COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:	)	
	)	
APPLICATION OF KENTUCKY UTILITIES COMPANY FOR AN ADJUSTMENT OF BASE RATES	)))	CASE NO: 2008-00251

VOLUME 3 OF 5

RESPONSE TO FILING REQUIREMENTS listed in 807 KAR 5:001 SECTION 10(6)(r) through 807 KAR 5:001 SECTION 10(7)(e)

Filed: July 29, 2008

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Tab #	Filing Requirement	Description	Volume No(s).	Sponsoring Witness(es)
1	807 KAR 5:001 Section 10(1)(a)1	*A statement of the reason the adjustment is required.*	1	Lonnie E. Bellar
2	807 KAR 5:001 Section 10(1)(a)2	*A statement that the utility's annual reports, including the annual report for the most recent calendar year, are on file with the Commission in accordance with 807 KAR 5:006, Section 3(1).*	1	Lonnie E. Bellar
3	807 KAR 5:001 Section 10(1)(a)3	*If the utility is incorporated, a certified copy of the utility's articles of incorporation and all amendments thereto or all out-of-state documents of similar import. If the utility's articles of incorporation and amendments have already been filed with the commission in a prior proceeding, the application may state this fact making reference to the style and case number of the prior proceeding.*	1	Lonnie E. Bellar
4	807 KAR 5:001 Section 10(1)(a)4	*If the utility is a limited partnership, a certified copy of the limited partnership agreement and all amendments thereto or all out-of-state documents of similar import. If the utility's limited partnership agreement and amendments have already been filed with the commission in a prior proceeding, the application may state this fact making reference to the style and case number of the prior proceeding.*	1	Lonnie E. Bellar
5	807 KAR 5:001 Section 10(1)(a)5	*If the utility is incorporated or a is a limited partnership, a certificate of good standing or certificate of authorization dated within sixty (60) days of the date the application is filed.*	1	Lonnie E. Bellar
6	807 KAR 5:001 Section 10(1)(a)6	*A certified copy of a certificate of assumed name as required by KRS 365.015 or a statement that such a certificate is not necessary.*	1	Lonnie E. Bellar
7	807 KAR 5:001 Section 10(1)(a)7	*The proposed tariff in a form which complies with 807 KAR 5:011 with an effective date not less than thirty (30) days from the date the application is filed.*	1	Lonnie E. Bellar
8	807 KAR 5:001 Section 10(1)(a)8	*The utility's proposed tariff changes, identified in compliance with 807 KAR 5:011, shown either by: (a) Providing the present and proposed tariffs in comparative form on the same sheet side by side; or, (b) Providing a copy of the present tariff indicating proposed additions by italicized inserts or underscoring and striking over proposed deletions.*	1	Lonnie E. Bellar
9	807 KAR 5:001 Section 10(1)(a)9	*A statement that customer notice has been given in compliance with subsections (3) and (4) of this section with a copy of the notice.*	1	Lonnie E. Bellar
10	807 KAR 5:001 Section 10(2)	*Notice of Intent. Utilities with gross annual revenues greater than $1,000,000 shall file with the commission a written notice of intent to file a rate application at least four (4) weeks prior to filing their application. The notice of intent shall state whether the rate application shall be supported by a historical test period or a fully forecasted test period. This notice shall be served upon the Attorney General, Utility Intervention and Rate Division.*	1	Lonnie E. Bellar

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Tab #	Filing Requirement	Description	Volume No(s).	Sponsoring Witness(es)
11	807 KAR 5:001 Section 10(3)	*Form of notice to customers. Every utility filing an application pursuant to this section shall notify all affected customers in the manner prescribed herein. The notice shall include the following information: (a) The amount of the change requested in both dollar amounts and percentage change for each customer classification to which the proposed rate change will apply; (b) The present rates and the proposed rates for each customer class to which the proposed rates would apply; (c) Electric, gas, water and sewer utilities shall include the effect upon the average bill for each customer class to which the proposed rate change will apply; (d) Local exchange companies shall include the effect upon the average bill for each customer class for the proposed rate change in basic local service; (e) A statement that the rates contained in this notice are the rates proposed by (name of utility); however, the Public Service Commission may order rates to be charged that differ from the proposed rates contained in this notice; (f) A statement that any corporation, association, or person with a substantial interest in the m*	1	Lonnie E. Bellar
12	807 KAR 5:001 Section 10(4)(a)	*Manner of notification. Sewer utilities shall give the required typewritten notice by mail to all of their customers pursuant to KRS 278.185.*	1	Lonnie E. Bellar
13	807 KAR 5:001 Section 10(4)(b)	*Manner of notification. 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 filed with the commission.*	1	Lonnie E. Bellar
14	807 KAR 5:001 Section 10(4)(c)	*Manner of notification. Except for sewer utilities, applicants with more than twenty (20) customers affected by the proposed general rate adjustment shall give the required notice by one (1) of the following methods: 1. A typewritten notice mailed to all customers no later than the date the application is filed with the commission; 2. Publishing the notice in a trade publication or newsletter which is mailed to all customers no later than the date on which the application is filed with the commission; or 3. Publishing the notice once a week for three (3) consecutive weeks in a prominent manner in a newspaper of general circulation in the utility's service area, the first publication to be made within seven (7) days of the filing of the application with the commission.*	1	Lonnie E. Bellar
15	807 KAR 5:001 Section 10(4)(d)	*Manner of notification. If the notice is published, an affidavit from the publisher verifying 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.*	1	Lonnie E. Bellar
16	807 KAR 5:001 Section 10(4)(e)	*Manner of notification. If the 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.*	1	Lonnie E. Bellar
17	807 KAR 5:001 Section 10(4)(f)	*Manner of notification. 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.*	1	Lonnie E. Bellar

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Tab #	Filing Requirement	Description	Volume No(s).	Sponsoring Witness(es)
18	807 KAR 5:001 Section 10(4)(g)	*Manner of notification. Compliance with this subsection shall constitute compliance with 807 KAR 5:051, Section 2.*	1	Lonnie E. Bellar
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*	1	Lonnie E. Bellar
20	807 KAR 5:001 Section 10(6)(a)	*A complete description and quantified explanation for all proposed adjustments, with proper support for any proposed changes in price or activity levels, and any other factors which may affect the adjustment.*	1	S. Bradford Rives
21	807 KAR 5:001 Section 10(6)(b)	*If the utility has gross annual revenues greater than $1,000,000, the prepared testimony of each witness the utility proposes to use to support its application.*	1	Lonnie E. Bellar
22	807 KAR 5:001 Section 10(6)(c)	*If the utility has gross annual revenues less than $1,000,000, the prepared testimony of each witness the utility proposes to use to support its application or a statement that the utility does not plan to submit any prepared testimony.*	1	S. Bradford Rives
23	807 KAR 5:001 Section 10(6)(d)	*A statement estimating the effect that the new rates will have upon the revenues of the utility including, at minimum, the total amount of revenues resulting from the increase or decrease and the percentage of the increase or decrease.*	1	Robert M. Conroy
24	807 KAR 5:001 Section 10(6)(e)	*If the utility provides electric, gas, water, or sewer service the effect upon the average bill for each customer classification to which the proposed rate change will apply.*	1	Robert M. Conroy
25	807 KAR 5:001 Section 10(6)(f)	*If the utility is a local exchange company, the effect upon the average bill for each customer class for the proposed rate change in basic local service.*	1	Lonnie E. Bellar
26	807 KAR 5:001 Section 10(6)(g)	*An analysis of customers' bills in such detail that revenues from the present and proposed rates can be readily determined for each customer class.*	1	Robert M. Conroy
27	807 KAR 5:001 Section 10(6)(h)	*A summary of the utility's determination of its revenue requirements based on return on net investment rate base, return on capitalization, interest coverage, debt service coverage, or operating ratio, with supporting schedules.*	1	S. Bradford Rives
28	807 KAR 5:001 Section 10(6)(i)	*A reconciliation of the rate base and capital used to determine its revenue requirement.*	1	S. Bradford Rives
29	807 KAR 5:001 Section 10(6)(j)	*A current chart of accounts if more detailed that the Uniform System of Accounts prescribed by the commission.*	1	Shannon L. Charnas
30	807 KAR 5:001 Section 10(6)(k)	*The independent auditor's annual opinion report, with any written communication from the independent auditor to the utility which indicates the existence of a material weakness in the utility's internal controls.*	1	S. Bradford Rives
31	807 KAR 5:001 Section 10(6)(l)	*The most recent Federal Energy Regulatory Commission or Federal Communication Commission audit reports.*	2	Valerie L. Scott
32	807 KAR 5:001 Section 10(6)(m)	*The most recent Federal Energy Regulatory Commission Form 1 (electric), Federal Energy Regulatory Commission Form 2 (gas), or Automated Reporting Management Information System Report (telephone) and Public Service Commission Form T (telephone);*	2	Valerie L. Scott

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Tab #	Filing Requirement	Description	Volume No(s).	Sponsoring Witness(es)
33	807 KAR 5:001 Section 10(6)(n)	*A summary of the utility's latest depreciation study with schedules by major plant accounts, except that telecommunications utilities that have adopted the commission's average depreciation rates shall provide a schedule that identifies the current and test period depreciation rates used by major plant accounts. If the required information has been filed in another commission case a reference to that case's number and style will be sufficient.*	2	Shannon L. Charnas & John J. Spanos
34	807 KAR 5:001 Section 10(6)(o)	*A list of all commercially available or in-house developed computer software, programs, and models used in the development of the schedules and work papers associated with the filing of the utility's application. This list shall include each software, program, or model; what the software, program, or model was used for; identify the supplier of each software, program, or model; a brief description of the software, program, or model; the specifications for the computer hardware and the operating system required to run the program.*	2	Valerie L. Scott
35	807 KAR 5:001 Section 10(6)(p)	*Prospectuses of the most recent stock or bond offerings.*	2	S. Bradford Rives
36	807 KAR 5:001 Section 10(6)(q)	*Annual report to shareholders, or members, and statistical supplements covering the two (2) most recent years from the utility's application filing date.*	2	S. Bradford Rives
37	807 KAR 5:001 Section 10(6)(r)	*The monthly management reports providing financial results of operations for the twelve (12) months in the test period.*	3	Valerie L. Scott
38	807 KAR 5:001 Section 10(6)(s)	*Securities and Exchange Commission's annual report for the most recent two (2) years, Form 10-Ks and any Form 8-Ks issued within the past two (2) years, and Form 10-Qs issued during the past six (6) quarters updated as current information becomes available.*	3	S. Bradford Rives
39	807 KAR 5:001 Section 10(6)(t)	*If the utility had any amounts charged or allocated to it by an affiliate or general or home office or paid any monies to an affiliate or general or home office during the test period or during the previous three (3) calendar years, the utility shall file:* *1. A detailed description of the method and amounts allocated or charged to the utility by the affiliate or general or home office for each charge allocation or payment;* *2. An explanation of how the allocator for the test period was determined; and* *3. All facts relied upon, including other regulatory approval, to demonstrate that each amount charged, allocated or paid during the test period was reasonable;*	3	Valerie L. Scott

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Tab #	Filing Requirement	Description	Volume No(s).	Sponsoring Witness(es)
40	807 KAR 5:001 Section 10(6)(u)	*If the utility provides gas, electric or water utility service and has annual gross revenues greater than $5,000,000, a cost of service study based on a methodology generally accepted within the industry and based on current and reliable data from a single time period.*	3	W. Steven Seelye
41	807 KAR 5:001 Section 10(6)(v)	*Local exchange carriers with fewer than 50,000 access lines shall not be required to file cost of service studies, except as specifically directed by the commission. Local exchange carriers with more than 50,000 access lines shall file: 1. A jurisdictional separations study consistent with Part 36 of the Federal Communications Commission's rules and regulations; and 2. Service specific cost studies to support the pricing of all services that generate annual revenue greater than $1,000,000, except local exchange access: a. Based on current and reliable data from a single time period; and b. Using generally recognized fully allocated, embedded, or incremental cost principles.*	3	Lonnie E. Bellar
42	807 KAR 5:001 Section 10(7)(a)	*Upon good cause shown, a utility may request pro forma adjustments for known and measurable changes to ensure fair, just and reasonable rates based on the historical test period. The following information shall be filed with applications requesting pro forma adjustments or a statement explaining why the required information does not exist and is not applicable to the utility's application: (a) A detailed income statement and balance sheet reflecting the impact of all proposed adjustments;*	3	Valerie L. Scott
43	807 KAR 5:001 Section 10(7)(b)	*Upon good cause shown, a utility may request pro forma adjustments for known and measurable changes to ensure fair, just and reasonable rates based on the historical test period. The following information shall be filed with applications requesting pro forma adjustments or a statement explaining why the required information does not exist and is not applicable to the utility's application: (b) The most recent capital construction budget containing at least the period of time as proposed for any pro forma adjustment for plant additions.*	3	Valerie L. Scott

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Tab #	Filing Requirement	Description	Volume No(s).	Sponsoring Witness(es)
44	807 KAR 5:001 Section 10(7)(c)	*Upon good cause shown, a utility may request pro forma adjustments for known and measurable changes to ensure fair, just and reasonable rates based on the historical test period. The following information shall be filed with applications requesting pro forma adjustments or a statement explaining why the required information does not exist and is not applicable to the utility's application:* *(c) For each proposed pro forma adjustment reflecting plant additions provide the following information:* *1. The starting date of the construction of each major component of plant;* *2. The proposed in-service date;* *3. The total estimated cost of construction at completion;* *4. The amount contained in construction work in progress at the end of the test period;* *5. A schedule containing a complete description of actual plant retirements and anticipated plant retirements related to the pro forma plant additions including the actual or anticipated date of retirement;* *6. The original cost, cost of removal and salvage for each component of plant to be retired during the period of the proposed pro forma adjustment for plant additions;* *7. An explanation of any differences in the amounts contained in the capital construction budge* *8. The impact on depreciation expense of all proposed pro forma adjustments for plant additior*	3	Valerie L. Scott
45	807 KAR 5:001 Section 10(7)(d)	*Upon good cause shown, a utility may request pro forma adjustments for known and measurable changes to ensure fair, just and reasonable rates based on the historical test period. The following information shall be filed with applications requesting pro forma adjustments or a statement explaining why the required information does not exist and is not applicable to the utility's application:* *(d) The operating budget for each period encompassing the pro forma adjustments.*	3	Valerie L. Scott
46	807 KAR 5:001 Section 10(7)(e)	*Upon good cause shown, a utility may request pro forma adjustments for known and measurable changes to ensure fair, just and reasonable rates based on the historical test period. The following information shall be filed with applications requesting pro forma adjustments or a statement explaining why the required information does not exist and is not applicable to the utility's application:* *(e) The number of customers to be added to the test period-end level of customers and the related revenue requirements impact for all pro forma adjustments with complete details and supporting work papers.*	3	W.Steven Seelye

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Filing Requirement
807 KAR 5:001 Section 10(6)(r)
Sponsoring Witness: Valerie L. Scott

Description of Filing Requirement:

The monthly managerial reports providing financial results of operations for the twelve (12) months in the test period.

Response:

See attached.

KU Monthly Report to KPSC – April 30, 2008

KENTUCKY UTILITIES COMPANY

Financial Reports

April 30, 2008

Prepared by Regulatory Accounting and Reporting

Kentucky Utilities Company
Comparative Statement of Income
April 30, 2008

	Current Month			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	95,384,511.93	97,263,570.89	(1,879,058.96)	(1.93)
Total Operating Revenues	95,384,511.93	97,263,570.89	(1,879,058.96)	(1.93)
Fuel	32,030,637.41	33,876,267.64	(1,845,630.23)	(5.45)
Power Purchased	16,365,637.14	14,889,332.46	1,476,304.68	9.92
Other Operation Expenses	14,326,599.92	11,513,197.66	2,813,402.26	24.44
Maintenance	7,196,827.88	5,319,429.57	1,877,398.31	35.29
Depreciation	9,910,173.72	9,209,560.55	700,613.17	7.61
Amortization Expense	429,130.97	445,380.43	(16,249.46)	(3.65)
Regulatory Credits	(189,735.86)	(179,631.83)	(10,104.03)	5.62
Taxes				
Federal Income	2,772,938.57	4,596,174.79	(1,823,236.22)	(39.67)
State Income	533,257.42	1,082,552.03	(549,294.61)	(50.74)
Deferred Federal Income - Net	-	-	-	-
Deferred State Income - Net	-	-	-	-
Property and Other	1,655,098.36	1,521,721.46	133,376.90	8.76
Investment Tax Credit	-	-	-	-
Loss (Gain) from Disposition of Allowances	(57.45)	(81.22)	23.77	(29.27)
Accretion Expense	165,157.94	155,089.06	10,068.88	6.49
Total Operating Expenses	85,195,666.02	82,428,992.60	2,766,673.42	3.36
Net Operating Income	10,188,845.91	14,834,578.29	(4,645,732.38)	(31.32)
Other Income Less Deductions				
Other Income Less Deductions	1,365,346.68	1,567,646.57	(202,299.89)	(12.90)
AFUDC - Equity	523,557.44	245,238.51	278,318.93	113.49
Total Other Income Less Deductions	1,888,904.12	1,812,885.08	76,019.04	4.19
Income Before Interest Charges	12,077,750.03	16,647,463.37	(4,569,713.34)	(27.45)
Interest on Long-term Debt	5,415,349.75	2,878,333.72	2,537,016.03	88.14
Amortization of Debt Expense - Net	61,198.58	75,301.77	(14,103.19)	(18.73)
Other Interest Expenses	203,600.28	274,147.96	(70,547.68)	(25.73)
AFUDC - Borrowed Funds	(177,316.44)	(70,501.38)	(106,815.06)	151.51
Total Interest Charges	5,502,832.17	3,157,282.07	2,345,550.10	74.29
Net Income	6,574,917.86	13,490,181.30	(6,915,263.44)	(51.26)

