country of Organization or Incorporation |
|---|---|
| Oak Mountain Products, LLC | Delaware |
| Cinergy Transportation, LLC | Delaware |
| SYNCAP II, LLC | Delaware |
| **Cinergy Telecommunications Holding Company, Inc.** | Delaware |
| **Q–Comm Corporation** | Nevada |
| QCC, Inc. | Nevada |
| Cinergy Communications Company | Kentucky |
| Cinergy MetroNet, Inc. | Indiana |
| **Kentucky Data Link, Inc.** | Kentucky |
| Chattanooga Data Link, Inc. | Tennessee |
| Cincinnati Data Link, Inc. | Ohio |
| Cinergy Telecommunication Networks – Indiana, Inc. | Indiana |
| Cinergy Telecommunication Networks – Ohio, Inc. | Ohio |
| Indianapolis Data Link, Inc. | Indiana |
| KDL Holdings, LLC | Delaware |
| Knoxville Data Link, Inc. | Tennessee |
| Lexington Data Link, Inc. | Kentucky |
| Louisville Data Link, Inc. | Kentucky |
| Memphis Data Link, Inc. | Tennessee |
| Nashville Data Link, Inc. | Tennessee |
| **Lattice Communications, LLC** | Delaware |
| LB Tower Company, LLC | Delaware |
| Cinergy Engineering, Inc. | Ohio |
| Cinergy–Centrus, Inc. | Delaware |
| Cinergy–Centrus Communications, Inc. | Delaware |
| **Cinergy Solutions Holding Company, Inc.** | Delaware |
| **3036243 Nova Scotia Company** | Canada |
| **Cinergy Solutions Limited Partnership** | Canada |
| 3075959 Nova Scotia Company | Canada |
| 1388368 Ontario Inc. | Canada |
| **Cinergy Solutions – Demand, Inc.** | Delaware |
| **Cinergy Solutions – Demand, Ltd.** | Canada |
| Keen Rose Technology Group Limited | Canada |
| Optimira Controls, Inc. | Canada |
| Cinergy EPCOM College Park, LLC | Delaware |
| **Cinergy Solutions, Inc.** | Delaware |
| **BSPE Holdings, LLC** | Delaware |
| **BSPE Limited, LLC** | Delaware |
| BSPE, L.P. | Delaware |
| BSPE General, LLC | Texas |
| **Cinergy Energy Solutions, Inc.** | Delaware |
| **U.S. Energy Biogas Corp.** | Delaware |
| **Biogas Financial Corporation** | Connecticut |
| **ZFC Energy Inc.** | Delaware |
| **Power Generation (Suffolk), Inc.** | Delaware |
| Suffolk Energy Partners, L.P. | Virginia |
| Suffolk Biogas, Inc. | Delaware |
| Lafayette Energy Partners, L.P. | New Jersey |
| Taylor Energy Partners, L.P. | Pennsylvania |
| **Resources Generating Systems, Inc.** | New York |
| Hoffman Road Energy Partners, LLC | Delaware |
| **Illinois Electrical Generation Partners, L.P.** | Delaware |
| Zapco Illinois Energy, Inc. | Delaware |
| Avon Energy Partners, L.L.C. | Illinois |
| Devonshire Power Partners, L.L.C. | Illinois |
| Riverside Resource Recovery, L.L.C. | Illinois |
| **Illinois Electrical Generation Partners II L.P.** | Delaware |

