

GRANT AGREEMENT

THIS GRANT AGREEMENT dated as of April 15, 2000 (the "Agreement"), among DUKE ENERGY AUDRAIN, LLC (the "Company"), AUDRAIN COUNTY, MISSOURI (the "County"), the VAN-FAR R-I SCHOOL DISTRICT OF AUDRAIN COUNTY, MISSOURI (the "School District"); TRI-COUNTY CARE CENTER, VAN FAR AMBULANCE DISTRICT, VANDALLA SPECIAL ROAD DISTRICT, AUDRAIN COUNTY LIBRARY DISTRICT, AUDRAIN MEDICAL CENTER AND AUDRAIN HANDICAP SERVICES (collectively, the "County Districts").

WITNESSETH:

WHEREAS, the County is authorized by Chapter 100 R.S.Mo. and Article VI, Section 27(b) of the Missouri Constitution as amended (collectively, the "Act"), to purchase, construct, extend and improve certain facilities for commercial, industrial, warehousing and manufacturing purposes, to enter into leases and lease-purchase agreements with any person, firm or corporation for said projects, and to issue revenue bonds for the purpose of paying the cost of any such facilities;

WHEREAS, pursuant to the Act, the governing body of the County intends to pass and approve an Ordinance authorizing the County to issue its taxable industrial revenue bonds, in one or more series, in the aggregate principal amount of not to exceed \$270,000,000 (the "Bonds"), for the purpose of purchasing, constructing, extending and improving an electricity manufacturing facility in the County (the "Project"), and authorizing the County to contract with the Company or any entity controlled by, under common control with or controlling the Company to purchase, construct, extend and improve the Project and thereafter to lease the Project to the Company pursuant to a Lease Agreement to be entered into by and between the County and the Company at the time the Bonds are issued (the "Lease Agreement") between the County, as lessor, and the Company, as lessee;

WHEREAS, pursuant to the foregoing, the parties hereto desire to enter into this Agreement upon the terms and conditions hereinafter set forth; and

NOW, THEREFORE, in consideration of the premises and the mutual representations, covenants and agreements herein contained, the parties hereto hereby represent, covenant and agree as follows:

ARTICLE I

DEFINITIONS

Section 1.1 Definitions of Words and Terms. The following words and terms as used herein shall have the following meanings:

"Agreement" means this Grant Agreement among the Company, the County, the School District and the County Districts, as from time to time amended and supplemented in accordance with the provisions hereof.

"Company" means Duke Energy Audrain, LLC, and its successors and assigns.

"County" means Audrain County, Missouri, and its successors and assigns.

"County Districts" means Tri-County Care Center, Van Far Ambulance District, Vandalia Special Road District, Audrain County Library District, Audrain Medical Center and Audrain Handicap Services.

"Event of Default" means any Event of Default as described in Section 4.1 hereof.

"Grants" means the amounts set forth in Exhibit B hereto.

"Project" means the purchase, construction, extension and improvement of an electricity manufacturing facility, including the Project Site, Project Equipment and Project Improvements.

"Project Costs" means all costs and expenses of every nature relating to the purchase, construction, extension and improvement of the Project.

"Project Equipment" means all of the personal property located on the Project Site which is transferred to, or acquired by or on behalf of, the County.

"Project Improvements" means all improvements to the Project Site described in Exhibit A attached hereto and by this reference made a part hereof.

"Project Site" means all of the real estate described in Exhibit A attached hereto and by this reference made a part hereof.

"School District" means the Var-Far R-I School District of Audrain County, Missouri, and its successors and assigns.

"Targeted Amount of Total Investment" means an amount equal to \$270,000,000*.

ARTICLE II

ISSUANCE OF BONDS

Section 2.1 Issuance of the Bonds. As described herein, the County intends to issue one or more series of Bonds under the Act for the purposes of paying the Project Costs. The number of series, principal amounts and date of issuance of the Bonds shall be determined by the Company and County jointly. In connection with the issuance of the Bonds, the County shall acquire title to the Project. By virtue of the County's holding of title to the Project, it is the expectation of the parties hereto that the Project shall be exempt from real and personal property ad valorem taxes under Missouri law.

* Preliminary, subject to change.