Kentucky Utilities Company
Comparative Statement of Income
April 30, 2008

	Year to Date			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	447,581,158.54	414,096,131.47	33,485,027.07	8.09
Total Operating Revenues	447,581,158.54	414,096,131.47	33,485,027.07	8.09
Fuel	155,165,464.67	142,996,865.01	12,168,599.66	8.51
Power Purchased	72,430,282.49	59,744,102.27	12,686,180.22	21.23
Other Operation Expenses	55,159,200.80	48,617,634.12	6,541,566.68	13.46
Maintenance	28,532,871.93	23,308,424.52	5,224,447.41	22.41
Depreciation	40,247,588.11	36,348,589.10	3,898,999.01	10.73
Amortization Expense	1,616,065.86	1,843,555.66	(227,489.80)	(12.34)
Regulatory Credits	*(758,943.44)*	*(663,726.81)*	*(95,216.63)*	14.35
Taxes				
Federal Income	21,350,382.39	17,457,330.46	3,893,051.93	22.30
State Income	3,711,891.50	5,059,186.83	(1,347,295.33)	(26.63)
Deferred Federal Income - Net	(3,478,563.50)	(2,472,094.14)	(1,006,469.36)	40.71
Deferred State Income - Net	(438,703.98)	(275,696.04)	(163,007.94)	59.13
Property and Other	6,597,953.49	6,043,195.48	554,758.01	9.18
Investment Tax Credit	3,200,000.00	9,875,000.00	(6,675,000.00)	(67.59)
Loss (Gain) from Disposition of Allowances	(583,106.55)	(706,851.51)	123,744.96	(17.51)
Accretion Expense	660,631.76	620,650.24	39,981.52	6.44
Total Operating Expenses	383,413,015.53	347,796,165.19	35,616,850.34	10.24
Net Operating Income	64,168,143.01	66,299,966.28	(2,131,823.27)	(3.22)
Other Income Less Deductions				
Other Income Less Deductions	8,637,933.27	7,106,450.82	1,531,482.45	21.55
AFUDC - Equity	1,892,477.83	779,903.32	1,112,574.51	142.66
Total Other Income Less Deductions	10,530,411.10	7,886,354.14	2,644,056.96	33.53
Income Before Interest Charges	74,698,554.11	74,186,320.42	512,233.69	0.69
Interest on Long-term Debt	21,776,081.15	14,087,216.38	7,688,864.77	54.58
Amortization of Debt Expense - Net	242,509.94	356,801.90	(114,291.96)	(32.03)
Other Interest Expenses	*827,497.89*	*1,456,467.19*	*(628,969.30)*	(43.18)
AFUDC - Borrowed Funds	(647,205.99)	(223,071.77)	(424,134.22)	190.13
Total Interest Charges	22,198,882.99	15,677,413.70	6,521,469.29	41.60
Net Income	52,499,671.12	58,508,906.72	(6,009,235.60)	(10.27)

Kentucky Utilities Company
Comparative Statement of Income
April 30, 2008

	Year Ended Current Month			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	1,306,033,926.31	1,253,702,838.45	52,331,087.86	4.17
Total Operating Revenues	1,306,033,926.31	1,253,702,838.45	52,331,087.86	4.17
Fuel	472,287,284.30	443,539,080.87	28,748,203.43	6.48
Power Purchased	181,129,785.86	181,075,010.39	54,775.47	0.03
Other Operation Expenses	159,464,403.04	153,936,459.04	5,527,944.00	3.59
Maintenance	90,466,641.60	73,659,064.83	16,807,576.77	22.82
Depreciation	119,163,163.72	110,094,517.09	9,068,646.63	8.24
Amortization Expense	5,193,055.16	5,309,840.41	(116,785.25)	(2.20)
Regulatory Credits	(2,196,419.97)	(2,026,969.94)	(169,450.03)	8.36
Taxes				
Federal Income	31,655,467.72	51,481,239.15	(19,825,771.43)	(38.51)
State Income	11,712,922.70	13,164,938.76	(1,452,016.06)	(11.03)
Deferred Federal Income - Net	(7,366,632.74)	(4,461,586.84)	(2,905,045.90)	65.11
Deferred State Income - Net	(651,073.62)	274,520.86	(925,594.48)	(337.17)
Property and Other	18,993,834.68	18,465,370.89	528,463.79	2.86
Investment Tax Credit	35,891,647.00	21,875,000.00	14,016,647.00	64.08
Loss (Gain) from Disposition of Allowances	(583,106.55)	(706,851.51)	123,744.96	(17.51)
Accretion Expense	1,901,344.24	1,785,727.44	115,616.80	6.47
Total Operating Expenses	1,117,062,317.14	1,067,465,361.44	49,596,955.70	4.65
Net Operating Income	188,971,609.17	186,237,477.01	2,734,132.16	1.47
Other Income Less Deductions				
Other Income Less Deductions	29,982,164.13	26,653,720.45	3,328,443.68	12.49
AFUDC - Equity	4,440,279.36	1,118,279.77	3,321,999.59	297.06
Total Other Income Less Deductions	34,422,443.49	27,772,000.22	6,650,443.27	23.95
Income Before Interest Charges	223,394,052.66	214,009,477.23	9,384,575.43	4.39
Interest on Long-term Debt	56,189,348.34	38,156,064.33	18,033,284.01	47.26
Amortization of Debt Expense - Net	739,208.56	964,212.97	(225,004.41)	(23.34)
Other Interest Expenses	6,892,097.73	3,975,340.11	2,916,757.62	73.37
AFUDC - Borrowed Funds	(1,379,940.85)	(454,446.81)	(925,494.04)	203.65
Total Interest Charges	62,440,713.78	42,641,170.60	19,799,543.18	46.43
Net Income	160,953,338.88	171,368,306.63	(10,414,967.75)	(6.08)

Kentucky Utilities Company
Analysis of Retained Earnings
April 30, 2008

Retained Earnings and Undistributed Earnings	Current Month		Year to Date		Year Ended Current Month	
	Total Retained Earnings	Undistributed Subsidiary Earnings	Total Retained Earnings	Undistributed Subsidiary Earnings	Total Retained Earnings	Undistributed Subsidiary Earnings
Balance Beginning of Period................	1,062,432,544.47	21,189,258.80	1,016,489,982.01	21,207,068.00	910,723,554.25	18,512,140.00
Net Income for Period........................	6,574,917.86		52,499,671.12		160,953,338.88	
FIN 48 Adjustment............................	-		-		7,688.00	
Adjust for Equity in Subsidiary Earnings for Year -EE Inc..................................	(2,395,420.00)	2,395,420.00	(9,877,610.80)	9,877,610.80	(28,622,538.80)	28,622,538.80
Dividends Received Current Year -EE Inc..................................	-	-	7,500,000.00	(7,500,000.00)	23,550,000.00	(23,550,000.00)
Balance End of Period.........................	1,066,612,042.33	23,584,678.80	1,066,612,042.33	23,584,678.80	1,066,612,042.33	23,584,678.80

Combined Retained Earnings	12 MONTHS 04/30/2008	12 MONTHS 04/30/2007
Retained Earnings Beginning of Period.....	929,235,694.25	757,519,914.62
Net Income..	160,953,338.88	171,368,306.63
FIN 48 Adjustment............................	7,688.00	347,473.00
Retained Earnings End of Period............	1,090,196,721.13	929,235,694.25

Kentucky Utilities Company
Comparative Balance Sheets as of April 30, 2008 and 2007

Assets and Other Debits	This Year	Last Year
Utility Plant		
Utility Plant at Original Cost	5,151,234,451.43	4,380,737,063.36
Less Reserves for Depreciation and Amortization	1,972,362,644.75	1,876,367,654.84
Total	3,178,871,806.68	2,504,369,408.52
Investments - at Cost		
Ohio Valley Electric Corporation	250,000.00	250,000.00
Nonutility Property-Less Reserve	179,120.94	969,025.81
Investments in Subsidiary Companies	24,880,478.80	19,807,940.00
Special Funds	6,046,655.99	8,140,713.10
Other	411,140.00	426,140.00
Total	31,767,395.73	29,593,818.91
Current and Accrued Assets		
Cash	2,125,603.26	6,086,367.97
Special Deposits	4,334,948.68	20,304,946.92
Temporary Cash Investments	17,681.67	16,924.95
Accounts Receivable-Less Reserve	142,596,743.77	122,698,210.48
Notes Receivable from Associated Companies	-	-
Accounts Receivable from Associated Companies	49,694.17	6,252,255.78
Materials and Supplies-At Average Cost		
Fuel	46,647,686.54	62,663,137.35
Plant Materials and Operating Supplies	28,045,637.93	25,633,096.13
Stores Expense	6,524,614.19	6,079,526.76
Allowance Inventory	223,085.27	1,134,949.48
Prepayments	3,405,611.11	3,563,125.42
Miscellaneous Current and Accrued Assets	-	1,992,267.65
Total	233,971,306.59	256,424,808.89
Deferred Debits and Other		
Unamortized Debt Expense	6,790,525.03	6,494,563.75
Unamortized Loss on Bonds	10,611,577.64	10,473,928.85
Accumulated Deferred Income Taxes	50,537,997.37	45,723,507.74
Deferred Regulatory Assets	82,545,197.75	115,638,664.82
Other Deferred Debits	58,995,218.47	78,979,983.83
Total	209,480,516.26	257,310,648.99
Total Assets and Other Debits	3,654,091,025.26	3,047,698,685.31

Liabilities and Other Credits	This Year	Last Year
Capitalization		
Common Stock	308,139,977.56	308,139,977.56
Common Stock Expense	(321,288.87)	(321,288.87)
Paid-In Capital	115,000,000.00	15,000,000.00
Other Comprehensive Income	-	-
Retained Earnings	1,066,612,042.33	910,723,554.25
Unappropriated Undistributed Subsidiary Earnings	23,584,678.80	18,512,140.00
Total Common Equity	1,513,015,409.82	1,252,054,382.94
Preferred Stock	-	-
Pollution Control Bonds - Net of Reacquired Bonds	316,059,520.00	305,951,140.00
LT Notes Payable to Associated Companies	931,000,000.00	611,000,000.00
Total Long-term Debt	1,247,059,520.00	916,951,140.00
Total Capitalization	2,760,074,929.82	2,169,005,522.94
Current and Accrued Liabilities		
Long-term Debt Due in 1 Year	-	-
ST Notes Payable to Associated Companies	93,302,454.00	62,745,054.00
Notes Payable	-	-
Notes Payable to Associated Companies	-	-
Accounts Payable	134,916,555.69	125,790,911.56
Accounts Payable to Associated Companies	36,181,072.10	102,807,708.17
Customer Deposits	19,792,751.88	18,841,017.05
Taxes Accrued	12,576,638.88	245,947.81
Interest Accrued	11,397,765.18	7,366,575.04
Dividends Declared	-	-
Miscellaneous Current and Accrued Liabilities	13,363,943.14	11,213,750.34
Total	321,531,180.87	329,010,963.97
Deferred Credits and Other		
Accumulated Deferred Income Taxes	331,434,967.30	328,775,200.23
Investment Tax Credit	58,094,343.32	22,701,671.32
Regulatory Liabilities	38,152,787.49	36,654,293.96
Customer Advances for Construction	2,420,052.26	1,984,291.81
Asset Retirement Obligations	30,975,691.02	29,101,856.78
Other Deferred Credits	21,296,038.92	8,355,655.58
Miscellaneous Long-term Liabilities	3,256,903.03	46,913,039.58
Accum Provision for Postretirement Benefits	86,854,131.23	75,196,189.14
Total	572,484,914.57	549,682,198.40
Total Liabilities and Other Credits	3,654,091,025.26	3,047,698,685.31

Kentucky Utilities Company
Statement of Capitalization and Short-term Debt
April 30, 2008

	Authorized	Issued and Outstanding		Percent of Total	
	Shares	Shares	Amount	Capital and ST Debt	Capital
Common Equity					
Common Stock - Without Par	80,000,000	37,817,878	308,139,977.56		
Common Stock Expense			(321,288.87)		
Paid-In Capital			115,000,000.00		
Retained Earnings			1,066,612,042.33		
Unappropriated Undistributed Subsidiary Earnings			23,584,678.80		
Total Common Equity			1,513,015,409.82	53.02	54.82
Long-term Debt					
Pollution Control Bonds					
Mercer County 2000 Series A due 05/01/23 Var%			12,900,000.00		
Carroll County 2002 Series A due 02/01/32 Var%			20,930,000.00		
Carroll County 2002 Series B due 02/01/32 Var%			2,400,000.00		
Muhlenburg County 2002 Series A due 02/01/32 Var%			2,400,000.00		
Mercer County 2002 Series A due 02/01/32 Var%			7,400,000.00		
Carroll County 2002 Series C due 10/01/32 Var%			96,000,000.00		
Carroll County 2004 Series A due 10/01/34 Var%			50,000,000.00		
Carroll County 2005 Series A due 06/01/35 Var%			13,266,950.00		
Carroll County 2005 Series B due 06/01/35 Var%			13,266,950.00		
Carroll County 2006 Series A due 06/01/36 Var%			16,693,620.00		
Carroll County 2006 Series C due 06/01/36 Var%			16,693,620.00		
Carroll County 2006 Series B due 10/01/34 Var%			54,000,000.00		
Carroll County 2007 Series A due 02/01/26 Var%			17,875,000.00		
Trimble County 2007 Series A due 03/01/37 Var%			8,927,000.00		
Less Reacquired Bonds					
Carroll County 2006 Series C due 06/01/36 Var%			(16,693,620.00)		
Total Pollution Control Bonds			316,059,520.00	11.08	11.45
Long-term Notes Payable to Associated Companies			931,000,000.00	32.63	33.73
Total Capitalization			2,760,074,929.82	96.73	100.00
Short-term Notes Payable to Associated Companies			93,302,454.00	3.27	
Total Capitalization and Short-term Debt			2,853,377,383.82	100.00	

Kentucky Utilities Company
Trial Balance
April 30, 2008

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Utility Plant		
At Original Cost	5,151,234,451.43	5,151,234,451.43
Reserves for Depreciation and Amortization		(1,972,362,644.75)
Depreciation	(1,953,923,986.75)	
Amortization of Plant	(18,438,658.00)	
Investments - at Cost		31,767,395.73
Nonutility Property	179,120.94	
Investments in Subsidiary Companies	24,880,478.80	
Ohio Valley Electric Corporation	250,000.00	
Other	411,140.00	
OMU - Interest on Reserve, New	1,299,853.57	
OMU - Revenue and Investments on Maintenance Reserve	600,000.00	
OMU - Revenue and Investments on Additions and Replacements	120,000.00	
OMU - Revenue and Investments on Operations	538,067.36	
OMU - Revenue and Investments Interest on Purchase Power	358,737.79	
OMU - Purchase Power, Coal Reserve	3,129,997.27	
Cash	2,125,603.26	2,125,603.26
Special Deposits		4,334,948.68
Restricted Cash	4,334,890.54	
MAN Margin Call	58.14	
Temporary Cash Investments	17,681.67	17,681.67
Accounts Receivable - Less Reserve		142,596,743.77
Working Funds	34,517.13	
Customers - Active	79,915,431.09	
Wholesale Sales	6,014,409.53	
Transmission Sales	429,697.90	
Unbilled Revenues	40,976,000.00	
Employee Computer Loans	70,397.80	
Officers and Employees	225,851.01	
Insurance Claims	(105.69)	
IMEA	5,490,469.40	
IMPA	5,834,756.28	
Other	6,187,732.03	
Reserves for Uncollectible Accounts		
Utility Customers		
Reserve	(844,366.00)	
Accrual	(647,229.74)	
Charged Off	951,335.29	
Recoveries	(313,209.84)	
A/R Miscellaneous	(22,719.71)	
LEM Reserve	(1,726,838.79)	
Interest and Dividends Receivable	20,616.08	
Accounts Receivable from Associated Companies		49,694.17
E.ON US Services/Louisville Gas and Electric Company	49,694.17	

Kentucky Utilities Company
Trial Balance
April 30, 2008

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Fuel		46,647,686.54
Coal 803,372.21 Tons @ $50.17 MMBtu 18,944,950.02 @ 212.73¢	40,301,295.65	
Fuel Oil 2,658,807 Gallons @ 234.25¢	6,228,212.56	
Gas Pipeline 11,945.30 Mcf @ $9.89	118,178.33	
Plant Materials and Operating Supplies		28,045,637.93
Regular Materials and Supplies	27,658,165.84	
Limestone 51,329.36 Tons @ $7.55	387,472.09	
Stores Expense		6,524,614.19
Stores Expense Undistributed	6,524,614.19	
Allowance Inventory	223,085.27	223,085.27
Prepayments		3,405,611.11
Insurance	1,846,041.22	
Taxes	298,419.41	
Risk Management and Workers Compensation	75,000.00	
Vehicle License	77,980.66	
Other	1,108,169.82	
Unamortized Debt Expense		6,790,525.03
Mercer County 2000 Series A due 05/01/23 Var%	259,352.29	
Carroll County 2002 Series A due 02/01/32 Var%	97,392.34	
Carroll County 2002 Series B due 02/01/32 Var%	67,701.62	
Muhlenburg County 2002 Series A due 02/01/32 Var%	27,168.40	
Mercer County 2002 Series A due 02/01/32 Var%	75,367.11	
Carroll County 2002 Series C due 10/01/32 Var%	1,775,218.04	
Carroll County 2004 Series A due 10/01/34 Var%	1,058,659.59	
Carroll County 2005 Series A due 06/01/35 Var%	479,222.30	
Carroll County 2005 Series B due 06/01/35 Var%	487,051.04	
Carroll County 2006 Series A due 06/01/36 Var%	581,096.05	
Carroll County 2006 Series B due 10/01/34 Var%	989,588.25	
Carroll County 2007 Series A due 02/01/26 Var%	518,024.37	
Trimble County 2007 Series A due 03/01/37 Var%	374,683.63	
Unamortized Loss on Bonds		10,611,577.64
Refinanced and Called Bonds	10,611,577.64	
Accumulated Deferred Income Taxes		50,537,997.37
Federal	42,693,735.59	
State	7,844,261.78	
Netting Out Deferred Tax Assets		
Deferred Regulatory Assets		82,545,197.75
Asset Retirement Obligations	24,875,211.39	
FERC Jurisdictional Pension Expense	2,590,873.01	
SFAS 109 - Deferred Taxes	7,156,565.00	
Pension and Postretirement Benefits	28,091,683.11	
Ice Storm Expenses	923,520.00	
MISO Exit Fee	18,907,345.24	
Other Deferred Debits	58,995,218.47	58,995,218.47
Total Assets and Other Debits	3,654,091,025.26	3,654,091,025.26