| Name of Company<br>(Indentation indicates subsidiary relationship) | State or Country of Organization or Incorporation |
|---|---|
| **BMC Energy, LLC** | Delaware |
| Brookhaven Energy Partners, LLC | New York |
| Countryside Genco, L.L.C. | Delaware |
| Morris Genco, L.L.C. | Delaware |
| Brickyard Energy Partners, LLC | Delaware |
| Dixon/Lee Energy Partners, LLC | Delaware |
| Roxanna Resource Recovery L.L.C. | Illinois |
| Streator Energy Partners, LLC | Delaware |
| Upper Rock Energy Partners, LLC | Delaware |
| Barre Energy Partners, L.P. | Delaware |
| Biomass New Jersey, L.L.C. | New Jersey |
| Brown County Energy Associates, LLC | Delaware |
| Burlington Energy, Inc. | Vermont |
| Cape May Energy Associates, L.P. | Delaware |
| Dunbarton Energy Partners, Limited Partnership | New Hampshire |
| Garland Energy Development, LLC | Delaware |
| Oceanside Energy Inc. | New York |
| Onondaga Energy Partners, L.P. | New York |
| Oyster Bay Energy Partners, L.P. | New York |
| Smithtown Energy Partners, L.P. | New York |
| Springfield Energy Associates, Limited Partnership | Vermont |
| Suffolk Transmission Partner, L.P. | Delaware |
| Tucson Energy Partners LP | Delaware |
| Zapco Broome Nanticoke Corp. | New York |
| Zapco Development Corporation | Delaware |
| Zapco Energy Tactics Corporation | Delaware |
| Zapco Readville Cogeneration, Inc. | Delaware |
| ZFC Royalty Partners, A Connecticut Limited Partnership | Connecticut |
| ZMG, Inc. | Delaware |
| **Cinergy GASCO Solutions, LLC** | Delaware |
| Countryside Landfill Gasco, L.L.C. | Delaware |
| Morris Gasco, L.L.C. | Delaware |
| Brown County Landfill Gas Associates, L.P. | Delaware |
| Cinergy Solutions of Monaca, LLC | Delaware |
| Cinergy Solutions of Narrows, LLC | Delaware |
| Cinergy Solutions of Rock Hill, LLC | Delaware |
| Cinergy Solutions of San Diego, Inc. | Delaware |
| Cinergy Solutions of South Charleston, LLC | Delaware |
| Cinergy Solutions of St. Bernard, LLC | Delaware |
| Cinergy Solutions O&M, LLC | Delaware |
| Cinergy Solutions Operating Services of Delta Township, LLC | Delaware |
| Cinergy Solutions Operating Services of Lansing, LLC | Delaware |
| Cinergy Solutions Operating Services of Shreveport, LLC | Delaware |
| Cinergy Solutions Operating Services of Oklahoma, LLC | Delaware |
| Cinergy Solutions of Philadelphia, LLC | Delaware |
| **Cinergy Solutions Partners, LLC** | Delaware |
| **CST Limited, LLC** | Delaware |
| **CST Green Power, L.P.** | Delaware |
| **Green Power Holdings, LLC** | Delaware |
| **Green Power Limited, LLC** | Delaware |
| South Houston Green Power, L.P. | Delaware |
| Green Power G.P., LLC | Texas |
| CST General, LLC | Texas |
| CSGP of Southeast Texas, LLC | Delaware |
| **CSGP Limited, LLC** | Delaware |
| CSGP Services, L.P. | Delaware |
| CSGP General, LLC | Texas |