ARTICLE III

PROPERTY TAX EXEMPTION AND GRANT PAYMENTS

Section 3.1 Property Tax Exemption. So long as the County owns title to the Project, the Project is expected to be exempt from ad valorem taxes on real and personal property. The first year of the exemption period shall begin on January 1 of the year following the year in which the Project Site is transferred to the County. Notwithstanding any other provision of this Agreement to the contrary, the last year of such exemption period shall be 2021, unless Project construction or commercial operation of the Project as an electricity manufacturing facility is delayed beyond January 1, 2002, in which case the Stated Expiration Date (defined in Article V hereof) shall be extended to December 31 of the year determined in accordance with Article V hereof.

Section 3.2 Payments. The Company covenants and agrees that, during each year the Project is exempt from ad valorem taxes by reason of the County ownership thereof, the Company will make grants (the "Grants") to the County, the School District and the County Districts in the amounts and at the times set forth on Exhibit B attached hereto. Failure to make a scheduled Grant payment shall be an Event of Default under the Lease Agreement.

Section 3.3 Obligation to Effect Tax Abatement. The County, the County Districts and the School District each consent to and approve the Project and agree that, by virtue of the County's holding of title to the Project, all interests in the Project are expected to be exempt from real and personal property ad valorem taxes under Missouri law. The County, the County Districts and the School District covenant that they will not, directly or indirectly, challenge the exemption of the Project from real and personal ad valorem taxes, and will not take any action that may cause or induce the levy or assessment of ad valorem taxes on the Project or any interest therein, including, without limitation, the interest in the Project granted to the Company pursuant to the Lease Agreement. The County, the County Districts and the School District shall, at the Company's request and at the Company's expense, fully cooperate with the Company in all reasonable ways to prevent or remove any such levy or assessment.

Section 3.4 Other Property Taxes in Connection with the Project; Credits. The property tax exemption provided by the County ownership of the Project shall apply to all interests in the Project during the period it is owned by the County. If any ad valorem property taxes are levied by or on behalf of the County, the County Districts or the School District against any interest in the Project during the period the County owns the Project (including, without limitation, any ad valorem taxes levied against the Company's leasehold interest in the Project), the amount of ad valorem tax payments related to such levy or levies which are paid by the Company and received by the County, the County Districts or the School District shall be credited against and reduce the amount of the Grant payments the Company is obligated to pay pursuant to this Agreement. The Company shall be responsible for any taxes related to any interest in the Project which the Company owns in its own name or granted to the Company other than pursuant to the Lease Agreement.

Section 3.5 Other Credits for Certain Tax Payments; Early Termination. The Company also shall receive a credit against the amount of Grant payments required hereunder in the amount of any payment it has made to the State of Missouri (the "State") related to ad valorem taxes levied against the Project during the period it is owned by the County to the extent the State pays such ad valorem taxes to the County, any of the County Districts or the School District.

ARTICLE IV

DEFAULT AND REMEDIES

Section 4.1 Events of Default. If any one or more of the following events shall occur and be continuing, it is hereby defined as and declared to be and to constitute an Event of Default hereunder:

(a) the Company shall fail to perform any of its material obligations hereunder (including the failure to make any Grant payment required herein when due) for (i) a period of 60 days (or such longer period as the County and the Company may agree in writing) following written notice to the Company from the County of such failure which notice shall include a specific description of the Company's failure hereunder), or (ii) if such failure is not subject to cure within such 60 days, the Company shall have failed to initiate action to cure such default and to pursue such action diligently; or

(b) the Company shall breach any covenant contained herein or any representation of the Company contained herein shall prove to have been materially false or erroneous as of the date hereof; or

(c) any party other than the Company shall fail to perform any of its material obligations hereunder for (i) a period of 60 days (or such longer period as that party and the Company may agree in writing) following written notice to that party from the Company of such failure which notice shall include a specific description of that party's failure hereunder), or (ii) if such failure is not subject to cure within such 60 days, that party shall have failed to initiate action to cure such default and to pursue such action diligently.

Section 4.2 Remedies on Default. Upon an Event of Default described in Section 4.1(a) or (b) hereof, this Agreement may be terminated by written notice provided by the County, the County Districts, or the School District to the Company or the County, the County Districts or the School District may pursue any remedies available at law or in equity for amounts owing to them including all costs, expenses and attorney's fees and expense incurred as a result of such default. Upon an Event of Default described in Section 4.1(c) hereof, the Company may proceed by mandamus or such other remedy as is available to it to compel performance by the defaulting party of its obligations hereunder.