Kentucky Utilities Company
Trial Balance
April 30, 2008

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Common Equity		1,513,015,409.82
Common Stock	308,139,977 56	
Common Stock Expense	(321,288.87)	
Paid-In Capital	115,000,000.00	
Retained Earnings	1,066,612,042.33	
Unappropriated Undistributed Subsidiary Earnings	23,584,678.80	
Bonds		316,059,520.00
Pollution Control Bonds - Net of Reacquired Bonds	316,059,520.00	
Long-term Notes Payable to Associated Companies	931,000,000.00	931,000,000.00
Short-term Notes Payable to Associated Companies		93,302,454.00
Money Pool Payable	93,302,454.00	
Accounts Payable		134,916,555.69
Regular	128,339,364.65	
Salaries and Wages Accrued	3,291,416.92	
Employee Withholdings Payable	20,968.24	
Tax Collections - Payable	3,264,805.88	
Accounts Payable to Associated Companies		36,181,072.10
E.ON US Services/Louisville Gas and Electric Company	36,181,072.10	
Customers' Deposits	19,792,751.88	19,792,751.88
Taxes Accrued	12,576,638.88	12,576,638.88
Interest Accrued		11,397,765.18
Mercer County 2000 Series A due 05/01/23 Var%	98,765.63	
Carroll County 2002 Series A due 02/01/32 Var%	22,645.59	
Carroll County 2002 Series B due 02/01/32 Var%	2,596.70	
Muhlenburg County 2002 Series A due 02/01/32 Var%	2,596.70	
Mercer County 2002 Series A due 02/01/32 Var%	8,006.54	
Carroll County 2002 Series C due 10/01/32 Var%	92,074.67	
Carroll County 2004 Series A due 10/01/34 Var%	241,666.66	
Carroll County 2005 Series A due 06/01/35 Var%	10,034.96	
Carroll County 2005 Series B due 06/01/35 Var%	10,034.96	
Carroll County 2006 Series A due 06/01/36 Var%	28,337.43	
Carroll County 2006 Series C due 06/01/36 Var%	13,560.12	
Carroll County 2006 Series B due 10/01/34 Var%	38,880.00	
Carroll County 2007 Series A due 02/01/26 Var%	41,659.31	
Trimble County 2007 Series A due 03/01/37 Var%	79,940.95	
Fidelia	10,523,971.30	
Customers' Deposits	182,993.66	

Kentucky Utilities Company
Trial Balance
April 30, 2008

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Miscellaneous Current and Accrued Liabilities		13,363,943.14
Customer Overpayments	1,790,500.08	
UK Emission Research Grant	250,000.00	
Vacation Pay Accrued	5,402,102.33	
Derivative Liabilities - Non-Hedging	0.03	
Franchise Fee Payable	5,898,904.03	
Other	22,436.67	
Accumulated Deferred Income Taxes		331,434,967.30
Federal	285,707,654.44	
State	45,727,312.86	
Investment Tax Credit		58,094,343.32
Job Development Credit	327,696.32	
Advance Coal Credit	57,766,647.00	
Regulatory Liabilities		38,152,787.49
Asset Retirement Obligations	2,254,925.41	
Deferred Taxes - SFAS 109	28,035,897.50	
Spare Parts	1,310,009.58	
MISO Schedule 10 Charges	6,551,955.00	
Customers' Advances for Construction		2,420,052.26
Line Extensions	1,766,816.89	
Outdoor Lighting Deposits	4,470.00	
Other	648,765.37	
Asset Retirement Obligations	30,975,691.02	30,975,691.02
Other Deferred Credits	21,296,038.92	21,296,038.92
Miscellaneous Long-term Liabilities		3,256,903.03
Workers' Compensation	3,256,903.03	
Accumulated Provision for Benefits		86,854,131.23
Pension Payable	20,163,191.00	
Postretirement Benefits - SFAS 106	66,964,455.60	
Medicare Subsidy - SFAS 106	(5,428,205.51)	
Post Employment Benefits Payable	5,349,374.00	
Post Employment Medicare Subsidy	(194,683.86)	
Total Liabilities and Other Credits	3,654,091,025.26	3,654,091,025.26

Kentucky Utilities Company
Statement of Cash Flows
April 30, 2008

	Year to Date 2008	Year to Date 2007
Cash Flows from Operating Activities		
Net income	52,499,671.12	58,508,906.72
Items not requiring (providing) cash currently:		
Depreciation	40,247,588.11	36,348,589.10
Amortization	1,616,065.86	1,843,555.66
Deferred income taxes - net	(1,646,295.23)	(1,096,124.07)
Investment tax credits deferred - net	3,095,231.00	9,677,896.00
Other	1,915,885.73	2,270,151.34
Change in receivables	46,103,869.80	44,265,335.29
Change in inventory	(5,622,476.81)	2,183,686.74
Change in allowance inventory	159,808.84	535,588.35
Change in payables and accrued expenses	1,869,722.32	45,549,760.04
Change in other regulatory assets	(379,947.13)	(621,821.88)
Change in other regulatory liabilities	431,751.41	714,920.48
Change in other deferred debits	8,589,281.06	(16,250,505.11)
Change in other deferred credits	7,859,895.32	1,072,513.62
Other	(1,944,204.73)	1,829,219.06
Less: Allowance for other funds used during construction	(2,539,683.82)	(1,002,975.09)
Less: Undistributed earnings of subsidiary company	(2,377,610.80)	(2,263,853.00)
Net cash provided (used) by operating activities	149,878,552.05	183,564,843.25
Cash Flows from Investing Activities		
Gross additions to utility plant - construction expenditures	(235,719,059.90)	(223,031,201.55)
Less: Allowance for other funds used during construction	2,539,683.82	1,002,975.09
Gain on disposal of property	1,175.00	-
Change in other long-term debt	-	(433,540.00)
Change in long-term investments	254,250.66	(2,435,881.97)
Change in restricted cash	6,650,607.10	2,502,577.78
Net cash provided (used) by investing activities	(226,273,343.32)	(222,395,070.65)
Cash Flows from Financing Activities		
Proceeds from issuance of long-term debt	(189,814.50)	180,919,017.91
Net increase in short-term debt	70,083,000.00	-
Payments for retirement of long-term debt	-	(107,000,000.00)
Net decrease in short-term debt	-	(34,298,000.00)
Payments for reacquisition of long-term debt	(16,693,620.00)	-
Contributed capital	25,000,000.00	-
Net cash provided (used) by financing activities	78,199,565.50	39,621,017.91
Net Increase (Decrease) in Cash and Cash Equivalents	1,804,774.23	790,790.51
Cash and Cash Equivalents at Beginning of Period	338,510.70	5,313,043.20
Cash and Cash Equivalents at End of Period	2,143,284.93	6,103,833.71

Kentucky Utilities Company
Analysis of Interest Charges
April 30, 2008

	Current Month		Year to Date		Year Ended Current Month	
	This Year	Last Year	This Year	Last Year	This Year	Last Year
Interest on Long-term Debt						
First Mortgage Bonds						
Series P 7.92%	-	-	-	1,574,100.00	-	4,372,500.00
Loan Agreement - Pollution Control Bonds						
Series 10 (Variable%)	-	-	-	981,941.93	-	2,335,196.73
Mercer County 2000 Series A due 05/01/23 Var%	84,656.25	-	289,040.62	-	289,040.62	321,806.66
Carroll County 2002 Series A due 02/01/32 Var%	26,762.95	64,860.07	146,390.39	257,106.43	668,579.44	771,474.11
Carroll County 2002 Series B due 02/01/32 Var%	3,068.85	7,437.37	16,786.28	29,481.87	76,664.60	88,463.35
Muhlenburg County 2002 Series A due 02/01/32 Var%	3,068.85	7,437.37	16,786.28	29,481.87	76,664.60	88,463.33
Mercer County 2002 Series A due 02/01/32 Var%	9,462.30	22,931.89	51,757.71	90,902.40	236,382.59	272,761.96
Carroll County 2002 Series C due 10/01/32 Var%	304,624.00	280,400.00	1,345,834.66	1,141,599.99	3,980,229.33	3,559,479.97
Carroll County 2004 Series A due 10/01/34 Var%	249,861.11	150,902.78	896,944.44	600,520.84	2,235,902.78	1,821,124.97
Carroll County 2005 Series A due 06/01/35 Var%	41,569.78	40,316.79	184,032.87	158,222.41	534,538.31	480,348.36
Carroll County 2005 Series B due 06/01/35 Var%	41,569.78	40,169.38	182,727.55	158,322.99	525,429.43	481,029.40
Carroll County 2006 Series A due 06/01/36 Var%	58,490.27	51,472.00	265,537.53	203,940.40	716,659.43	483,741.70
Carroll County 2006 Series C due 06/01/36 Var%	83,916.80	50,762.52	351,953.74	203,460.92	803,019.49	246,354.25
Carroll County 2006 Series B due 10/01/34 Var%	187,042.50	164,025.00	805,492.50	361,905.00	2,238,217.50	361,905.00
Carroll County 2007 Series A due 02/01/26 Var%	43,643.11	-	150,372.84	-	372,642.73	-
Trimble County 2007 Series A due 03/01/37 Var%	83,913.19	-	297,623.70	-	742,875.06	-
Interest Rate Swaps	-	-	-	(86,856.15)	-	(221,434.59)
Marked to Market	-	-	-	(328,589.00)	-	(534,667.00)
Fidelia	4,193,700.01	2,660,616.65	16,774,800.04	9,254,354.99	42,343,091.59	23,770,196.64
Hardin Promissory Note	-	(662,998.10)	-	(542,680.51)	349,410.84	(542,680.51)
Total	5,415,349.75	2,878,333.72	21,776,081.15	14,087,216.38	56,189,348.34	38,156,064.33
Amortization of Debt Expense - Net						
Amortization of Debt Expense	23,089.36	20,450.77	95,266.72	138,497.90	291,703.44	307,060.10
Amortization of Loss on Reacquired Debt	38,109.22	54,851.00	147,243.22	218,304.00	447,505.12	657,152.87
Total	61,198.58	75,301.77	242,509.94	356,801.90	739,208.56	964,212.97
Other Interest Charges						
Customers' Deposits	89,592.61	123,204.91	396,266.20	386,292.33	1,111,987.27	1,053,811.26
Other Tax Deficiencies	-	-	-	456.08	(3,424.00)	456.08
Interest on Debt to Associated Companies	113,999.51	150,943.05	431,223.53	1,069,422.08	5,783,521.71	2,813,985.69
AFUDC Borrowed Funds	(177,316.44)	(70,501.38)	(647,205.99)	(223,071.77)	(1,379,940.85)	(454,446.81)
Other Interest Expense	8.16	-	8.16	296.70	12.75	107,087.08
Total	26,283.84	203,646.58	180,291.90	1,233,395.42	5,512,156.88	3,520,893.30
Total Interest	5,502,832.17	3,157,282.07	22,198,882.99	15,677,413.70	62,440,713.78	42,641,170.60

Kentucky Utilities Company
Analysis of Taxes Charged
April 30, 2008

Kind of Taxes	Current Month This Year	Current Month Last Year	Year to Date This Year	Year to Date Last Year
Taxes Charged to Accounts 408.1 and 409.1				
Property Taxes	1,025,101.01	1,001,000.00	4,100,404.04	3,576,509.00
Unemployment	8,481.58	(84,109.32)	86,822.99	65,300.03
FICA	457,991.17	457,554.03	1,785,826.99	1,824,791.05
Public Service Commission Fee	149,209.73	138,724.62	596,838.92	554,898.48
Federal Income	2,772,938.57	4,596,174.79	21,350,382.39	17,457,330.46
State Income	533,257.42	1,082,552.03	3,711,891.50	5,059,186.83
Miscellaneous	14,314.87	8,552.13	28,060.55	21,696.92
Total Charged to Operating Expense	4,961,294.35	7,200,448.28	31,660,227.38	28,559,712.77
Taxes Charged to Other Accounts	*1,349,273.83*	*586,561.03*	*6,162,515.62*	(324,325.77)
Taxes Accrued on Intercompany Accounts	(185,197.00)	(192,256.91)	(723,975.96)	(803,368.76)
Total Taxes Charged	6,125,371.18	7,594,752.40	37,098,767.04	27,432,018.24

Analysis of Taxes Accrued - Account 236

Kind of Taxes	Taxes Accrued At Beginning Of Year	Accruals To Date This Year	Payments To Date This Year	Taxes Accrued At End Of Month
Property Taxes	6,455,854.42	4,244,649.63	6,063,068.67	4,637,435.38
Unemployment	36,767.25	63,638.75	99,688.89	717.11
FICA	497,417.13	1,618,768.68	1,957,533.78	158,652.03
Federal Income	(5,097,779.62)	27,434,282.22	21,449,065.62	887,436.98
State Income	1,103,849.76	2,749,780.08	(2,761,014.76)	6,614,644.60
Kentucky Sales and Use Tax	*618,307.69*	*921,641.88*	*1,284,783.93*	*255,165.64*
Miscellaneous	18,792.54	66,005.80	62,211.20	22,587.14
Totals	3,633,209.17	37,098,767.04	28,155,337.33	12,576,638.88

Kentucky Utilities Company
Summary of Utility Plant
April 30, 2008

	Net Balance First of Year	Additions	Retirements	Transfer/ Adjustment	Net Additions	Balance to Date
Utility Plant						
Plant in Service						
Intangibles	24,723,054.27	941,198.11	-	-	941,198.11	25,664,252.38
Steam Production	1,678,193,956.12	2,256,959.17	(362,322.43)	-	1,894,636.74	1,680,088,592.86
Hydro Production	10,974,095.24	62,158.95	(3,022.00)	-	59,136.95	11,033,232.19
Other Production	497,590,724.76	-	-	-	-	497,590,724.76
Transmission	520,264,996.06	1,660,789.58	(147,450.53)	-	1,513,339.05	521,778,335.11
Distribution	1,038,231,358.94	43,402,867.82	(70,054.03)	-	43,332,813.79	1,081,564,172.73
General	79,026,529.12	1,479,473.35	(172.34)	-	1,479,301.01	80,505,830.13
Transportation	18,955,797.89	-	-	-	-	18,955,797.89
Total Electric Plant In Service	3,867,960,512.40	49,803,446.98	(583,021.33)	-	49,220,425.65	3,917,180,938.05
Plant Purchased or Sold	-	-	-	-	-	-
Total Plant	3,867,960,512.40	49,803,446.98	(583,021.33)	-	49,220,425.65	3,917,180,938.05
Construction Work In Progress	1,071,388,625.97	162,664,887.41	-	-	162,664,887.41	1,234,053,513.38
Total Utility Plant at Original Cost	4,939,349,138.37	212,468,334.39	(583,021.33)	-	211,885,313.06	5,151,234,451.43

Reserve for Depreciation of Utility	Net Balance First of Year	Accrual	Retirements	Transfer/ Adjustment	RWIP Transfers Out	Cost of Removal	Salvage	Other Credits	Balance to Date
Life Reserves									
Steam Production	(862,613,622.59)	(14,795,216.64)	362,322.43	-	-	-	-	-	(877,046,516.80)
Hydro Production	(7,502,640.82)	(44,103.19)	3,022.00	-	-	-	-	-	(7,543,722.01)
Other Production	(115,446,056.48)	(5,629,445.65)	-	-	-	-	-	-	(121,075,502.13)
Transmission	(202,816,756.20)	(2,977,181.12)	147,450.53	-	-	-	-	(76,966.41)	(205,723,453.20)
Distribution	(359,039,785.75)	(8,149,756.77)	70,054.03	-	-	-	-	(56,231.97)	(367,175,720.46)
General	(30,072,704.19)	(1,529,322.33)	172.34	-	-	-	-	-	(31,601,854.18)
Transportation	(18,834,788.98)	(13,369.16)	-	-	-	-	-	-	(18,848,158.14)
Total Life Reserve For Depreciation Of Utility Plant In Service	(1,596,326,355.01)	(33,138,394.86)	583,021.33	-	-	-	-	(133,198.38)	(1,629,014,926.92)
Salvage Reserves									
Steam Production	(65,099,820.34)	(2,067,046.84)	-	-	-	238,647.97	-	-	(66,928,219.21)
Hydro Production	(741,054.42)	(14,090.23)	-	-	-	6,931.47	-	-	(748,213.18)
Other Production	(1,081,369.18)	-	-	-	-	-	-	-	(1,081,369.18)
Transmission	(115,529,459.07)	(2,133,568.31)	-	-	-	409,394.88	(5,819.89)	-	(117,259,452.39)
Distribution	(140,499,986.35)	(3,098,351.10)	-	-	-	83,765.44	(38,100.23)	-	(143,552,672.24)
General	244,224.85	8,509.83	-	-	-	30,318.48	-	-	283,053.16
Total Salvage Reserve For Depreciation Of Utility Plant In Service	(322,707,464.51)	(7,304,546.65)	-	-	-	769,058.24	(43,920.12)	-	(329,286,873.04)
Total Reserves									
Steam Production	(927,713,442.93)	(16,862,263.48)	362,322.43	-	-	238,647.97	-	-	(943,974,736.01)
Hydro Production	(8,243,695.24)	(58,193.42)	3,022.00	-	-	6,931.47	-	-	(8,291,935.19)
Other Production	(116,527,425.66)	(5,629,445.65)	-	-	-	-	-	-	(122,156,871.31)
Transmission	(318,346,215.27)	(5,110,749.43)	147,450.53	-	-	409,394.88	(5,819.89)	(76,966.41)	(322,982,905.59)
Distribution	(499,539,772.10)	(11,248,107.87)	70,054.03	-	-	83,765.44	(38,100.23)	(56,231.97)	(510,728,392.70)
General	(29,828,479.34)	(1,520,812.50)	172.34	-	-	30,318.48	-	-	(31,318,801.02)
Transportation	(18,834,788.98)	(13,369.16)	-	-	-	-	-	-	(18,848,158.14)
Total Life Reserve For Depreciation Of Utility Plant In Service	(1,919,033,819.52)	(40,442,941.51)	583,021.33	-	-	769,058.24	(43,920.12)	(133,198.38)	(1,958,301,799.96)
Retirement of Work in Progress	4,401,887.42	-	-	-	(591,939.74)	2,432,588.42	(193,845.01)	(1,670,877.89)	4,377,813.20
Year to Date Activity	(1,914,631,932.09)	(40,442,941.51)	583,021.33	-	(591,939.74)	3,201,646.66	(237,765.13)	(1,804,076.27)	(1,953,923,986.75)
Intangibles	(16,822,592.14)	(1,616,065.86)	-	-	-	-	-	-	(18,438,658.00)
Leaseholds	-	-	-	-	-	-	-	-	-
Total Reserve For Depreciation and Amortization - Utility Plant In Service	(1,931,454,524.23)	(42,059,007.37)	583,021.33	-	(591,939.74)	3,201,646.66	(237,765.13)	(1,804,076.27)	(1,972,362,644.75)
Utility Plant at Original Cost Less Reserve For Depreciation and Amortization	3,007,894,614.14								3,178,871,806.68