| Name of Company<br>(Indentation indicates subsidiary relationship) | State or Country of Organization or Incorporation |
|---|---|
| Lansing Grand River Utilities, LLC | Delaware |
| Oklahoma Arcadian Utilities, LLC | Delaware |
| Shreveport Red River Utilities, LLC | Delaware |
| Cinergy Solutions of Tuscola, Inc. | Delaware |
| Delta Township Utilities, LLC | Delaware |
| Delta Township Utilities II, LLC | Delaware |
| Energy Equipment Leasing LLC | Delaware |
| Trigen–Cinergy Solutions LLC | Delaware |
| Trigen–Cinergy Solutions of Ashtabula LLC | Delaware |
| Cinergy Solutions of Boca Raton, LLC | Delaware |
| Cinergy Solutions of Cincinnati, LLC | Ohio |
| Cinergy Solutions -- Utility, Inc. | Delaware |
| **Trigen–Cinergy Solutions of Lansing LLC** | Delaware |
| Trigen/Cinergy–USFOS of Lansing LLC | Delaware |
| Trigen–Cinergy Solutions of Orlando LLC | Delaware |
| Trigen–Cinergy Solutions of Owings Mills LLC | Delaware |
| Trigen–Cinergy Solutions of Owings Mills Energy Equipment Leasing, LLC | Delaware |
| Trigen–Cinergy Solutions of Rochester LLC | Delaware |
| Trigen–Cinergy Solutions of Silver Grove LLC | Delaware |
| **Cinergy Solutions of St. Paul, LLC** | Delaware |
| Environmental Wood Supply, LLC | Minnesota |
| St. Paul Cogeneration LLC | Minnesota |
| Trigen–Cinergy Solutions of Tuscola, LLC | Delaware |
| **Cinergy Supply Network, Inc.** | Delaware |
| **Reliant Services, LLC** | Indiana |
| **MP Acquisitions Corp., Inc.** | Indiana |
| Miller Pipeline Corporation | Indiana |
| Fiber Link, LLC | Indiana |
| Cinergy Technology, Inc. | Indiana |
| | |
| **Cinergy Global Resources, Inc.** | Delaware |
| Cinergy UK, Inc. | Delaware |
| **Cinergy Global Power, Inc.** | Delaware |
| **CGP Global Greece Holdings, SA** | Greece |
| **Attiki Denmark ApS** | Denmark |
| Attiki Gas Supply Company SA | Greece |
| **Cinergy Global Ely, Inc.** | Delaware |
| **EPR Ely Power Limited** | England |
| **EPR Ely Limited** | England |
| Ely Power Limited | England |
| Anglian Straw Limited | England |
| Anglian Ash Limited | England |
| Cinergy Global Power Services Limited | England |
| **Cinergy Global Power (UK) Limited** | England |
| **Cinergy Global Trading Limited** | England |
| Cinergy Trading and Marketing Limited | England & Wales |
| Commercial Electricity Supplies Limited | England |
| Cinergy Renewable Trading Limited | England |
| UK Electric Power Limited | England |
| Cinergy Global Power Iberia, S.A. | Spain |
| **Cinergy Global Holdings, Inc.** | Delaware |
| **Cinergy Holdings B.V.** | The Netherlands |
| Cinergetika U/L a.s. | Czech Republic |
| **Cinergy Zambia B.V.** | The Netherlands |
| **Copperbelt Energy Corporation PLC** | Republic of Zambia |
| Power Sports Limited | Republic of Zambia |
| Moravske Teplarny a.s. | Czech Republic |

| Name of Company<br>(Indentation indicates subsidiary relationship) | State or Country of Organization or Incorporation |
|---|---|
| **Cinergy Global (Cayman) Holdings, Inc.** | Cayman Islands |
| Cinergy Global Hydrocarbons Pakistan | Cayman Islands |
| **Cinergy Global Tsavo Power** | Cayman Islands |
| **IPS–Cinergy Power Limited** | Kenya |
| Tsavo Power Company Limited | Kenya |
| Cinergy MPI V, Inc. | Cayman Islands |
| eVent Resources Overseas I, LLC | Delaware |
| Midlands Hydrocarbons (Bangladesh) Limited | England |
| Cinergy Global Power Africa (Proprietary) Limited | South Africa |
| | |
| **CinTec LLC** | Delaware |
| **CinTec I LLC** | Delaware |
| **eVent Resources I LLC** | Delaware |
| eVent Resources Holdings LLC | Delaware |
| CinTec II LLC | Delaware |
| | |
| **Cinergy Technologies, Inc.** | Delaware |
| **Cinergy Broadband, LLC** | Delaware |
| **CCB Communications, LLC** | Delaware |
| CCB Indiana, LLC | Delaware |
| CCB Kentucky, LLC | Delaware |
| CCB Ohio, LLC | Delaware |
| ACcess Broadband, LLC | Delaware |
| **Cinergy Ventures, LLC** | Delaware |
| Configured Energy Systems, Inc. | Delaware |
| Current Communications Group, LLC | Delaware |
| Maximum Performance Group, Inc. | Delaware |
| **Cinergy Ventures II, LLC** | Delaware |
| Catalytic Solutions, Inc. | California |
| Electric City Corp. | Delaware |
| Cinergy e–Supply Network, LLC | Delaware |
| Cinergy One, Inc. | Delaware |
| Cinergy Two, Inc. | Delaware |
| | |
| **Cinergy Wholesale Energy, Inc.** | Ohio |
| Cinergy Power Generation Services, LLC | Delaware |
| Cinergy Origination & Trade, LLC | Delaware |
| | |
| **Cinergy Foundation, Inc.** | Indiana |