Section 4.3 Interest on Late Payments. Any amounts due hereunder which are not paid when due shall bear interest at the interest rate of 10% per annum from the date such payment was first due.

ARTICLE V

TERM OF AGREEMENT

This Agreement shall become effective upon execution, and subject to earlier termination pursuant to the provisions of this Agreement, shall have an initial term commencing as of the date of this Agreement and terminating on December 31, 2021 (the "Stated Expiration Date"). If construction or commercial operation of the Project as an electricity manufacturing facility is delayed beyond January 1, 2002, the Stated Expiration Date automatically shall be extended to December 31 of the twentieth full year in which the Project is in commercial operation. If the Project is not completed on or before January 1, 2002, or January 1 of any year thereafter during the term of this Agreement, the aggregate Grant payments payable by the Company on December 31 of that year shall equal \$500. This Agreement shall automatically terminate prior to the Stated Expiration Date in the event (i) the initial series of the Bonds is

not issued by May 1, 2001, or (ii) the Project has not been constructed and commenced commercial operation as an electricity manufacturing facility by December 31, 2003, or (iii) once issued, the Bonds (or any bonds issued to refund the Bonds or another series of bonds issued to refund the Bonds) are no longer outstanding. The automatic termination of the Agreement pursuant to the previous sentence shall become effective upon notice of the event causing the termination given by the Company to the County or the County to the Company, as the case may be, and the payment of all amounts which have accrued or which are due and payable as of the date of termination.

ARTICLE VI

MISCELLANEOUS PROVISIONS

Section 6.1 Assignment. This Agreement may be assigned by the Company to (i) any entity controlled by, under common control with or controlling the Company, or (ii) any third party whose long-term debt, or the long-term debt of an entity controlled by, under common control with or controlling such third party, is rated in any of the top four rating categories by a nationally recognized rating agency. Any such assignee of all of the rights of the Company shall agree to be bound by the terms of the Grant Agreement and any other documents related to the issuance of the Bonds. Upon such assignment of all of the rights of the Company and the agreement by the assignee to be bound by the terms of the Grant Agreement and the other documents related to the Bonds, the Company shall be released from and have no further obligations under this Agreement or any other agreement related to the issuance of the Bonds.

Section 6.2 Due Authorization.

(a) The County, the School District and each of the County Districts represents and warrants that it is lawfully organized and existing under the laws of the State of Missouri, that it has lawful power and authority to enter into this Agreement and to carry out its obligations hereunder, and that this Agreement has been duly authorized by proper action of its governing body, and duly executed and delivered by its authorized representatives.

(b) The Company represents and warrants that it is lawfully organized and in good standing under the laws of the State of Delaware, that it is duly qualified to do business and in good standing in the State of Missouri, that it has lawful power and authority to enter into this Agreement and to carry out its obligations hereunder, and that this agreement has been duly authorized by proper action of its members and duly executed and delivered by its authorized representatives.

Section 6.3 Severability. If for any reason any provision of this Agreement shall be determined to be invalid or unenforceable, the validity and enforceability of the other provisions hereof shall not be affected thereby.

Section 6.4 Governing Law. This Agreement shall be construed in accordance with and governed by the laws of the State of Missouri.

Section 6.5 Execution in Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original and all of which shall constitute but one and the same instrument.

Section 6.6 Entire Agreement. This Agreement constitutes the entire agreement and supersedes all prior agreements and understandings, both written and oral, with respect to the subject matter hereof.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in their respective corporate names and their respective corporate seals to be hereunto affixed and attested by their duly authorized officers, all as of the date first above written.

COUNTY OF AUDRAIN, MISSOURI

(SEAL)

By: Richard Webber
Richard Webber, Presiding Commissioner

ATTEST:

Shelley Harvey
Shelley Harvey, County Clerk

By: Roger Young
Roger Young, Eastern Commissioner

By: Thomas A. Groves
Thomas Groves, Western Commissioner

DUKE ENERGY ALDRAIN, LLC

WBC By: Patricia L. Lacey

Title: Vice President

VAN-FAR R-I SCHOOL DISTRICT OF AUDRAIN
COUNTY, MISSOURI

(SEAL)

By:

James E. Reading
President of the Board of Education

ATTEST:

Renny Kampster
Secretary of the Board of Education

TRI-COUNTY CARE CENTER

By: Janice Thomas
Title: President Audrain County

VAN-FAR AMBULANCE DISTRICT

By: Marvin R Hunt
Title: Pres. Van-Far Ambulance

VANDALIA SPECIAL ROAD DISTRICT

By: James H. Lee
Title:

AUDRAIN COUNTY LIBRARY DISTRICT

By: Ray H. D. Director
Title:

AUDRAIN MEDICAL CENTER

By: Douglas E. Mumbach
Title: Pres/CEO

AUDRAIN HANDICAP SERVICES

By: Christy L. Graham
Title: Sec

EXHIBIT A
DESCRIPTION OF PROJECT IMPROVEMENTS
AND PROJECT SITE

Improvements

An electricity manufacturing facility with a stated capacity of up to 640 megawatts utilizing GE 7EA turbine generators and related generation equipment fueled primarily by natural gas.

Site

A tract of land being part of the Southeast Quarter of Section 2, in Township 52 North, Range 6 West of the Fifth Principal Meridian, in the County of Audrain and State of Missouri, being more particularly described as follows: Starting at the Southeast corner of said Section 2, thence N 00°10'30" E, along the East line of said Section 2, 40.00 feet to a point on the North right-of-way line of State Route "P", also being the Southeast corner of a tract of land described in Deed recorded in Book 298, at Page 882 of the Deed Records of Audrain County, Missouri, the point of beginning; thence from the point of beginning, leaving the East line of said Section 2, and with the North right-of-way line of State Route "P", also being the South line of said tract described in Deed recorded in Book 298, at Page 882, N 89°19'00" W, 2022.10 feet; thence N 89°12'00" W, 299.55 feet; thence leaving the lines of said tract and said North right-of-way line, N 00°55'00" E, 1969.70 feet to a point on the North line of the tract described by Deed recorded in Book 298, at Page 882; thence with said North line, S 89°25'00" E, 2296.10 feet to a point on the East line of said tract, also being the East line of said Section 2; thence with said East line, S 00°10'30" W, 1974.35 feet to the point of beginning.

SUBJECT TO:

1. Agreement for Right-of-Way to Panhandle Eastern Pipe Line Company recorded in Book 114, Page 297 of the Deed Records of Audrain County, Missouri.
2. Easement to Union Electric Company recorded in Book 204, Page 271 of the Deed Records of Audrain County, Missouri.

EXHIBIT B

GRANT PAYMENTS

1. On or before December 31 of the first year during which the County acquires the Project Site and on December 31 of each year thereafter on January 1 of which the Project was not fully constructed and not in operation as an electricity manufacturing facility, the Company shall pay \$500 as the total annual amount of the Grants payable hereunder allocated in the same proportion as the Grant payments provided below.

2. On or before December 31 of each year on January 1 of which the Project was fully constructed and was in operation as an electricity manufacturing facility, the Company shall pay the total annual amount of the Grants as follows:

The total annual amount of the Grants shall be equal to \$350,000 for the first five (5) years; each year thereafter the amount of the Grants shall be increased by the amount of the increase in the CPI during the preceding twelve months, not to exceed 3% per annum. The appropriate Grant amount as set forth below for the School District shall be paid by the Company directly to the School District. The aggregate of the appropriate Grant amounts as set forth below for the County and the County Districts shall be paid by the Company to the County, which shall distribute the appropriate Grant amounts to each of the County Districts (and the State) as follows for each of the first five (5) years and proportionately thereafter:

GRANTS - YEARS' ONE - FIVE

Taxing District	Grants
Van-Far School	\$226,016.00
Tri County Care Center	16,144.00
Van-Far Ambulance District	19,373.00
Vandalia Special Road District	22,601.00
Audrain County Library	12,915.00
Audrain Medical Center	10,978.00
Audrain Handicap Services	12,915.00
State	1,937.00
County-General Revenue	9,686.00
Special Road & Bridge	<u>17,435.00</u>
Total	<u>\$350,000.00</u>

3. If the Grant Agreement is terminated before the Stated Expiration Date, the Company (or any assignee of the Company) will make a final grant payment on or before the effective date of the termination to the County, the School District and the County Districts in an amount equal to the amount determined by multiplying the amount of the grant payments which would have been payable on December 31 of the year in which the termination occurs by a fraction the numerator of which is the number of days from January 1 of the year in which the termination occurs through the date of the termination and the denominator is the number of days in the year in which the termination occurs.