KU Monthly Report to KPSC – March 31, 2008

KENTUCKY UTILITIES COMPANY

Financial Reports

March 31, 2008

Prepared by Regulatory Accounting and Reporting

Kentucky Utilities Company
Comparative Statement of Income
March 31, 2008

	Current Month			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	110,934,719.03	94,973,380.44	15,961,338.59	16.81
Total Operating Revenues	110,934,719.03	94,973,380.44	15,961,338.59	16.81
Fuel	38,471,098.40	28,824,480.64	9,646,617.76	33.47
Power Purchased	18,869,231.84	15,169,896.07	3,699,335.77	24.39
Other Operation Expenses	14,548,395.07	13,554,300.42	994,094.65	7.33
Maintenance	7,876,870.72	9,095,053.70	(1,218,182.98)	(13.39)
Depreciation	10,033,086.34	9,174,921.27	858,165.07	9.35
Amortization Expense	424,957.09	525,985.73	(101,028.64)	(19.21)
Regulatory Credits	(189,735.86)	(179,631.83)	(10,104.03)	5.62
Taxes				
Federal Income	4,286,504.78	(2,638,080.39)	6,924,585.17	(262.49)
State Income	430,376.56	499,242.09	(68,865.53)	(13.79)
Deferred Federal Income - Net	(3,478,563.50)	(2,472,094.14)	(1,006,469.36)	40.71
Deferred State Income - Net	(438,703.98)	(275,696.04)	(163,007.94)	59.13
Property and Other	1,506,023.59	1,257,652.17	248,371.42	19.75
Investment Tax Credit	3,200,000.00	9,875,000.00	(6,675,000.00)	(67.59)
Loss (Gain) from Disposition of Allowances	(583,049.10)	(706,770.29)	123,721.19	(17.51)
Accretion Expense	165,157.94	155,089.06	10,068.88	6.49
Total Operating Expenses	95,121,649.89	81,859,348.46	13,262,301.43	16.20
Net Operating Income	15,813,069.14	13,114,031.98	2,699,037.16	20.58
Other Income Less Deductions				
Other Income Less Deductions	3,295,723.77	2,774,452.68	521,271.09	18.79
AFUDC - Equity	495,049.32	196,794.00	298,255.32	151.56
Total Other Income Less Deductions	3,790,773.09	2,971,246.68	819,526.41	27.58
Income Before Interest Charges	19,603,842.23	16,085,278.66	3,518,563.57	21.87
Interest on Long-term Debt	5,497,932.06	3,254,944.47	2,242,987.59	68.91
Amortization of Debt Expense - Net	60,437.12	102,776.18	(42,339.06)	(41.20)
Other Interest Expenses	248,119.42	398,346.68	(150,227.26)	(37.71)
AFUDC - Borrowed Funds	(169,108.52)	(56,568.75)	(112,539.77)	198.94
Total Interest Charges	5,637,380.08	3,699,498.58	1,937,881.50	52.38
Net Income	13,966,462.15	12,385,780.08	1,580,682.07	12.76

Kentucky Utilities Company
Comparative Statement of Income
March 31, 2008

	Year to Date			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	352,196,646.61	316,832,560.58	35,364,086.03	11.16
Total Operating Revenues	352,196,646.61	316,832,560.58	35,364,086.03	11.16
Fuel	123,134,827.26	109,120,597.37	14,014,229.89	12.84
Power Purchased	56,064,645.35	44,854,769.81	11,209,875.54	24.99
Other Operation Expenses	40,832,600.88	37,104,436.46	3,728,164.42	10.05
Maintenance	21,336,044.05	17,988,994.95	3,347,049.10	18.61
Depreciation	30,337,414.39	27,139,028.55	3,198,385.84	11.79
Amortization Expense	1,186,934.89	1,398,175.23	(211,240.34)	(15.11)
Regulatory Credits	(569,207.58)	(484,094.98)	(85,112.60)	17.58
Taxes				
Federal Income	18,577,443.82	12,861,155.67	5,716,288.15	44.45
State Income	3,178,634.08	3,976,634.80	(798,000.72)	(20.07)
Deferred Federal Income - Net	(3,478,563.50)	(2,472,094.14)	(1,006,469.36)	40.71
Deferred State Income - Net	(438,703.98)	(275,696.04)	(163,007.94)	59.13
Property and Other	4,942,855.13	4,521,474.02	421,381.11	9.32
Investment Tax Credit	3,200,000.00	9,875,000.00	(6,675,000.00)	(67.59)
Loss (Gain) from Disposition of Allowances	(583,049.10)	(706,770.29)	123,721.19	(17.51)
Accretion Expense	495,473.82	465,561.18	29,912.64	6.43
Total Operating Expenses	298,217,349.51	265,367,172.59	32,850,176.92	12.38
Net Operating Income	53,979,297.10	51,465,387.99	2,513,909.11	4.88
Other Income Less Deductions				
Other Income Less Deductions	7,272,586.59	5,538,804.25	1,733,782.34	31.30
AFUDC - Equity	1,368,920.39	534,664.81	834,255.58	156.03
Total Other Income Less Deductions	8,641,506.98	6,073,469.06	2,568,037.92	42.28
Income Before Interest Charges	62,620,804.08	57,538,857.05	5,081,947.03	8.83
Interest on Long-term Debt	16,360,731.40	11,208,882.66	5,151,848.74	45.96
Amortization of Debt Expense - Net	181,311.36	281,500.13	(100,188.77)	(35.59)
Other Interest Expenses	623,897.61	1,182,319.23	(558,421.62)	(47.23)
AFUDC - Borrowed Funds	(469,889.55)	(152,570.39)	(317,319.16)	207.98
Total Interest Charges	16,696,050.82	12,520,131.63	4,175,919.19	33.35
Net Income	45,924,753.26	45,018,725.42	906,027.84	2.01

Kentucky Utilities Company
Comparative Statement of Income
March 31, 2008

	Year Ended Current Month			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	1,307,912,985.27	1,233,755,134.28	74,157,850.99	6.01
Total Operating Revenues	1,307,912,985.27	1,233,755,134.28	74,157,850.99	6.01
Fuel	474,132,914.53	437,166,514.59	36,966,399.94	8.46
Power Purchased	179,653,481.18	181,092,526.91	(1,439,045.73)	(0.79)
Other Operation Expenses	156,651,000.78	152,442,629.67	4,208,371.11	2.76
Maintenance	88,589,243.29	73,693,258.38	14,895,984.91	20.21
Depreciation	118,462,550.55	110,117,559.75	8,344,990.80	7.58
Amortization Expense	5,209,304.62	5,279,406.98	(70,102.36)	(1.33)
Regulatory Credits	(2,186,315.94)	(2,017,641.25)	(168,674.69)	8.36
Taxes				
Federal Income	33,478,703.94	49,174,271.44	(15,695,567.50)	(31.92)
State Income	12,262,217.31	12,595,990.88	(333,773.57)	(2.65)
Deferred Federal Income - Net	(7,366,632.74)	(4,461,586.84)	(2,905,045.90)	65.11
Deferred State Income - Net	(651,073.62)	274,520.86	(925,594.48)	(337.17)
Property and Other	18,860,457.78	18,485,302.19	375,155.59	2.03
Investment Tax Credit	35,891,647.00	21,875,000.00	14,016,647.00	64.08
Loss (Gain) from Disposition of Allowances	(583,130.32)	(706,910.17)	123,779.85	(17.51)
Accretion Expense	1,891,275.36	1,776,272.82	115,002.54	6.47
Total Operating Expenses	1,114,295,643.72	1,056,787,116.21	57,508,527.51	5.44
Net Operating Income	193,617,341.55	176,968,018.07	16,649,323.48	9.41
Other Income Less Deductions				
Other Income Less Deductions	30,184,464.02	25,693,569.94	4,490,894.08	17.48
AFUDC - Equity	4,161,960.43	887,952.40	3,274,008.03	368.71
Total Other Income Less Deductions	34,346,424.45	26,581,522.34	7,764,902.11	29.21
Income Before Interest Charges	227,963,766.00	203,549,540.41	24,414,225.59	11.99
Interest on Long-term Debt	53,652,332.31	37,506,637.97	16,145,694.34	43.05
Amortization of Debt Expense - Net	753,311.75	971,463.20	(218,151.45)	(22.46)
Other Interest Expenses	6,962,645.41	4,046,192.36	2,916,453.05	72.08
AFUDC - Borrowed Funds	(1,273,125.79)	(394,144.12)	(878,981.67)	223.01
Total Interest Charges	60,095,163.68	42,130,149.41	17,965,014.27	42.64
Net Income	167,868,602.32	161,419,391.00	6,449,211.32	4.00

Kentucky Utilities Company
Analysis of Retained Earnings
March 31, 2008

Retained Earnings and Undistributed Earnings	Current Month Total Retained Earnings	Current Month Undistributed Subsidiary Earnings	Year to Date Total Retained Earnings	Year to Date Undistributed Subsidiary Earnings	Year Ended Current Month Total Retained Earnings	Year Ended Current Month Undistributed Subsidiary Earnings
Balance Beginning of Period................	1,050,005,208.32	19,650,132.80	1,016,489,982.01	21,207,068.00	898,539,154.95	17,206,358.00
Net Income for Period........................	13,966,462.15		45,924,753.26		167,868,602.32	
FIN 48 Adjustment............................	-		-		7,688.00	
Adjust for Equity in Subsidiary Earnings for Year						
-EE Inc..................................	(1,539,126.00)	1,539,126.00	(7,482,190.80)	7,482,190.80	(27,532,900.80)	27,532,900.80
Dividends Received Current Year						
-EE Inc..................................	-	-	7,500,000.00	(7,500,000.00)	23,550,000.00	(23,550,000.00)
Balance End of Period........................	1,062,432,544.47	21,189,258.80	1,062,432,544.47	21,189,258.80	1,062,432,544.47	21,189,258.80

Combined Retained Earnings	12 MONTHS 03/31/2008	12 MONTHS 03/31/2007
Retained Earnings Beginning of Period.....	915,745,512.95	753,978,648.95
Net Income..	167,868,602.32	161,419,391.00
FIN 48 Adjustment............................	7,688.00	347,473.00
Retained Earnings End of Period.............	1,083,621,803.27	915,745,512.95

Kentucky Utilities Company
Comparative Balance Sheets as of March 31, 2008 and 2007

Assets and Other Debits	This Year	Last Year
Utility Plant		
Utility Plant at Original Cost	5,099,990,520.85	4,327,327,241.76
Less Reserves for Depreciation & Amortization	1,961,946,069.74	1,870,737,319.68
Total	3,138,044,451.11	2,456,589,922.08
Investments - at Cost		
Ohio Valley Electric Corporation	250,000.00	250,000.00
Nonutility Property-Less Reserve	179,120.94	969,060.01
Investments in Subsidiary Companies	22,485,058.80	18,502,158.00
Special Funds	6,013,770.41	8,343,641.33
Other	411,140.00	426,140.00
Total	29,339,090.15	28,490,999.34
Current and Accrued Assets		
Cash	-	5,850,653.68
Special Deposits	5,840,598.36	21,102,462.74
Temporary Cash Investments	17,646.43	3,549.39
Accounts Receivable-Less Reserve	161,683,612.91	123,161,950.09
Notes Receivable from Assoc. Companies	-	-
Accounts Receivable from Assoc. Companies	1,413,499.32	17,092,375.60
Materials & Supplies-At Average Cost		
Fuel	36,893,399.79	54,727,427.91
Plant Materials & Operating Supplies	27,633,554.26	25,917,434.31
Stores Expense	6,468,774.55	6,159,824.28
Allowance Inventory	256,907.03	1,230,596.13
Prepayments	4,110,492.42	4,298,175.50
Miscellaneous Current & Accrued Assets	-	1,419,930.89
Total	244,318,485.07	260,964,380.52
Deferred Debits and Other		
Unamortized Debt Expense	7,208,953.80	6,464,290.05
Unamortized Loss on Bonds	10,064,532.95	10,528,779.85
Accumulated Deferred Income Taxes	50,537,997.37	45,723,507.74
Deferred Regulatory Assets	82,423,811.28	115,514,654.95
Other Deferred Debits	62,153,071.46	71,809,154.66
Total	212,388,366.86	250,040,387.25
Total Assets and Other Debits	3,624,090,393.19	2,996,085,689.19

Liabilities and Other Credits	This Year	Last Year
Capitalization		
Common Stock	308,139,977.56	308,139,977.56
Common Stock Expense	(321,288.87)	(321,288.87)
Paid-In Capital	115,000,000.00	15,000,000.00
Other Comprehensive Income	-	-
Retained Earnings	1,062,432,544.47	898,539,154.95
Unappropriated Undistributed Subsidiary Earnings	21,189,258.80	17,206,358.00
Total Common Equity	1,506,440,491.96	1,238,564,201.64
Preferred Stock	-	-
Pollution Control Bonds - Net of Reacquired Bonds	332,753,140.00	305,951,140.00
LT Notes Payable to Associated Companies	931,000,000.00	611,000,000.00
Total Long-Term Debt	1,263,753,140.00	916,951,140.00
Total Capitalization	2,770,193,631.96	2,155,515,341.64
Current and Accrued Liabilities		
Long-Term Debt Due in 1 Year	-	-
ST Notes Payable to Associated Companies	50,063,454.00	32,043,054.00
Notes Payable	-	-
Notes Payable to Associated Companies	-	-
Accounts Payable	146,239,569.89	117,526,072.50
Accounts Payable to Associated Companies	17,431,220.75	83,416,005.35
Customer Deposits	19,763,232.68	18,942,873.07
Taxes Accrued	23,657,749.49	16,906,290.62
Interest Accrued	12,781,886.66	9,244,178.38
Dividends Declared	-	-
Miscellaneous Current & Accrued Liabilities	12,434,972.49	12,981,964.41
Total	282,372,085.96	291,060,438.33
Deferred Credits and Other		
Accumulated Deferred Income Taxes	331,434,967.30	328,775,200.23
Investment Tax Credit	58,120,536.32	22,750,947.32
Regulatory Liabilities	37,804,173.47	36,305,679.94
Customer Advances for Construction	2,464,193.49	1,981,564.48
Asset Retirement Obligations	30,810,533.08	28,946,767.72
Other Deferred Credits	21,200,008.18	8,622,032.30
Miscellaneous Long-Term Liabilities	3,211,431.14	46,913,039.58
Accum Provision for Postretirement Benefits	86,478,832.29	75,214,677.65
Total	571,524,675.27	549,509,909.22
Total Liabilities and Other Credits	3,624,090,393.19	2,996,085,689.19

Kentucky Utilities Company
Statement of Capitalization and Short-term Debt
March 31, 2008

	Authorized Shares	Issued & Outstanding Shares	Issued & Outstanding Amount	Percent of Total Capital & ST Debt	Percent of Total Capital
Common Equity					
Common Stock - Without Par	80,000,000	37,817,878	308,139,977.56		
Common Stock Expense			(321,288.87)		
Paid-In Capital			115,000,000.00		
Retained Earnings			1,062,432,544.47		
Unappropriated Undistributed Subsidiary Earnings			21,189,258.80		
Total Common Equity			1,506,440,491.96	53.41	54.38
Long-term Debt					
Pollution Control Bonds					
Mercer County 2000 Series A due 05/01/23 Var%			12,900,000.00		
Carroll County 2002 Series A due 02/01/32 Var%			20,930,000.00		
Carroll County 2002 Series B due 02/01/32 Var%			2,400,000.00		
Muhlenburg County 2002 Series A due 02/01/32 Var%			2,400,000.00		
Mercer County 2002 Series A due 02/01/32 Var%			7,400,000.00		
Carroll County 2002 Series C due 10/01/32 Var%			96,000,000.00		
Carroll County 2004 Series A due 10/01/34 Var%			50,000,000.00		
Carroll County 2005 Series A due 06/01/35 Var%			13,266,950.00		
Carroll County 2005 Series B due 06/01/35 Var%			13,266,950.00		
Carroll County 2006 Series A due 06/01/36 Var%			16,693,620.00		
Carroll County 2006 Series C due 06/01/36 Var%			16,693,620.00		
Carroll County 2006 Series B due 10/01/34 Var%			54,000,000.00		
Carroll County 2007 Series A due 02/01/26 Var%			17,875,000.00		
Trimble County 2007 Series A due 03/01/37 Var%			8,927,000.00		
Less Reacquired Bonds			-		
Total Pollution Control Bonds			332,753,140.00	11.80	12.01
Long-term Notes Payable to Associated Companies			931,000,000.00	33.01	33.61
Total Capitalization			2,770,193,631.96	98.22	100.00
Short-term Notes Payable to Associated Companies			50,063,454.00	1.78	
Total Capitalization and Short-term Debt			2,820,257,085.96	100.00	

Kentucky Utilities Company
Trial Balance
March 31, 2008

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Utility Plant		
At Original Cost	5,099,990,520.85	5,099,990,520.85
Reserves for Depreciation and Amortization		(1,961,946,069.74)
Depreciation	(1,943,936,542.71)	
Amortization of Plant	(18,009,527.03)	
Investments - at Cost		29,339,090.15
Nonutility Property	179,120.94	
Investments in Subsidiary Companies	22,485,058.80	
Ohio Valley Electric Corporation	250,000.00	
Other	411,140.00	
OMU - Interest on Reserve, New	1,289,067.99	
OMU - R&I on Maintenance Reserve	600,000.00	
OMU - R&I on Additions and Replacements	120,000.00	
OMU - R&I on Operations	538,067.36	
OMU - R&I Interest on Purchase Power	336,637.79	
OMU - Purchase Power, Coal Reserve	3,129,997.27	
Special Deposits		5,840,598.36
Restricted Cash	5,840,399.47	
MAN Margin Call	198.89	
Temporary Cash Investments	17,646.43	17,646.43
Accounts Receivable - Less Reserve		161,683,612.91
Working Funds	36,317.13	
Customers - Active	90,371,191.67	
Wholesale Sales	4,910,070.27	
Transmission Sales	560,211.43	
Unbilled Revenues	48,987,000.00	
Employee Computer Loans	70,459.81	
Officers and Employees	2,000.00	
Damage Claims	162,021.40	
Insurance Claims	(105.69)	
IMEA	5,941,329.65	
IMPA	6,313,888.29	
Other	6,644,783.02	
Reserves for Uncollectible Accounts		
Utility Customers		
Reserve	(897,292.00)	
Accrual	(555,238.76)	
Charged Off	797,184.38	
Recoveries	(246,249.91)	
A/R Miscellaneous	(27,519.71)	
LEM Reserve	(1,411,456.82)	
Interest and Dividends Receivable	25,018.75	
Accounts Receivable from Associated Companies		1,413,499.32
E.ON US Services/Louisville Gas & Electric Company	1,413,499.32	