**Exhibit 23**

## CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Cinergy Corp.'s Registration Statement Nos. 33–55267, 33–55713, 33–56089, 33–56093, 33–56095, 333–51484, 333–83461, 333–83467, 333–72898, 333–72900, 333–72902, 333–81770, 333–101707 and 333–102515 of our reports dated February 11, 2005 relating to the financial statements (which expresses an unqualified opinion on the Company's consolidated financial statements and includes an explanatory paragraph referring to the Company's change effective in January 1, 2003 in its accounting method for asset retirement obligations; change effective January 1, 2003 in its accounting for stock based compensation; and change effective July 1, 2003 in its accounting for the consolidation of variable interest entities) and management's report on the effectiveness of internal control over financial reporting appearing in this Annual Report on Form 10–K of Cinergy Corp. for the year ended December 31, 2004.

/s/ Deloitte & Touche LLP
Deloitte & Touche LLP
Cincinnati, Ohio
February 25, 2005

## CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in The Cincinnati Gas & Electric Company's Registration Statement No. 333–112574 of our report dated February 11, 2005 (which expresses an unqualified opinion on the Company's consolidated financial statements and includes an explanatory paragraph referring to the Company's change effective in January 1, 2003 in its accounting method for asset retirement obligations), appearing in this Annual Report on Form 10–K of The Cincinnati Gas & Electric Company for the year ended December 31, 2004.

/s/ Deloitte & Touche LLP

Deloitte & Touche LLP
Cincinnati, Ohio
February 25, 2005

## CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in PSI Energy, Inc.'s Registration Statement No. 333–103304 of our report dated February 11, 2005 (which expresses an unqualified opinion on the Company's consolidated financial statements and includes an explanatory paragraph referring to the Company's change effective in January 1, 2003 in its accounting method for asset retirement obligations), appearing in this Annual Report on Form 10–K of PSI Energy, Inc. for the year ended December 31, 2004.

/s/ Deloitte & Touche LLP

Deloitte & Touche LLP
Cincinnati, Ohio
February 25, 2005

## CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in The Union Light, Heat and Power Company's Registration Statement Nos. 333--119120 and 33--40245 of our report dated February 11, 2005 (which expresses an unqualified opinion on the Company's financial statements and includes an explanatory paragraph referring to the Company's change effective in January 1, 2003 in its accounting method for asset retirement obligations), appearing in this Annual Report on Form 10--K of The Union Light, Heat and Power Company for the year ended December 31, 2004.

/s/ Deloitte & Touche LLP

Deloitte & Touche LLP
Cincinnati, Ohio
February 25, 2005

**Exhibit 24**

## POWER OF ATTORNEY

KNOW ALL BY THESE PRESENTS, that the undersigned hereby constitutes and appoints James E. Rogers and James L. Turner, or either of them with full power to act without the other, the undersigned's true and lawful attorneys–in–fact and agents, with full power of substitution and resubstitution, to execute for and on behalf of the undersigned, in the undersigned's capacity as a director of Cinergy Corp., the Cinergy Corp. Annual Report on Form 10–K for the fiscal year ended December 31, 2004, and to file the signed Form 10--K with the Securities and Exchange Commission.

The undersigned does hereby ratify and confirm all that said attorneys–in–fact and agents, and each of them, shall lawfully do by virtue hereof.

IN WITNESS WHEREOF, the undersigned has hereunto caused this Power of Attorney to be executed on this 18th day of February, 2005.