Kentucky Utilities Company
Trial Balance
March 31, 2008

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Fuel		36,893,399.79
Coal 670,383.72 Tons @ $46.58; MMBtu 15,825,913.42 @ 197.32¢	31,227,661.36	
Fuel Oil 2,492,096 Gallons @ 222.26¢	5,538,795.66	
Gas Pipeline 12,019.60 Mcf @ $10.56	126,942.77	
Plant Materials and Operating Supplies		27,633,554.26
Regular Materials and Supplies	27,416,037.61	
Limestone 28,957.36 Tons @ $7.51	217,516.65	
Stores Expense		6,468,774.55
Stores Expense Undistributed	6,468,774.55	
Allowance Inventory	256,907.03	256,907.03
Prepayments		4,110,492.42
Insurance	2,132,941.84	
Taxes	447,629.14	
Risk Management and Workers Compensation	75,000.00	
Vehicle License	79,960.00	
Other	1,374,961.44	
Unamortized Debt Expense		7,208,953.80
Mercer County 2000 Series A due 05/01/23 Var%	260,793.29	
Carroll County 2002 Series A due 02/01/32 Var%	97,734.34	
Carroll County 2002 Series B due 02/01/32 Var%	67,939.62	
Muhlenburg County 2002 Series A due 02/01/32 Var%	75,632.11	
Mercer County 2002 Series A due 02/01/32 Var%	27,263.40	
Carroll County 2002 Series C due 10/01/32 Var%	1,781,277.04	
Carroll County 2004 Series A due 10/01/34 Var%	1,061,998.59	
Carroll County 2005 Series A due 06/01/35 Var%	480,697.30	
Carroll County 2005 Series B due 06/01/35 Var%	488,550.04	
Carroll County 2006 Series A due 06/01/36 Var%	582,820.05	
Carroll County 2006 Series C due 06/01/36 Var%	580,263.66	
Carroll County 2006 Series B due 10/01/34 Var%	992,700.16	
Carroll County 2007 Series A due 02/01/26 Var%	399,150.53	
Trimble County 2007 Series A due 03/01/37 Var%	312,133.67	
Unamortized Loss on Bonds		10,064,532.95
Refinanced and Called Bonds	10,064,532.95	
Accumulated Deferred Income Taxes		50,537,997.37
Federal	42,693,735.59	
State	7,844,261.78	
Deferred Regulatory Assets		82,423,811.28
Asset Retirement Obligations	24,685,475.53	
FERC Jurisdictional Pension Expense	2,571,069.56	
SFAS 109 - Deferred Taxes	7,156,565.00	
Pension and Postretirement Benefits	28,091,683.11	
Ice Storm Expenses	989,487.00	
MISO Exit Fee	18,929,531.08	
Other Deferred Debits	62,153,071.46	62,153,071.46
Total Assets and Other Debits	3,624,090,393.19	3,624,090,393.19

Kentucky Utilities Company
Trial Balance
March 31, 2008

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Common Equity		1,506,440,491.96
Common Stock	308,139,977 56	
Common Stock Expense	(321,288 87)	
Paid-In Capital	115,000,000.00	
Other Comprehensive Income	-	
Retained Earnings	1,062,432,544 47	
Unappropriated Undistributed Subsidiary Earnings	21,189,258 80	
Bonds		332,753,140 00
Pollution Control Bonds - Net of Reacquired Bonds	332,753,140 00	
Long-term Notes Payable to Associated Companies	931,000,000 00	931,000,000 00
Short-term Notes Payable to Associated Companies		50,063,454 00
Money Pool Payable	50,063,454 00	
Accounts Payable		146,239,569 89
Regular	139,931,829 60	
Salaries and Wages Accrued	3,059,737 57	
Employee Withholdings Payable	22,102 04	
Tax Collections - Payable	3,225,900 68	
Accounts Payable to Associated Companies		17,431,220 75
E ON US Services/Louisville Gas & Electric Company	17,431,220 75	
Customers' Deposits	19,763,232 68	19,763,232 68
Taxes Accrued	23,657,749 49	23,657,749 49
Interest Accrued		12,781,886 66
Mercer County 2000 Series A due 05/01/23 Var%	14,109 38	
Carroll County 2002 Series A due 02/01/32 Var%	32,939 03	
Carroll County 2002 Series B due 02/01/32 Var%	3,777 03	
Muhlenburg County 2002 Series A due 02/01/32 Var%	3,777 03	
Mercer County 2002 Series A due 02/01/32 Var%	11,645 88	
Carroll County 2002 Series C due 10/01/32 Var%	125,597 34	
Carroll County 2004 Series A due 10/01/34 Var%	278,611 11	
Carroll County 2005 Series A due 06/01/35 Var%	7,186 25	
Carroll County 2005 Series B due 06/01/35 Var%	7,186 25	
Carroll County 2006 Series A due 06/01/36 Var%	40,203 81	
Carroll County 2006 Series C due 06/01/36 Var%	93,808 84	
Carroll County 2006 Series B due 10/01/34 Var%	24,300 00	
Carroll County 2007 Series A due 02/01/26 Var%	9,930 54	
Trimble County 2007 Series A due 03/01/37 Var%	4,959 42	
Fidelia	12,022,521 29	
Customers' Deposits	101,333 46	

Kentucky Utilities Company
Trial Balance
March 31, 2008

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheets
Miscellaneous Current and Accrued Liabilities		12,434,972 49
Customer Overpayments	2,168,297 02	
UK Emission Research Grant	250,000 00	
Vacation Pay Accrued	5,402,102 33	
Derivative Liabilities - Non-Hedging	0 03	
Franchise Fee Payable	4,627,289 82	
Other	(12,716 71)	
Accumulated Deferred Income Taxes		331,434,967 30
Federal	285,707,654 44	
State	45,727,312 86	
Investment Tax Credit		58,120,536 32
Job Development Credit	353,889 32	
Advance Coal Credit	57,766,647 00	
Regulatory Liabilities		37,804,173 47
Asset Retirement Obligations	2,233,909 39	
Deferred Taxes - SFAS 109	28,035,897 50	
Spare Parts	1,310,009 58	
MISO Schedule 10 Charges	6,224,357 00	
Customers' Advances for Construction		2,464,193 49
Line Extensions	1,808,347 67	
Outdoor Lighting Deposits	4,470 00	
Other	651,375 82	
Asset Retirement Obligations	30,810,533 08	30,810,533 08
Other Deferred Credits	21,200,008 18	21,200,008 18
Other Deferred Credits		
Miscellaneous Long-term Liabilities		3,211,431 14
Workers' Compensation	3,211,431 14	
Accumulated Provision for Benefits		86,478,832 29
Pension Payable	20,163,191 00	
Postretirement Benefits - SFAS 106	66,969,496 29	
Medicare Subsidy - SFAS 106	(5,720,256 00)	
Post Employment Benefits Payable	5,349,374 00	
Post Employment Medicare Subsidy	(282,973 00)	
Total Liabilities and Other Credits	3,624,090,393.19	3,624,090,393.19

Kentucky Utilities Company
Statement of Cash Flows
March 31, 2008

	Year to Date	
	2008	2007
Cash Flows from Operating Activities		
Net income	45,924,753.26	45,018,725.42
Items not requiring (providing) cash currently:		
Depreciation	30,337,414.39	27,139,028.55
Amortization	1,186,934.89	1,398,175.23
Deferred income taxes - net	(1,646,295.23)	(1,096,124.07)
Investment tax credits deferred - net	3,121,424.00	9,727,172.00
Other	560,510.61	1,544,577.66
Change in receivables	25,653,195.51	32,961,475.86
Change in inventory	4,599,733.25	9,754,760.48
Change in allowance inventory	125,987.08	439,941.70
Change in payables and accrued expenses	5,904,155.49	38,301,234.40
Change in other regulatory assets	(258,560.66)	(497,812.01)
Change in other regulatory liabilities	83,137.39	366,306.46
Change in other deferred debits	6,919,906.91	(7,350,338.06)
Change in other deferred credits	7,763,864.58	1,338,890.34
Other	(3,456,887.67)	1,226,217.42
Less: Allowance for other funds used during construction	(1,838,809.94)	(687,235.20)
Less: Undistributed earnings of subsidiary company	17,809.20	(958,071.00)
Net cash provided (used) by operating activities	124,998,273.06	158,626,925.18
Cash Flows from Investing Activities		
Gross additions to utility plant - construction expenditures	(184,435,215.96)	(166,374,879.66)
Less: Allowance for other funds used during construction	1,838,809.94	687,235.20
Gain on disposal of property	1,175.00	-
Change in other long-term debt	-	(433,540.00)
Change in long-term investments	287,136.27	(2,638,844.40)
Change in restricted cash	5,144,957.42	1,705,059.89
Net cash provided (used) by investing activities	(177,163,137.33)	(167,054,968.97)
Cash Flows from Financing Activities		
Proceeds from issuance of long-term debt	-	180,969,742.38
Net increase in short-term debt	26,844,000.00	-
Payments for retirement of long-term debt	-	(107,000,000.00)
Net decrease in short-term debt	-	(65,000,000.00)
Contributed capital	25,000,000.00	
Dividends on common stock	-	
Net cash provided (used) by financing activities	51,844,000.00	8,969,742.38
Net Increase (Decrease) in Cash and Cash Equivalents	(320,864.27)	541,698.59
Cash and Cash Equivalents at Beginning of Period	338,510.70	5,313,043.20
Cash and Cash Equivalents at End of Period	17,646.43	5,854,741.79

Kentucky Utilities Company
Analysis of Interest Charges
March 31, 2008

	Current Month		Year to Date		Year Ended Current Month	
	This Year	Last Year	This Year	Last Year	This Year	Last Year
Interest on Long-term Debt						
First Mortgage Bonds						
Series P 7.92%........	-	-	-	1,574,100.00	-	4,722,300.00
Loan Agreement - Pollution Control Bonds						
Series 10 (Variable%)	-	(0.01)	-	981,941.93	-	2,491,722.76
Mercer County 2000 Series A due 05/01/23 Var%........	95,630.21	-	204,384.37	-	204,384.37	357,998.33
Carroll County 2002 Series A due 02/01/32 Var%........	21,273.11	67,193.90	119,627.44	192,246.36	706,676.56	765,447.41
Carroll County 2002 Series B due 02/01/32 Var%........	2,439.34	7,704.99	13,717.43	22,044.50	81,033.12	87,772.28
Muhlenburg County 2002 Series A due 02/01/32 Var%........	2,439.34	7,704.99	13,717.43	22,044.50	81,033.12	87,772.26
Mercer County 2002 Series A due 02/01/32 Var%........	7,521.31	23,757.04	42,295.41	67,970.51	249,852.18	270,631.17
Carroll County 2002 Series C due 10/01/32 Var%........	342,893.33	293,466.67	1,041,210.66	861,199.99	3,956,005.33	3,538,119.97
Carroll County 2004 Series A due 10/01/34 Var%........	260,173.61	155,451.39	647,083.33	449,618.06	2,136,944.45	1,806,888.86
Carroll County 2005 Series A due 06/01/35 Var%........	46,482.97	41,067.85	142,463.09	117,905.62	533,285.32	477,167.97
Carroll County 2005 Series B due 06/01/35 Var%........	46,467.49	40,946.97	141,157.77	118,153.61	524,029.03	477,996.36
Carroll County 2006 Series A due 06/01/36 Var%........	62,137.36	52,311.31	207,047.26	152,468.40	709,641.16	432,269.70
Carroll County 2006 Series C due 06/01/36 Var%........	118,063.31	52,467.12	268,036.94	152,698.40	769,865.21	195,591.73
Carroll County 2006 Series B due 10/01/34 Var%........	200,325.00	165,923.84	618,450.00	197,880.00	2,215,200.00	197,880.00
Carroll County 2007 Series A due 02/01/26 Var%........	32,769.53	-	106,729.73	-	328,999.62	-
Trimble County 2007 Series A due 03/01/37 Var%........	65,616.14	-	213,710.51	-	658,961.87	-
Interest Rate Swaps	-	-	-	(86,856.15)	-	(266,637.42)
Marked to Market	-	-	-	(328,589.00)	-	(909,031.00)
Fidelia........	4,193,700.01	2,306,574.99	12,581,100.03	6,593,738.34	40,810,008.23	22,652,430.00
Hardin Promissory Note........	-	40,373.42	-	120,317.59	(313,587.26)	120,317.59
Total........	5,497,932.06	3,254,944.47	16,360,731.40	11,208,882.66	53,652,332.31	37,506,637.97
Amortization of Debt Expense - Net						
Amortization of Debt Expense........	24,059.12	47,925.18	72,177.36	118,047.13	289,064.85	306,572.33
Amortization of Loss on Reacquired Debt........	36,378.00	54,851.00	109,134.00	163,453.00	464,246.90	664,890.87
Total........	60,437.12	102,776.18	181,311.36	281,500.13	753,311.75	971,463.20
Other Interest Charges						
Customers' Deposits........	128,287.88	95,587.91	306,673.59	263,087.42	1,145,599.57	1,018,528.32
Other Tax Deficiencies........	-	456.08	-	456.08	(3,424.00)	456.08
Interest on Debt to Associated Companies	119,831.54	302,005.99	317,224.02	918,479.03	5,820,465.25	2,919,520.88
AFUDC Borrowed Funds	(169,108.52)	(56,568.75)	(469,889.55)	(152,570.39)	(1,273,125.79)	(394,144.12)
Other Interest Expense........	-	296.70	-	296.70	4.59	107,687.08
Total........	79,010.90	341,777.93	154,008.06	1,029,748.84	5,689,519.62	3,652,048.24
Total Interest........	5,637,380.08	3,699,498.58	16,696,050.82	12,520,131.63	60,095,163.68	42,130,149.41

Kentucky Utilities Company
Analysis of Taxes Charged
March 31, 2008

Kind of Taxes	Current Month This Year	Current Month Last Year	Year to Date This Year	Year to Date Last Year
Taxes Charged to Accounts 408.1 and 409.1				
Property Taxes	1,025,101.01	573,509.00	3,075,303.03	2,575,509.00
Unemployment	15,982.03	17,075.47	78,341.41	88,756.35
FICA	312,966.53	525,308.11	1,327,835.82	1,427,890.02
Public Service Commission Fee	149,209.73	138,724.62	447,629.19	416,173.86
Federal Income	4,286,504.78	(2,638,080.39)	18,577,443.82	12,861,155.67
State Income	430,376.56	499,242.09	3,178,634.08	3,976,634.80
Miscellaneous	2,764.29	3,034.97	13,745.68	13,144.79
Total Charged to Operating Expense	6,222,904.93	(881,186.13)	26,698,933.03	21,359,264.49
Taxes Charged to Other Accounts	2,132,097.22	(2,573,609.93)	4,813,241.79	(910,886.80)
Taxes Accrued on Intercompany Accounts	(173,008.94)	(212,702.61)	(538,778.96)	(611,111.85)
Total Taxes Charged	8,181,993.21	(3,667,498.67)	30,973,395.86	19,837,265.84

Analysis of Taxes Accrued - Account 236

Kind of Taxes	Taxes Accrued At Beginning Of Year	Accruals To Date This Year	Payments To Date This Year	Taxes Accrued At End Of Month
Property Taxes	6,455,854.42	3,180,249.00	5,720,492.74	3,915,610.68
Unemployment	36,767.25	63,129.02	1,137.63	98,758.64
FICA	497,417.13	1,180,767.97	1,581,740.09	96,445.01
Federal Income	(5,097,779.62)	23,677,495.13	3,630,655.62	14,949,059.89
State Income	1,103,849.76	2,027,422.34	(1,103,849.76)	4,235,121.86
Kentucky Sales and Use Tax	618,307.69	784,992.85	1,062,185.62	341,114.92
Miscellaneous	18,792.54	59,339.55	56,493.60	21,638.49
Totals	3,633,209.17	30,973,395.86	10,948,855.54	23,657,749.49

Kentucky Utilities Company
Summary of Utility Plant
March 31, 2008

Utility Plant	Net Balance First of Year	Additions	Retirements	Transfer/ Adjustment	Net Additions	Balance to Date
Plant In Service						
Intangibles	24,723,054.27	619,458.80	-	-	619,458.80	25,342,513.07
Steam Production	1,678,193,956.12	2,256,959.17	(362,322.43)	-	1,894,636.74	1,680,088,592.86
Hydro Production	10,974,095.24	62,158.95	(3,022.00)	-	59,136.95	11,033,232.19
Other Production	497,590,724.76	-	-	-	-	497,590,724.76
Transmission	520,264,996.06	1,660,789.58	(147,450.53)	-	1,513,339.05	521,778,335.11
Distribution	1,038,231,358.94	42,668,778.30	(30,140.67)	-	42,638,637.63	1,080,869,996.57
General	79,026,529.12	1,049,951.69	(172.34)	-	1,049,779.35	80,076,308.47
Transportation	18,955,797.89	(0.08)	-	-	(0.08)	18,955,797.81
Total Electric Plant In Service	3,867,960,512.40	48,318,096.41	(543,107.97)	-	47,774,988.44	3,915,735,500.84
Plant Purchased or Sold	-				-	-
Total Plant	3,867,960,512.40	48,318,096.41	(543,107.97)	-	47,774,988.44	3,915,735,500.84
Construction Work in Progress	1,071,388,625.97	112,866,394.04	-	-	112,866,394.04	1,184,255,020.01
Total Utility Plant at Original Cost	4,939,349,138.37	161,184,490.45	(543,107.97)	-	160,641,382.48	5,099,990,520.85