/s/ Michael G. Browning
Michael G. Browning

**POWER OF ATTORNEY**

KNOW ALL BY THESE PRESENTS, that the undersigned hereby constitutes and appoints James E. Rogers and James L. Turner, or either of them with full power to act without the other, the undersigned's true and lawful attorneys–in–fact and agents, with full power of substitution and resubstitution, to execute for and on behalf of the undersigned, in the undersigned's capacity as a director of Cinergy Corp., the Cinergy Corp. Annual Report on Form 10–K for the fiscal year ended December 31, 2004, and to file the signed Form 10–K with the Securities and Exchange Commission.

The undersigned does hereby ratify and confirm all that said attorneys–in–fact and agents, and each of them, shall lawfully do by virtue hereof.

IN WITNESS WHEREOF, the undersigned has hereunto caused this Power of Attorney to be executed on this 25th day of February, 2005.

/s/ Phillip R. Cox
Phillip R. Cox

**POWER OF ATTORNEY**

KNOW ALL BY THESE PRESENTS, that the undersigned hereby constitutes and appoints James E. Rogers and James L. Turner, or either of them with full power to act without the other, the undersigned's true and lawful attorneys–in–fact and agents, with full power of substitution and resubstitution, to execute for and on behalf of the undersigned, in the undersigned's capacity as a director of Cinergy Corp., the Cinergy Corp. Annual Report on Form 10–K for the fiscal year ended December 31, 2004, and to file the signed Form 10–K with the Securities and Exchange Commission.

The undersigned does hereby ratify and confirm all that said attorneys–in–fact and agents, and each of them, shall lawfully do by virtue hereof.

IN WITNESS WHEREOF, the undersigned has hereunto caused this Power of Attorney to be executed on this 18th day of February, 2005.

/s/ George C. Juilfs
George C. Juilfs

**POWER OF ATTORNEY**

KNOW ALL BY THESE PRESENTS, that the undersigned hereby constitutes and appoints James E. Rogers and James L. Turner, or either of them with full power to act without the other, the undersigned's true and lawful attorneys–in–fact and agents, with full power of substitution and resubstitution, to execute for and on behalf of the undersigned, in the undersigned's capacity as a director of Cinergy Corp., the Cinergy Corp. Annual Report on Form 10–K for the fiscal year ended December 31, 2004, and to file the signed Form 10–K with the Securities and Exchange Commission.

The undersigned does hereby ratify and confirm all that said attorneys–in–fact and agents, and each of them, shall lawfully do by virtue hereof.

IN WITNESS WHEREOF, the undersigned has hereunto caused this Power of Attorney to be executed on this 18th day of February, 2005.

/s/ Thomas E. Petry
Thomas E. Petry

**POWER OF ATTORNEY**

KNOW ALL BY THESE PRESENTS, that the undersigned hereby constitutes and appoints James E. Rogers and James L. Turner, or either of them with full power to act without the other, the undersigned's true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, to execute for and on behalf of the undersigned, in the undersigned's capacity as a director of Cinergy Corp., the Cinergy Corp. Annual Report on Form 10-K for the fiscal year ended December 31, 2004, and to file the signed Form 10-K with the Securities and Exchange Commission.

The undersigned does hereby ratify and confirm all that said attorneys-in-fact and agents, and each of them, shall lawfully do by virtue hereof.

IN WITNESS WHEREOF, the undersigned has hereunto caused this Power of Attorney to be executed on this 18th day of February, 2005.

/s/ Mary L. Schapiro
Mary L. Schapiro

**POWER OF ATTORNEY**

KNOW ALL BY THESE PRESENTS, that the undersigned hereby constitutes and appoints James E. Rogers and James L. Turner, or either of them with full power to act without the other, the undersigned's true and lawful attorneys–in–fact and agents, with full power of substitution and resubstitution, to execute for and on behalf of the undersigned, in the undersigned's capacity as a director of Cinergy Corp., the Cinergy Corp. Annual Report on Form 10–K for the fiscal year ended December 31, 2004, and to file the signed Form 10–K with the Securities and Exchange Commission.

The undersigned does hereby ratify and confirm all that said attorneys–in–fact and agents, and each of them, shall lawfully do by virtue hereof.

IN WITNESS WHEREOF, the undersigned has hereunto caused this Power of Attorney to be executed on this 19th day of February, 2005.

/s/ John J. Schiff, Jr.
John J. Schiff, Jr.

**POWER OF ATTORNEY**

KNOW ALL BY THESE PRESENTS, that the undersigned hereby constitutes and appoints James E. Rogers and James L. Turner, or either of them with full power to act without the other, the undersigned's true and lawful attorneys–in–fact and agents, with full power of substitution and resubstitution, to execute for and on behalf of the undersigned, in the undersigned's capacity as a director of Cinergy Corp., the Cinergy Corp. Annual Report on Form 10–K for the fiscal year ended December 31, 2004, and to file the signed Form 10–K with the Securities and Exchange Commission.

The undersigned does hereby ratify and confirm all that said attorneys–in–fact and agents, and each of them, shall lawfully do by virtue hereof.

IN WITNESS WHEREOF, the undersigned has hereunto caused this Power of Attorney to be executed on this 25th day of February, 2005.

/s/ Philip R. Sharp
Philip R. Sharp

**POWER OF ATTORNEY**

KNOW ALL BY THESE PRESENTS, that the undersigned hereby constitutes and appoints James E. Rogers and James L. Turner, or either of them with full power to act without the other, the undersigned's true and lawful attorneys–in–fact and agents, with full power of substitution and resubstitution, to execute for and on behalf of the undersigned, in the undersigned's capacity as a director of Cinergy Corp., the Cinergy Corp. Annual Report on Form 10–K for the fiscal year ended December 31, 2004, and to file the signed Form 10–K with the Securities and Exchange Commission.

The undersigned does hereby ratify and confirm all that said attorneys–in–fact and agents, and each of them, shall lawfully do by virtue hereof.

IN WITNESS WHEREOF, the undersigned has hereunto caused this Power of Attorney to be executed on this 25th day of February, 2005.

/s/ Dudley S. Taft
Dudley S. Taft

**POWER OF ATTORNEY**

KNOW ALL BY THESE PRESENTS, that the undersigned hereby constitutes and appoints James E. Rogers and James L. Turner, or either of them with full power to act without the other, the undersigned's true and lawful attorneys–in–fact and agents, with full power of substitution and resubstitution, to execute for and on behalf of the undersigned, in the undersigned's capacity as a director of PSI Energy, Inc., the PSI Energy, Inc. Annual Report on Form 10–K for the fiscal year ended December 31, 2004, and to file the signed Form 10–K with the Securities and Exchange Commission.

The undersigned does hereby ratify and confirm all that said attorneys–in–fact and agents, and each of them, shall lawfully do by virtue hereof.

IN WITNESS WHEREOF, the undersigned has hereunto caused this Power of Attorney to be executed on this 18th day of February, 2005.

/s/ Kay E. Pashos
Kay E. Pashos

**POWER OF ATTORNEY**

KNOW ALL BY THESE PRESENTS, that the undersigned hereby constitutes and appoints James E. Rogers and James L. Turner, or either of them with full power to act without the other, the undersigned's true and lawful attorneys–in–fact and agents, with full power of substitution and resubstitution, to execute for and on behalf of the undersigned, in the undersigned's capacity as a director of The Cincinnati Gas & Electric Company and The Union Light, Heat and Power Company, the Annual Report on Form 10–K for each corporation for the fiscal year ended December 31, 2004, and to file the signed Form 10–K with the Securities and Exchange Commission.

The undersigned does hereby ratify and confirm all that said attorneys–in–fact and agents, and each of them, shall lawfully do by virtue hereof.

IN WITNESS WHEREOF, the undersigned has hereunto caused this Power of Attorney to be executed on this 18th day of February, 2005.

/s/ Michael J. Cyrus
Michael J. Cyrus

**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 annual report on Form 10–K 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrants 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: February 25, 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 annual report on Form 10–K 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrants 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: February 25, 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 Annual 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-K for the period ending December 31, 2004 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: February 25, 2005

/s/ James E. Rogers
James E. Rogers
Chief Executive Officer

**Exhibit 32.b**

**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 Annual 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–K for the period ending December 31, 2004 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: February 25, 2005

/s/ James L. Turner
James L. Turner
Chief Financial Officer