Reserve for Depreciation of Utility	Net Balance First of Year	Accrual	Retirements	Transfer/ Adjustment	RWIP Transfers Out	Cost of Removal	Salvage	Other Credits	Balance to Date
Life Reserves									
Steam Production	(862,613,622.59)	(11,227,268.16)	362,322.43	-	-	-	-	-	(873,478,568.32)
Hydro Production	(7,502,640.82)	(33,162.52)	3,022.00	-	-	-	-	-	(7,532,781.34)
Other Production	(115,446,056.48)	(4,222,084.23)	-	-	-	-	-	-	(119,668,140.71)
Transmission	(202,816,756.20)	(2,214,766.98)	147,450.53	-	-	-	-	(76,966.41)	(204,961,039.06)
Distribution	(359,039,785.75)	(6,157,149.72)	30,140.67	-	-	-	-	(56,231.97)	(365,223,026.77)
General	(30,072,704.19)	(1,150,663.10)	172.34	-	-	-	-	-	(31,223,194.95)
Transportation	(18,834,788.98)	(10,026.87)	-	-	-	-	-	-	(18,844,815.85)
Total Life Reserve For Depreciation Of Utility Plant In Service	(1,596,326,355.01)	(25,015,121.58)	543,107.97	-	-	-	-	(133,198.38)	(1,620,931,567.00)
Salvage Reserves									
Steam Production	(65,099,820.34)	(1,550,735.98)	-	-	-	238,647.97	-	-	(66,411,908.35)
Hydro Production	(741,054.42)	(10,565.21)	-	-	-	6,931.47	-	-	(744,688.16)
Other Production	(1,081,369.18)	-	-	-	-	-	-	-	(1,081,369.18)
Transmission	(115,529,459.07)	(1,599,808.41)	-	-	-	409,394.88	(5,819.89)	-	(116,725,692.49)
Distribution	(140,499,986.35)	(2,314,081.36)	-	-	-	10,904.14	(38,100.23)	-	(142,841,263.80)
General	244,224.85	6,383.10	-	-	-	30,318.48	-	-	280,926.43
Total Salvage Reserve For Depreciation Of Utility Plant In Service	(322,707,464.51)	(5,468,807.86)	-	-	-	696,196.94	(43,920.12)	-	(327,523,995.55)
Total Reserves									
Steam Production	(927,713,442.93)	(12,778,004.14)	362,322.43	-	-	238,647.97	-	-	(939,890,476.67)
Hydro Production	(8,243,695.24)	(43,727.73)	3,022.00	-	-	6,931.47	-	-	(8,277,469.50)
Other Production	(116,527,425.66)	(4,222,084.23)	-	-	-	-	-	-	(120,749,509.89)
Transmission	(318,346,215.27)	(3,814,575.39)	147,450.53	-	-	409,394.88	(5,819.89)	(76,966.41)	(321,686,731.55)
Distribution	(499,539,772.10)	(8,471,231.08)	30,140.67	-	-	10,904.14	(38,100.23)	(56,231.97)	(508,064,290.57)
General	(29,828,479.34)	(1,144,280.00)	172.34	-	-	30,318.48	-	-	(30,942,268.52)
Transportation	(18,834,788.98)	(10,026.87)	-	-	-	-	-	-	(18,844,815.85)
Total Life Reserve For Depreciation Of Utility Plant In Service	(1,919,033,819.52)	(30,483,929.44)	543,107.97	-	-	696,196.94	(43,920.12)	(133,198.38)	(1,948,455,562.55)
Retirement of Work in Progress	4,401,887.42	-	-	-	(519,078.44)	1,858,109.83	(134,307.35)	(1,087,591.63)	4,519,019.83
Year to Date Activity	(1,914,631,932.09)	(30,483,929.44)	543,107.97	-	(519,078.44)	2,554,306.77	(178,227.47)	(1,220,790.01)	(1,943,936,542.71)
Intangibles	(16,822,592.14)	(1,186,934.89)	-	-	-	-	-	-	(18,009,527.03)
Leaseholds	-	-	-	-	-	-	-	-	-
Total Reserve For Depreciation and Amortization - Utility Plant in Service	(1,931,454,524.23)	(31,670,864.33)	543,107.97	-	(519,078.44)	2,554,306.77	(178,227.47)	(1,220,790.01)	(1,961,946,069.74)
Utility Plant at Original Cost Less Reserve For Depreciation and Amortization	3,007,894,614.14								3,138,044,451.11

KU Monthly Report to KPSC – February 29, 2008

KENTUCKY UTILITIES COMPANY

Financial Reports

February 29, 2008

Prepared by Regulatory Accounting and Reporting

Kentucky Utilities Company
Comparative Statement of Income
February 29, 2008

	Current Month			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	117,178,359.45	111,917,836.19	5,260,523.26	4.70
Total Operating Revenues	117,178,359.45	111,917,836.19	5,260,523.26	4.70
Operating Expenses				
Fuel	40,972,369.29	41,689,341.90	(716,972.61)	(1.72)
Power Purchased	19,059,494.48	13,970,549.06	5,088,945.42	36.43
Other Operation Expenses	14,231,017.54	11,560,811.50	2,670,206.04	23.10
Maintenance	8,543,312.31	4,848,048.25	3,695,264.06	76.22
Depreciation	10,005,955.38	9,097,811.78	908,143.60	9.98
Amortization Expense	375,830.15	437,552.26	(61,722.11)	(14.11)
Regulatory Credits	(189,735.86)	(179,942.34)	(9,793.52)	5.44
Taxes				
Federal Income	-	-	-	-
State Income	-	-	-	-
Deferred Federal Income - Net	-	-	-	-
Deferred State Income - Net	-	-	-	-
Federal Income - Estimated	5,518,905.15	7,540,332.33	(2,021,427.18)	(26.81)
State Income - Estimated	1,061,327.92	1,691,741.23	(630,413.31)	(37.26)
Property and Other	1,769,591.35	1,638,881.23	130,710.12	7.98
Investment Tax Credit	-	-	-	-
Loss (Gain) from Disposition of Allowances	-	-	-	-
Accretion Expense	165,157.94	155,383.06	9,774.88	6.29
Total Operating Expenses	101,513,225.65	92,450,510.26	9,062,715.39	9.80
Net Operating Income	15,665,133.80	19,467,325.93	(3,802,192.13)	(19.53)
Other Income Less Deductions				
Other Income Less Deductions	2,191,981.87	2,130,687.14	61,294.73	2.88
AFUDC - Equity	473,622.29	174,221.09	299,401.20	171.85
Total Other Income Less Deductions	2,665,604.16	2,304,908.23	360,695.93	15.65
Income Before Interest Charges	18,330,737.96	21,772,234.16	(3,441,496.20)	(15.81)
Interest on Long Term Debt	5,356,710.38	4,711,775.48	644,934.90	13.69
Amortization of Debt Expense - Net	60,437.12	102,166.95	(41,729.83)	(40.84)
Other Interest Expenses	172,582.16	354,217.89	(181,635.73)	(51.28)
AFUDC - Borrowed Funds	(161,751.50)	(50,067.66)	(111,683.84)	223.07
Total Interest Charges	5,427,978.16	5,118,092.66	309,885.50	6.05
Net Income	12,902,759.80	16,654,141.50	(3,751,381.70)	(22.53)

Kentucky Utilities Company
Comparative Statement of Income
February 29, 2008

	Year to Date			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	241,261,927.58	221,859,180.14	19,402,747.44	8.75
Total Operating Revenues	241,261,927.58	221,859,180.14	19,402,747.44	8.75
Operating Expenses				
Fuel	84,663,728.86	80,296,116.73	4,367,612.13	5.44
Power Purchased	37,195,413.51	29,684,873.74	7,510,539.77	25.30
Other Operation Expenses	26,284,205.81	23,550,136.04	2,734,069.77	11.61
Maintenance	13,459,173.33	8,893,941.25	4,565,232.08	51.33
Depreciation	20,304,328.05	17,964,107.28	2,340,220.77	13.03
Amortization Expense	761,977.80	872,189.50	(110,211.70)	(12.64)
Regulatory Credits	(379,471.72)	(304,463.15)	(75,008.57)	24.64
Taxes				
Federal Income	-	-	-	-
State Income	-	-	-	-
Deferred Federal Income - Net	-	-	-	-
Deferred State Income - Net	-	-	-	-
Federal Income - Estimated	14,290,939.04	15,499,236.06	(1,208,297.02)	(7.80)
State Income - Estimated	2,748,257.52	3,477,392.71	(729,135.19)	(20.97)
Property and Other	3,436,831.54	3,263,821.85	173,009.69	5.30
Investment Tax Credit	-	-	-	-
Loss (Gain) from Disposition of Allowances	-	-	-	-
Accretion Expense	330,315.88	310,472.12	19,843.76	6.39
Total Operating Expenses	203,095,699.62	183,507,824.13	19,587,875.49	10.67
Net Operating Income	38,166,227.96	38,351,356.01	(185,128.05)	(0.48)
Other Income Less Deductions				
Other Income Less Deductions	3,976,862.82	2,764,351.57	1,212,511.25	43.86
AFUDC - Equity	873,871.07	337,870.81	536,000.26	158.64
Total Other Income Less Deductions	4,850,733.89	3,102,222.38	1,748,511.51	56.36
Income Before Interest Charges	43,016,961.85	41,453,578.39	1,563,383.46	3.77
Interest on Long Term Debt	10,862,799.34	7,953,938.19	2,908,861.15	36.57
Amortization of Debt Expense - Net	120,874.24	178,723.95	(57,849.71)	(32.37)
Other Interest Expenses	375,778.19	783,972.55	(408,194.36)	(52.07)
AFUDC - Borrowed Funds	(300,781.03)	(96,001.64)	(204,779.39)	213.31
Total Interest Charges	11,058,670.74	8,820,633.05	2,238,037.69	25.37
Net Income	31,958,291.11	32,632,945.34	(674,654.23)	(2.07)

Kentucky Utilities Company
Comparative Statement of Income
February 29, 2008

	Year Ended Current Month			
	This Year Amount	Last Year Amount	Increase or Decrease Amount	%
Electric Operating Revenues	1,291,951,646.68	1,236,770,972.76	55,180,673.92	4.46
Total Operating Revenues	1,291,951,646.68	1,236,770,972.76	55,180,673.92	4.46
Operating Expenses				
Fuel	464,486,296.77	440,770,467.32	23,715,829.45	5.38
Power Purchased	175,954,145.41	181,214,754.83	(5,260,609.42)	(2.90)
Other Operation Expenses	155,656,906.13	157,482,807.55	(1,825,901.42)	(1.16)
Maintenance	89,807,426.27	71,521,329.62	18,286,096.65	25.57
Depreciation	117,604,385.48	110,093,567.02	7,510,818.46	6.82
Amortization Expense	5,310,333.26	5,147,242.41	163,090.85	3.17
Regulatory Credits	(2,176,211.91)	(2,023,594.99)	(152,616.92)	7.54
Taxes				
Federal Income	27,762,415.79	48,696,525.01	(20,934,109.22)	(42.99)
State Income	13,060,218.03	11,375,571.97	1,684,646.06	14.81
Deferred Federal Income - Net	(6,360,163.38)	(204,370.34)	(6,155,793.04)	3,012.08
Deferred State Income - Net	(488,065.68)	875,065.43	(1,363,131.11)	(155.77)
Federal Income - Estimated	(1,208,297.02)	4,934,097.51	(6,142,394.53)	(124.49)
State Income - Estimated	(729,135.19)	1,107,009.05	(1,836,144.24)	(165.87)
Property and Other	18,612,086.36	18,777,987.18	(165,900.82)	(0.88)
Investment Tax Credit	42,566,647.00	12,000,000.00	30,566,647.00	254.72
Loss (Gain) from Disposition of Allowances	(706,851.51)	(1,283,929.13)	577,077.62	(44.95)
Accretion Expense	1,881,206.48	1,782,100.63	99,105.85	5.56
Total Operating Expenses	1,101,033,342.29	1,062,266,631.07	38,766,711.22	3.65
Net Operating Income	190,918,304.39	174,504,341.69	16,413,962.70	9.41
Other Income Less Deductions				
Other Income Less Deductions	29,663,192.93	23,701,439.21	5,961,753.72	25.15
AFUDC - Equity	3,863,705.11	703,345.92	3,160,359.19	449.33
Total Other Income Less Deductions	33,526,898.04	24,404,785.13	9,122,112.91	37.38
Income Before Interest Charges	224,445,202.43	198,909,126.82	25,536,075.61	12.84
Interest on Long Term Debt	51,409,344.72	36,758,291.72	14,651,053.00	39.86
Amortization of Debt Expense - Net	795,650.81	951,233.02	(155,582.21)	(16.36)
Other Interest Expenses	7,112,872.67	4,080,662.23	3,032,210.44	74.31
AFUDC - Borrowed Funds	(1,160,586.02)	(345,912.02)	(814,674.00)	235.51
Total Interest Charges	58,157,282.18	41,444,274.95	16,713,007.23	40.33
Net Income	166,287,920.25	157,464,851.87	8,823,068.38	5.60

Kentucky Utilities Company
Analysis of Retained Earnings
February 29, 2008

Retained Earnings and Undistributed Earnings	Current Month: Total Retained Earnings	Current Month: Undistributed Subsidiary Earnings	Year to Date: Total Retained Earnings	Year to Date: Undistributed Subsidiary Earnings	Year Ended Current Month: Total Retained Earnings	Year Ended Current Month: Undistributed Subsidiary Earnings
Balance Beginning of Period................	1,032,360,104.32	24,392,477.00	1,016,489,982.01	21,207,068.00	882,080,138.87	20,932,121.00
Net Income for Period........................	12,902,759.80		31,958,291.11		166,287,920.25	
FIN 48 Adjustment............................	-		-		355,161.00	
Adjust for Equity in Subsidiary Earnings for Year -EE Inc....................................	(2,757,655.80)	2,757,655.80	(5,943,064.80)	5,943,064.80	(27,618,011.80)	27,618,011.80
Dividends Rec'd Current Year -EE Inc....................................	7,500,000.00	(7,500,000.00)	7,500,000.00	(7,500,000.00)	28,900,000.00	(28,900,000.00)
Balance End of Period.........................	1,050,005,208.32	19,650,132.80	1,050,005,208.32	19,650,132.80	1,050,005,208.32	19,650,132.80

Combined Retained Earnings	12 MONTHS 02/29/08	12 MONTHS 02/28/2007
Retained Earnings Beginning of Period.....	903,012,259.87	745,547,408.00
Add Net Income..................................	166,287,920.25	157,464,851.87
FIN 48 Adjustment............................	355,161.00	-
Retained Earnings End of Period............	1,069,655,341.12	903,012,259.87

Kentucky Utilities Company
Comparative Balance Sheets as of February 29, 2008 and February 28, 2007

ASSETS AND OTHER DEBITS	This Year	Last Year
Utility Plant		
Utility Plant at Original Cost	5,037,085,170.98	4,246,549,101.68
Less Reserves for Depreciation & Amortization	1,951,297,869.84	1,867,471,682.84
Total	3,085,787,301.14	2,379,077,418.84
Investments - at Cost		
Ohio Valley Electric Corporation	250,000.00	250,000.00
Nonutility Property-Less Reserve	179,120.94	969,094.21
Investments in Subsidiary Companies	20,945,932.80	22,227,921.00
Special Funds	5,980,884.83	9,224,615.21
Other	411,140.00	426,140.00
Total	27,767,078.57	33,097,770.42
Current and Accrued Assets		
Cash	3,937,165.05	6,842,983.79
Special Deposits	6,135,444.77	21,895,291.61
Temporary Cash Investments	17,602.44	3,534.20
Accounts Receivable-Less Reserve	171,427,728.01	133,477,567.14
Notes Receivable from Assoc. Companies	-	-
Accounts Receivable from Assoc Companies	57,285.73	12,237,624.23
Materials & Supplies-At Average Cost		
Fuel	40,174,765.68	49,234,107.38
Plant Materials & Operating Supplies	27,811,764.20	25,944,875.30
Stores Expense	6,350,194.13	6,166,855.79
Allowance Inventory	299,115.23	1,357,513.58
Prepayments	4,790,668.98	4,944,996.90
Miscellaneous Current & Accrued Assets	12,813.18	923,672.46
Total	261,014,547.40	263,029,022.38
Deferred Debits and Other		
Unamortized Debt Expense	7,233,012.92	6,374,767.12
Unamortized Loss on Bonds	10,100,910.95	10,583,630.85
Accumulated Deferred Income Taxes	50,753,515.51	46,004,036.65
Deferred Regulatory Assets	82,479,591.11	115,237,098.56
Other Deferred Debits	59,206,280.54	68,551,268.78
Total	209,773,311.03	246,750,801.96
Total Assets and Other Debits	3,584,342,238.14	2,921,955,013.60

LIABILITIES AND OTHER CREDITS	This Year	Last Year
Capitalization		
Common Stock	308,139,977.56	308,139,977.56
Common Stock Expense	(321,288.87)	(321,288.87)
Paid-In Capital	90,000,000.00	15,000,000.00
Other Comprehensive Income	-	-
Retained Earnings	1,050,005,208.32	882,080,138.87
Unappropriated Undistributed Subsidiary Earnings	19,650,132.80	20,932,121.00
Total Common Equity	1,467,474,029.81	1,225,830,948.56
Preferred Stock	-	-
Pollution Control Bonds	332,753,140.00	305,951,140.00
Other Long-Term Debt	-	-
LT Notes Payable to Associated Companies	931,000,000.00	536,000,000.00
Long-Term Debt Marked to Market	-	-
Total Long-Term Debt	1,263,753,140.00	841,951,140.00
Total Capitalization	2,731,227,169.81	2,067,782,088.56
Current and Accrued Liabilities		
Long-Term Debt Due in 1 Year	-	-
ST Notes Payable to Associated Companies	48,000,454.00	-
Notes Payable	-	-
Notes Payable to Associated Companies	-	89,666,054.00
Accounts Payable	148,818,616.71	79,255,904.28
Accounts Payable to Associated Companies	22,157,431.76	85,916,737.70
Customer Deposits	19,739,637.76	18,886,456.48
Taxes Accrued	22,856,683.42	23,494,066.90
Interest Accrued	14,240,238.12	6,537,872.92
Dividends Declared	-	-
Misc. Current & Accrued Liabilities	9,417,124.35	10,091,103.06
Total	285,230,186.12	313,848,195.34
Deferred Credits and Other		
Accumulated Deferred Income Taxes	333,296,780.67	330,151,853.21
Investment Tax Credit	54,946,726.32	12,925,223.32
Regulatory Liabilities	38,418,264.12	36,636,601.52
Customer Advances for Construction	2,763,153.05	1,958,619.45
Asset Retirement Obligations	30,645,375.14	28,791,678.66
Other Deferred Credits	16,218,990.04	7,161,616.02
Misc. Long-Term Liabilities	3,723,414.30	46,309,236.00
Accum Provision for Post-Retirement Benefits	87,872,178.57	76,389,901.52
Total	567,884,882.21	540,324,729.70
Total Liabilities and Other Credits	3,584,342,238.14	2,921,955,013.60

Kentucky Utilities Company
Statement of Capitalization and Short-term Debt
February 29, 2008

	Authorized Shares	Issued & Outstanding Shares	Issued & Outstanding Amount	Percent of Total Capital & S/T Debt	Percent of Total Capital
Common Equity					
Common Stock - Without Par	80,000,000	37,817,878	308,139,977.56		
Common Stock Expense			(321,288.87)		
Paid-In Capital			90,000,000.00		
Retained Earnings			1,050,005,208.32		
Unappropriated Undistributed Subsidiary Earnings			19,650,132.80		
Total Common Equity			1,467,474,029.81	52.80	53.73
Long-term Debt					
Mercer County 2000 Series A due 05/01/23 Var%			12,900,000.00		
Carroll County 2002 Series A due 02/01/32 Var%			20,930,000.00		
Carroll County 2002 Series B due 02/01/32 Var%			2,400,000.00		
Muhlenburg County 2002 Series A due 02/01/32 Var%			2,400,000.00		
Mercer County 2002 Series A due 02/01/32 Var%			7,400,000.00		
Carroll County 2002 Series C due 10/01/32 Var%			96,000,000.00		
Carroll County 2004 Series A due 10/01/34 Var%			50,000,000.00		
Carroll County 2005 Series A due 06/01/35 Var%			13,266,950.00		
Carroll County 2005 Series B due 06/01/35 Var%			13,266,950.00		
Carroll County 2006 Series A due 06/01/36 Var%			16,693,620.00		
Carroll County 2006 Series C due 06/01/36 Var%			16,693,620.00		
Carroll County 2006 Series B due 10/01/34 Var%			54,000,000.00		
Carroll County 2007 Series A due 02/01/26 Var%			17,875,000.00		
Trimble County 2007 Series A due 03/01/37 Var%			8,927,000.00		
Total Long-Term Debt			332,753,140.00	11.97	12.18
Long-term Notes Payable to Associated Companies			931,000,000.00	33.50	34.09
Total Capitalization			2,731,227,169.81	98.27	100.00
Short-term Notes Payable to Associated Companies			48,000,454.00	1.73	
Total Capitalization and Short-Term Debt			2,779,227,623.81	100.00	

Kentucky Utilities Company
Trial Balance
February 29, 2008

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheet
Utility Plant		
At Original Cost	5,037,085,170 98	5,037,085,170 98
Reserves for Depreciation and Amortization		(1,951,297,869 84)
Depreciation	(1,933,713,299 90)	
Amortization of Plant	(17,584,569 94)	
Investments - at Cost		27,767,078 57
Nonutility Property	179,120 94	
Investments in Subsidiary Companies	20,945,932 80	
Ohio Valley Electric Corporation	250,000 00	
Other	411,140 00	
OMU - Interest on Reserve, New	1,278,282 41	
OMU - R&I on Maintenance Reserve	600,000 00	
OMU - R&I on Additions and Replacements	120,000 00	
OMU - R&I on Operations	538,067 36	
OMU - R&I Interest on Purchase Power	314,537 79	
OMU - Purchase Power, Coal Reserve	3,129,997 27	
Cash	3,937,165 05	3,937,165 05
Special Deposits		6,135,444 77
Restricted Cash	5,824,855 05	
MAN Margin Call	310,589 72	
Temporary Cash Investments	17,602 44	17,602 44
Accounts Receivable - Less Reserve		171,427,728 01
Working Funds	36,817 13	
Customers - Active	95,061,491 39	
Wholesale Sales	3,347,729 92	
Transmission Receivable	614,227 06	
Unbilled Revenues	49,451,000 00	
PC Purchase Program	74,517 24	
Damage Claims	127,528 71	
Insurance Claims	(105 69)	
IMEA	5,363,152 76	
IMPA	5,699,456 07	
Miscellaneous	6,199,847 80	
Uncollectible Accounts - Charged Off	625,270 16	
Uncollectible Accounts - Recovery	(203,196 28)	
Uncollectible Accounts - Reserve	(864,244 00)	
Uncollectible Accounts - Accrual	(426,378 17)	
Uncollectible Accounts - LEM Reserve	(1,160,349 78)	
Uncollectible Accounts - Miscellaneous	(23,300 71)	
Interest and Dividends Receivable	7,504,264 40	
Accounts Receivable from Associated Companies		57,285 73
E ON US Services/Louisville Gas & Electric Company	57,285 73	

Kentucky Utilities Company
Trial Balance
February 29, 2008

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheet
Fuel		40,174,765.68
Coal 743,100.21 Tons @ $46.44; MMBTU 17,674,368.89 @ 195.24¢	34,508,051.99	
Fuel Oil 2,522,575 Gallons @ 219.63¢	5,540,376.54	
Gas Pipeline 12,445.70 Mcf @ $10.15	126,337.15	
Plant Materials and Operating Supplies		27,811,764.20
Regular Materials and Supplies	27,477,965.13	
Limestone 44,473.36 Tons @ $7.51	333,799.07	
Stores Expense		6,350,194.13
Stores Expense Undistributed	6,350,194.13	
Allowance Inventory		299,115.23
Allowance Inventory	299,115.23	
Prepayments		4,790,668.98
Insurance	2,419,842.46	
Taxes	596,838.87	
Risk Management and Workers Compensation	75,000.00	
Vehicle License	86,746.82	
Other	1,612,240.83	
Miscellaneous Current Assets		12,813.18
Derivative Asset - Non-Hedging	12,813.18	
Unamortized Debt Expense		7,233,012.92
Mercer County 2000 Series A due 05/01/23 Var%	262,234.29	
Carroll County 2002 Series A due 02/01/32 Var%	98,076.34	
Carroll County 2002 Series B due 02/01/32 Var%	68,177.62	
Muhlenburg County 2002 Series A due 02/01/32 Var%	27,358.40	
Mercer County 2002 Series A due 02/01/32 Var%	75,897.11	
Carroll County 2002 Series C due 10/01/32 Var%	1,787,336.04	
Carroll County 2004 Series A due 10/01/34 Var%	1,065,337.59	
Carroll County 2005 Series A due 06/01/35 Var%	482,172.30	
Carroll County 2005 Series B due 06/01/35 Var%	490,049.04	
Carroll County 2006 Series A due 06/01/36 Var%	584,544.05	
Carroll County 2006 Series C due 06/01/36 Var%	581,980.42	
Carroll County 2006 Series B due 10/01/34 Var%	995,812.07	
Carroll County 2007 Series A due 02/01/26 Var%	401,007.04	
Trimble County 2007 Series A due 03/01/37 Var%	313,030.61	
Unamortized Loss on Bonds		10,100,910.95
Reacquired Debt	10,100,910.95	
Accumulated Deferred Income Taxes		50,753,515.51
Federal	42,853,061.75	
State	7,900,453.76	
Deferred Regulatory Assets		82,479,591.11
Asset Retirement Obligations	24,495,739.67	
FERC Jurisdictional Pension Expense	2,538,975.73	
SFAS 109 - Deferred Taxes	6,547,298.00	
Pension & Postretirement Benefits	27,744,630.11	
Ice Storm Expenses	1,055,454.00	
MISO Exit Fee	20,097,493.60	
Other Deferred Debits	59,206,280.54	59,206,280.54
Total Assets and Other Debits	3,584,342,238.14	3,584,342,238.14

Kentucky Utilities Company
Trial Balance
February 29, 2008

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheet
Common Equity		1,467,474,029.81
Common Stock	308,139,977.56	
Common Stock Expense	(321,288.87)	
Paid-In Capital	90,000,000.00	
Retained Earnings	1,050,005,208.32	
Unappropriated Undistributed Subsidiary Earnings	19,650,132.80	
Bonds		332,753,140.00
Pollution Control Bonds	332,753,140.00	
Long-term Notes Payable to Associated Companies	931,000,000.00	931,000,000.00
Short-term Notes Payable to Associated Companies		48,000,454.00
Money Pool Payable	48,000,454.00	
Accounts Payable		148,818,616.71
Regular	137,750,008.95	
Salaries and Wages Accrued	2,485,968.24	
Employee Withholdings Payable	5,185,963.66	
Tax Collections - Payable	3,396,675.86	
Accounts Payable to Associated Companies		22,157,431.76
E.ON US Services/Louisville Gas & Electric Company	22,157,431.76	
Customers' Deposits	19,739,637.76	19,739,637.76
Taxes Accrued	22,856,683.42	22,856,683.42
Interest Accrued		14,240,238.12
Interest on Long-Term Debt		
Mercer County 2000 Series A due 05/01/23 Var%	28,218.75	
Carroll County 2002 Series A due 02/01/32 Var%	11,665.92	
Carroll County 2002 Series B due 02/01/32 Var%	1,337.69	
Muhlenburg County 2002 Series A due 02/01/32 Var%	1,337.69	
Mercer County 2002 Series A due 02/01/32 Var%	4,124.57	
Carroll County 2002 Series C due 10/01/32 Var%	205,224.01	
Carroll County 2004 Series A due 10/01/34 Var%	18,437.50	
Carroll County 2005 Series A due 06/01/35 Var%	3,237.13	
Carroll County 2005 Series B due 06/01/35 Var%	3,237.13	
Carroll County 2006 Series A due 06/01/36 Var%	47,855.06	
Carroll County 2006 Series C due 06/01/36 Var%	52,918.74	
Carroll County 2006 Series B due 10/01/34 Var%	6,975.00	
Carroll County 2007 Series A due 02/01/26 Var%	4,617.69	
Trimble County 2007 Series A due 03/01/37 Var%	2,306.12	
Customer Deposits	842,423.84	
Fidelia	13,006,321.28	

Kentucky Utilities Company
Trial Balance
February 29, 2008

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown on Balance Sheet
Miscellaneous Current and Accrued Liabilities		9,417,124.35
Customer Overpayments	1,446,811.60	
UK Emission Research Grant	250,000.00	
Vacation Pay Accrued	4,824,019.89	
Derivative Liability - Non-Hedging	6,473.50	
Franchise Fee Payable	3,287,307.63	
Other	(397,488.27)	
Accumulated Deferred Income Taxes		333,296,780.67
Federal	287,349,410.55	
State	45,947,370.12	
Investment Tax Credit		54,946,726.32
Job Development Credit	380,079.32	
Advance Coal Credit	54,566,647.00	
Regulatory Liabilities		38,418,264.12
Asset Retirement Obligations	2,212,893.37	
Deferred Taxes - SFAS 109	29,036,205.50	
Spare Parts	1,272,406.25	
MISO Schedule 10 Charges	5,896,759.00	
Customers' Advances for Construction		2,763,153.05
Line Extensions	1,881,220.14	
Outdoor Lighting Deposits	4,470.00	
Other	877,462.91	
Asset Retirement Obligations	30,645,375.14	30,645,375.14
Other Deferred Credits	16,218,990.04	16,218,990.04
Miscellaneous Long-term Liabilities		3,723,414.30
Workers' Compensation	3,267,414.30	
Uncertain Tax Positions	456,000.00	
Accumulated Provision for Benefits		87,872,178.57
Pension Payable	19,816,138.00	
Postretirement Benefits - SFAS 106	68,193,188.57	
Medicare Subsidy -SFAS 106	(5,203,549.00)	
Post Employment Benefits Payable	5,349,374.00	
Post Employment Medicare Subsidy	(282,973.00)	
Total Liabilities and Other Credits	3,584,342,238.14	3,584,342,238.14

Kentucky Utilities Company
Statement of Cash Flows
February 29, 2008

	Year to Date	
	2008	2007
Cash Flows from Operating Activities		
Net income	31,958,291.11	32,632,945.34
Items not requiring cash currently:		
Depreciation	20,304,328.05	17,964,107.28
Amortization	761,977.80	872,189.50
Deferred income taxes - net	-	-
Investment tax credits deferred - net	(52,386.00)	(98,552.00)
Other	999,246.92	1,446,065.11
Change in receivables	17,265,294.00	27,500,610.18
Change in inventory	1,258,737.84	15,213,608.51
Change in allowance inventory	83,778.88	313,024.25
Change in payables and accrued expenses	(12,066,442.79)	2,862,187.83
Change in other regulatory assets	(314,340.49)	(220,255.62)
Change in other regulatory liabilities	697,228.04	697,228.04
Change in other deferred debits	4,955,502.03	(3,853,343.50)
Change in other deferred credits	2,782,846.44	(121,525.94)
Other	2,127,858.21	1,933,270.81
Less: Allowance for other funds used during construction	(1,174,652.10)	(433,872.45)
Less: Undistributed earnings of subsidiary company	1,556,935.20	(4,683,834.00)
Net cash provided (used) by operating activities	71,144,203.14	92,023,853.34
Cash Flows from Investing Activities		
Gross additions to utility plant - construction expenditures	(98,269,883.70)	(79,585,304.67)
Less: Allowance for other funds used during construction	1,174,652.10	433,872.45
Gain on disposal of property	1,175.00	-
Change in other long-term debt	-	(433,540.00)
Change in long-term investments	(65,000.76)	(3,519,852.48)
Change in restricted cash	4,850,111.01	912,228.87
Net cash provided (used) by investing activities	(92,308,946.35)	(82,192,595.83)
Cash Flows from Financing Activities		
Proceeds from issuance of long-term debt	-	106,079,753.85
Net increase in short-term debt	24,781,000.00	-
Payments for retirement of long-term debt	-	(107,000,000.00)
Net decrease in short-term debt	-	(7,377,000.00)
Net cash provided (used) by financing activities	24,781,000.00	(8,297,246.15)
Net Increase (Decrease) in Cash and Cash Equivalents	3,616,256.79	1,534,011.36
Cash and Cash Equivalents at Beginning of Period	338,510.70	5,313,043.20
Cash and Cash Equivalents at End of Period	3,954,767.49	6,847,054.56

Kentucky Utilities Company
Analysis of Interest Charges
February 29, 2008

	Current Month		Year to Date		Year Ended Current Month	
	This Year	Last Year	This Year	Last Year	This Year	Last Year
Interest on Long-term Debt						
First Mortgage Bonds						
Series P 7.92%.	-	1,224,300.00	-	1,574,100.00	-	5,072,100.00
Loan Agreement - Pollution Control Bonds						
Series 10 (Variable%)	-	809,541.39	-	981,941.94	(0.01)	2,636,694.28
Mercer County 2000 Series A due 05/01/23 Var%	58,677.08	-	108,754.16	-	108,754.16	393,473.33
Carroll County 2002 Series A due 02/01/32 Var%	35,858.02	59,636.17	98,354.33	125,052.46	752,597.35	758,291.07
Carroll County 2002 Series B due 02/01/32 Var%	4,111.77	6,838.36	11,278.09	14,339.51	86,298.77	86,951.67
Muhlenburg County 2002 Series A due 02/01/32 Var%	4,111.77	6,838.36	11,278.09	14,339.51	86,298.77	86,951.65
Mercer County 2002 Series A due 02/01/32 Var%	12,677.94	21,084.92	34,774.10	44,213.47	266,087.91	268,100.98
Carroll County 2002 Series C due 10/01/32 Var%	341,224.00	265,066.65	698,317.33	567,733.32	3,906,578.67	3,502,279.97
Carroll County 2004 Series A due 10/01/34 Var%	180,937.50	140,513.89	386,909.72	294,166.67	2,032,222.23	1,789,159.69
Carroll County 2005 Series A due 06/01/35 Var%	47,445.19	36,760.52	95,980.12	76,837.77	527,870.20	472,185.46
Carroll County 2005 Series B due 06/01/35 Var%	46,155.35	36,631.52	94,690.28	77,206.64	518,508.51	473,108.96
Carroll County 2006 Series A due 06/01/36 Var%	61,418.61	47,317.15	144,909.90	100,157.09	699,815.11	379,958.39
Carroll County 2006 Series C due 06/01/36 Var%	66,482.34	47,391.34	149,973.63	100,231.28	704,269.02	143,124.61
Carroll County 2006 Series B due 10/01/34 Var%	203,850.00	31,956.16	418,125.00	31,956.16	2,180,798.84	31,956.16
Carroll County 2007 Series A due 02/01/26 Var%	66,733.33	-	148,094.37	-	593,345.73	-
Trimble County 2007 Series A due 03/01/37 Var%	33,327.47	-	73,960.20	-	296,230.09	-
Interest Rate Swaps	-	(76,780.63)	-	(86,856.15)	-	(301,687.01)
Marked to Market	-	(226,047.00)	-	(328,589.00)	-	(991,840.00)
Fidelia	4,193,700.01	2,244,105.01	8,387,400.02	4,287,163.35	38,922,883.21	21,877,538.34
Hardin Promissory Note	-	36,621.67	-	79,944.17	(273,213.84)	79,944.17
Total	5,356,710.38	4,711,775.48	10,862,799.34	7,953,938.19	51,409,344.72	36,758,291.72
Amortization of Debt Expense - Net						
Amortization of Debt Expense	24,059.12	47,315.95	48,118.24	70,121.95	312,930.91	278,604.15
Amort. of Loss on Reacquired Debt	36,378.00	54,851.00	72,756.00	108,602.00	482,719.90	672,628.87
Total	60,437.12	102,166.95	120,874.24	178,723.95	795,650.81	951,233.02
Other Interest Charges						
Customers' Deposits	89,201.10	81,374.42	178,385.71	167,499.51	1,112,899.60	1,011,066.29
Other Tax Deficiencies	-	-	-	-	(2,967.92)	-
Interest on Debt to Associated Companies	83,381.06	272,843.47	197,392.48	616,473.04	6,002,639.70	2,960,705.56
AFUDC Borrowed Funds	(161,751.50)	(50,067.66)	(300,781.03)	(96,001.64)	(1,160,586.02)	(345,912.02)
Other Interest Expense	-	-	-	-	301.29	108,890.38
Total	10,830.66	304,150.23	74,997.16	687,970.91	5,952,286.65	3,734,750.21
Total Interest	5,427,978.16	5,118,092.66	11,058,670.74	8,820,633.05	58,157,282.18	41,444,274.95

Kentucky Utilities Company
Analysis of Taxes Charged
February 29, 2008

Kind of Taxes	Current Month This Year	Current Month Last Year	Year to Date This Year	Year to Date Last Year
Taxes Charged to Accounts 408.1 and 409.1				
Property Taxes	1,025,101.01	1,001,000.00	2,050,202.02	2,002,000.00
Unemployment	53,641.66	55,801.65	62,359.38	71,680.88
FICA	538,207.43	441,059.00	1,014,869.29	902,581.91
Public Service Commission Fee	149,209.73	138,724.62	298,419.46	277,449.24
Federal Income	5,518,905.15	7,540,332.33	14,290,939.04	15,499,236.06
State Income	1,061,327.92	1,691,741.23	2,748,257.52	3,477,392.71
Miscellaneous	3,431.52	2,295.96	10,981.39	10,109.82
Total Charged to Operating Expense	8,349,824.42	10,870,954.79	20,476,028.10	22,240,450.62
Taxes Charged to Other Accounts	1,621,234.61	1,363,840.98	2,681,144.57	1,662,723.13
Taxes Accrued on Intercompany Accounts	(189,833.05)	(189,788.36)	(365,770.02)	(398,409.24)
Total Taxes Charged	9,781,225.98	12,045,007.41	22,791,402.65	23,504,764.51

Analysis of Taxes Accrued - Account 236

Kind of Taxes	*Taxes Accrued* At Beginning Of Year	*Accruals* To Date This Year	*Payments* To Date This Year	*Taxes Accrued* At End Of Month
Property Taxes	6,455,854.42	2,120,166.00	1,884,479.74	6,691,540.68
Unemployment	36,767.25	52,251.95	1,137.63	87,881.57
FICA	497,417.13	935,807.03	807,323.52	625,900.64
Federal Income	(5,097,779.62)	16,028,672.67	-	10,930,893.05
State Income	1,103,849.76	3,082,437.06	-	4,186,286.82
Kentucky Sales and Use Tax	618,307.69	514,454.54	819,271.41	313,490.82
Miscellaneous	18,792.54	57,613.40	55,716.10	20,689.84
Totals	3,633,209.17	22,791,402.65	3,567,928.40	22,856,683.42

Kentucky Utilities Company
Summary of Utility Plant
February 29, 2008

	Net Balance First of Year	Additions	Retirements	Transfer/ Adjustment	Net Additions	Balance to Date
Utility Plant						
Plant In Service						
Intangibles........	24,723,054.27	239,164.09	-	-	239,164.09	24,962,218.36
Steam Production........	1,678,193,956.12	2,256,959.17	(362,322.43)	-	1,894,636.74	1,680,088,592.86
Hydro Production........	10,974,095.24	62,158.95	(3,022.00)	-	59,136.95	11,033,232.19
Other Production........	497,590,724.76	-	-	-	-	497,590,724.76
Transmission........	520,264,996.06	1,611,045.36	(142,035.94)	-	1,469,009.42	521,734,005.48
Distribution........	1,038,231,358.94	37,772,095.33	(26,298.38)	-	37,745,796.95	1,075,977,155.89
General........	79,026,529.12	420,912.48	(172.34)	-	420,740.14	79,447,269.26
Transportation........	18,955,797.89	(0.08)	-	-	(0.08)	18,955,797.81
Total Electric Plant In Service........	3,867,960,512.40	*42,362,335.30*	*(533,851.09)*	-	*41,828,484.21*	*3,909,788,996.61*
Plant Purchased or Sold........	-					-
Total Plant........	3,867,960,512.40	42,362,335.30	(533,851.09)	-	41,828,484.21	3,909,788,996.61
Construction Work In Progress........	1,071,388,625.97	55,907,548.40	-	-	55,907,548.40	1,127,296,174.37
Total Utility Plant at Original Cost........	4,939,349,138.37	98,269,883.70	(533,851.09)	-	97,736,032.61	5,037,085,170.98

Reserve for Depreciation of Utility	Net Balance First of Year	Accrual	Retirements	Transfer/ Adjustment	RWIP Transfers Out	Cost of Removal	Salvage	Other Credits	Balance to Date
Life Reserves									
Steam Production........	(862,613,622.59)	(7,473,253.82)	362,322.43	-	-	-	-	-	(869,724,553.98)
Hydro Production........	(7,502,640.82)	(22,221.85)	3,022.00	-	-	-	-	-	(7,521,840.67)
Other Production........	(115,446,056.48)	(2,814,722.82)	-	-	-	-	-	-	(118,260,779.30)
Transmission........	(202,816,756.20)	(1,471,432.10)	142,035.94	-	-	-	-	(76,966.41)	(204,223,118.77)
Distribution........	(359,039,785.75)	(4,183,407.13)	26,298.38	-	-	-	-	(56,231.97)	(363,253,126.47)
General........	(30,072,704.19)	(795,899.57)	172.34	-	-		-	-	(30,868,431.42)
Transportation........	(18,834,788.98)	(6,684.58)	-	-	-		-	-	(18,841,473.56)
Total Life Reserve For Depreciation Of Utility Plant In Service........	(1,596,326,355.01)	(16,767,621.87)	533,851.09	-	-	-	-	(133,198.38)	(1,612,693,324.17)
Salvage Reserves									
Steam Production........	(65,099,820.34)	(1,033,457.34)		-	-	238,647.97	-	-	(65,894,629.71)
Hydro Production........	(741,054.42)	(7,040.19)		-	-	6,931.47	-	-	(741,163.14)
Other Production........	(1,081,369.18)	-		-	-	-	-	-	(1,081,369.18)
Transmission........	(115,529,459.07)	(1,066,088.65)		-	-	406,838.39	(5,819.89)	-	(116,194,529.22)
Distribution........	(140,499,986.35)	(1,532,052.20)	-		-	(9,461.85)	(37,671.84)	-	(142,079,172.24)
General........	244,224.85	4,255.50	-		-	30,318.48	-	-	278,798.83
Total Salvage Reserve For Depreciation Of Utility Plant In Service........	(322,707,464.51)	(3,634,382.88)	-	-	-	673,274.46	(43,491.73)	-	(325,712,064.66)
Total Reserves									
Steam Production........	(927,713,442.93)	(8,506,711.16)	362,322.43	-	-	238,647.97	-	-	(935,619,183.69)
Hydro Production........	(8,243,695.24)	(29,262.04)	3,022.00	-	-	6,931.47	-	-	(8,263,003.81)
Other Production........	(116,527,425.66)	(2,814,722.82)	-	-	-	-	-	-	(119,342,148.48)
Transmission........	(318,346,215.27)	(2,537,520.75)	142,035.94	-	-	406,838.39	(5,819.89)	(76,966.41)	(320,417,647.99)
Distribution........	(499,539,772.10)	(5,715,459.33)	26,298.38	-	-	(9,461.85)	(37,671.84)	(56,231.97)	(505,332,298.71)
General........	(29,828,479.34)	(791,644.07)	172.34	-	-	30,318.48	-	-	(30,589,632.59)
Transportation........	(18,834,788.98)	(6,684.58)	-	-	-	-	-	-	(18,841,473.56)
Total Life Reserve For Depreciation Of Utility Plant In Service........	(1,919,033,819.52)	(20,402,004.75)	533,851.09	-	-	673,274.46	(43,491.73)	(133,198.38)	(1,938,405,388.83)
Retirement of Work in Progress........	4,401,887.42	-	-	-	(496,584.35)	1,565,458.84	(94,663.41)	(684,009.58)	4,692,088.92
Year to Date Activity........	(1,914,631,932.09)	(20,402,004.75)	533,851.09	-	(496,584.35)	2,238,733.30	(138,155.14)	(817,207.96)	(1,933,713,299.90)
Intangibles........	(16,822,592.14)	(761,977.80)	-	-	-	-	-	-	(17,584,569.94)
Leaseholds........	-	-	-	-	-	-	-	-	-
Total Reserve For Depreciation and Amortization - Utility Plant In Service........	(1,931,454,524.23)	(21,163,982.55)	533,851.09	-	(496,584.35)	2,238,733.30	(138,155.14)	(817,207.96)	(1,951,297,869.84)
Utility Plant at Original Cost Less Reserve For Depreciation and Amortization........	3,007,894,614.14								3,085,787,301.14

KU Monthly Report to KPSC – January 31, 2008

KENTUCKY UTILITIES COMPANY

Financial Reports

January 31, 2008

Prepared by Regulatory Accounting and Reporting

KENTUCKY UTILITIES COMPANY
COMPARATIVE STATEMENT OF INCOME
JANUARY 31, 2008

	CURRENT MONTH			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	124,083,568.13	109,941,343.95	14,142,224.18	12.86
Total Operating Revenues	124,083,568.13	109,941,343.95	14,142,224.18	12.86
Operating Expenses				
Fuel	43,691,359.57	38,606,774.83	5,084,584.74	13.17
Power Purchased	18,135,919.03	15,714,324.68	2,421,594.35	15.41
Other Operation Expenses	12,053,188.27	11,989,324.54	63,863.73	0.53
Maintenance	4,915,861.02	4,045,893.00	869,968.02	21.50
Depreciation	10,298,372.67	8,866,295.50	1,432,077.17	16.15
Amortization Expense	386,147.65	434,637.24	(48,489.59)	(11.16)
Regulatory Credits	(189,735.86)	(124,520.81)	(65,215.05)	52.37
Taxes				
Federal Income	-	-	-	-
State Income	-	-	-	-
Deferred Federal Income - Net	-	-	-	-
Deferred State Income - Net	-	-	-	-
Federal Income - Estimated	8,772,033.89	7,958,903.73	813,130.16	10.22
State Income - Estimated	1,686,929.60	1,785,651.48	(98,721.88)	(5.53)
Property and Other	1,667,240.19	1,624,940.62	42,299.57	2.60
Investment Tax Credit	-	-	-	-
Loss (Gain) from Disposition of Allowances	-	-	-	-
Accretion Expense	165,157.94	155,089.06	10,068.88	6.49
Total Operating Expenses	101,582,473.97	91,057,313.87	10,525,160.10	11.56
Net Operating Income	22,501,094.16	18,884,030.08	3,617,064.08	19.15
Other Income Less Deductions				
Other Income Less Deductions	1,784,880.95	633,664.43	1,151,216.52	181.68
AFUDC - Equity	400,248.78	163,649.72	236,599.06	144.58
Total Other Income Less Deductions	2,185,129.73	797,314.15	1,387,815.58	174.06
Income Before Interest Charges	24,686,223.89	19,681,344.23	5,004,879.66	25.43
Interest on Long Term Debt	5,506,088.96	3,242,162.71	2,263,926.25	69.83
Amortization of Debt Expense - Net	60,437.12	76,557.00	(16,119.88)	(21.06)
Other Interest Expenses	203,196.03	429,754.66	(226,558.63)	(52.72)
AFUDC - Borrowed Funds	(139,029.53)	(45,933.98)	(93,095.55)	202.67
Total Interest Charges	5,630,692.58	3,702,540.39	1,928,152.19	52.08
Net Income	19,055,531.31	15,978,803.84	3,076,727.47	19.26
Preferred Dividend Requirements	-	-	-	-
Earnings Available for Common	19,055,531.31	15,978,803.84	3,076,727.47	19.26

KENTUCKY UTILITIES COMPANY
COMPARATIVE STATEMENT OF INCOME
JANUARY 31, 2008

	YEAR TO DATE			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	124,083,568.13	109,941,343.95	14,142,224.18	12.86
Total Operating Revenues	124,083,568.13	109,941,343.95	14,142,224.18	12.86
Operating Expenses				
Fuel	43,691,359.57	38,606,774.83	5,084,584.74	13.17
Power Purchased	18,135,919.03	15,714,324.68	2,421,594.35	15.41
Other Operation Expenses	12,053,188.27	11,989,324.54	63,863.73	0.53
Maintenance	4,915,861.02	4,045,893.00	869,968.02	21.50
Depreciation	10,298,372.67	8,866,295.50	1,432,077.17	16.15
Amortization Expense	386,147.65	434,637.24	(48,489.59)	(11.16)
Regulatory Credits	(189,735.86)	(124,520.81)	(65,215.05)	52.37
Taxes				
Federal Income	-	-	-	-
State Income	-	-	-	-
Deferred Federal Income - Net	-	-	-	-
Deferred State Income - Net	-	-	-	-
Federal Income - Estimated	8,772,033.89	7,958,903.73	813,130.16	10.22
State Income - Estimated	1,686,929.60	1,785,651.48	(98,721.88)	(5.53)
Property and Other	1,667,240.19	1,624,940.62	42,299.57	2.60
Investment Tax Credit	-	-	-	-
Loss (Gain) from Disposition of Allowances	-	-	-	-
Accretion Expense	165,157.94	155,089.06	10,068.88	6.49
Total Operating Expenses	101,582,473.97	91,057,313.87	10,525,160.10	11.56
Net Operating Income	22,501,094.16	18,884,030.08	3,617,064.08	19.15
Other Income Less Deductions				
Other Income Less Deductions	1,784,880.95	633,664.43	*1,151,216.52*	*181.68*
AFUDC - Equity	400,248.78	163,649.72	236,599.06	144.58
Total Other Income Less Deductions	2,185,129.73	797,314.15	1,387,815.58	174.06
Income Before Interest Charges	24,686,223.89	19,681,344.23	5,004,879.66	25.43
Interest on Long Term Debt	5,506,088.96	3,242,162.71	2,263,926.25	69.83
Amortization of Debt Expense - Net	60,437.12	76,557.00	(16,119.88)	(21.06)
Other Interest Expenses	203,196.03	429,754.66	(226,558.63)	(52.72)
AFUDC - Borrowed Funds	(139,029.53)	(45,933.98)	(93,095.55)	202.67
Total Interest Charges	5,630,692.58	3,702,540.39	1,928,152.19	52.08
Net Income	19,055,531.31	15,978,803.84	3,076,727.47	19.26
Preferred Dividend Requirements	-	-	-	-
Earnings Available for Common	19,055,531.31	15,978,803.84	3,076,727.47	19.26

KENTUCKY UTILITIES COMPANY
COMPARATIVE STATEMENT OF INCOME
JANUARY 31, 2008

	YEAR ENDED CURRENT MONTH			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	1,286,691,123.42	1,219,972,072.77	66,719,050.65	5.47
Total Operating Revenues	1,286,691,123.42	1,219,972,072.77	66,719,050.65	5.47
Operating Expenses				
Fuel	465,203,269.38	430,352,784.66	34,850,484.72	8.10
Power Purchased	170,865,199.99	182,600,221.22	(11,735,021.23)	(6.43)
Other Operation Expenses	152,986,700.09	160,890,784.42	(7,904,084.33)	(4.91)
Maintenance	86,112,162.21	72,412,847.93	13,699,314.28	18.92
Depreciation	116,696,241.88	109,919,456.97	6,776,784.91	6.17
Amortization Expense	5,372,055.37	5,110,914.33	261,141.04	5.11
Regulatory Credits	(2,166,418.39)	(2,006,223.93)	(160,194.46)	7.98
Taxes				
Federal Income	27,762,415.79	48,696,525.01	(20,934,109.22)	(42.99)
State Income	13,060,218.03	11,375,571.97	1,684,646.06	14.81
Deferred Federal Income - Net	(6,360,163.38)	(204,370.34)	(6,155,793.04)	3,012.08
Deferred State Income - Net	(488,065.68)	875,065.43	(1,363,131.11)	(155.77)
Federal Income - Estimated	813,130.16	1,973,132.80	(1,160,002.64)	(58.79)
State Income - Estimated	(98,721.88)	442,690.04	(541,411.92)	(122.30)
Property and Other	18,481,376.24	18,669,179.92	(187,803.68)	(1.01)
Investment Tax Credit	42,566,647.00	12,000,000.00	30,566,647.00	254.72
Loss (Gain) from Disposition of Allowances	(706,851.51)	(1,283,929.13)	577,077.62	(44.95)
Accretion Expense	1,871,431.60	1,764,710.81	106,720.79	6.05
Total Operating Expenses	1,091,970,626.90	1,053,589,362.11	38,381,264.79	3.64
Net Operating Income	194,720,496.52	166,382,710.66	28,337,785.86	17.03
Other Income Less Deductions				
Other Income Less Deductions	29,601,898.20	27,474,136.93	2,127,761.27	7.74
AFUDC - Equity	3,564,303.91	540,351.46	3,023,952.45	559.63
Total Other Income Less Deductions	33,166,202.11	28,014,488.39	5,151,713.72	18.39
Income Before Interest Charges	227,886,698.63	194,397,199.05	33,489,499.58	17.23
Interest on Long Term Debt	50,764,409.82	34,257,374.76	16,507,035.06	48.19
Amortization of Debt Expense - Net	837,380.64	931,329.07	(93,948.43)	(10.09)
Other Interest Expenses	7,294,508.40	4,124,928.45	3,169,579.95	76.84
AFUDC - Borrowed Funds	(1,048,902.18)	(303,523.41)	(745,378.77)	245.58
Total Interest Charges	57,847,396.68	39,010,108.87	18,837,287.81	48.29
Net Income	170,039,301.95	155,387,090.18	14,652,211.77	9.43
Preferred Dividend Requirements	-	-	-	-
Earnings Available for Common	170,039,301.95	155,387,090.18	14,652,211.77	9.43

KENTUCKY UTILITIES COMPANY
ANALYSIS OF RETAINED EARNINGS
JANUARY 31, 2008

Retained Earnings and Undistributed Earnings	Current Month Total Retained Earnings	Current Month Undistributed Subsidiary Earnings	Year to Date Total Retained Earnings	Year to Date Undistributed Subsidiary Earnings	Year Ended Current Month Total Retained Earnings	Year Ended Current Month Undistributed Subsidiary Earnings
Balance Beginning of Period................	1,016,489,982.01	21,207,068.00	1,016,489,982.01	21,207,068.00	868,164,231.37	18,193,887.00
Net Income for Period.........................	19,055,531.31		19,055,531.31		170,039,301.95	
FIN 48 Adjustment............................	-		-		355,161.00	
Adjust for Equity in Subsidiary Earnings for Year						
-EE Inc..................................	(3,185,409.00)	3,185,409.00	(3,185,409.00)	3,185,409.00	(27,598,590.00)	27,598,590.00
Dividends Rec'd Current Year						
-EE Inc..................................	-	-	-	-	21,400,000.00	(21,400,000.00)
Balance End of Period........................	1,032,360,104.32	24,392,477.00	1,032,360,104.32	24,392,477.00	1,032,360,104.32	24,392,477.00

Combined Retained Earnings	12 MONTHS 01/31/08	12 MONTHS 01/31/2007
Retained Earnings Beginning of Period.....	886,358,118.37	730,971,028.19
Add Net Income................................	170,039,301.95	155,387,090.18
FIN 48 Adjustment............................	355,161.00	-
Subtotal...	1,056,752,581.32	886,358,118.37
Deduct		
Dividends on Preferred Stock............	-	-
Dividends on Common Stock.............	-	-
Preferred Stock Redemption Exp	-	-
Other..	-	-
Retained Earnings End of Period............	1,056,752,581.32	886,358,118.37

KENTUCKY UTILITIES COMPANY
COMPARATIVE BALANCE SHEETS AS OF JANUARY 31, 2008 AND 2007

ASSETS AND OTHER DEBITS	THIS YEAR	LAST YEAR
Utility Plant		
Utility Plant at Original Cost	4,992,493,769.02	4,202,442,621.04
Less Reserves for Depreciation & Amortization	1,942,102,310.23	1,858,954,449.12
Total	3,050,391,458.79	2,343,488,171.92
Investments - At Cost		
Ohio Valley Electric Corporation	250,000.00	250,000.00
Nonutility Property-Less Reserve	180,295.94	969,128.41
Investments in Subsidiary Companies	25,688,277.00	19,489,687.00
Special Funds	5,947,999.25	7,875,728.33
Other	411,140.00	426,140.00
Total	32,477,712.19	29,010,683.74
Current and Accrued Assets		
Cash	3,212,082.40	5,767,567.03
Special Deposits	6,621,781.66	22,900,778.74
Temporary Cash Investments	17,552.89	3,520.48
Accounts Receivable-Less Reserve	176,960,558.18	122,576,437.31
Notes Receivable from Assoc. Companies	-	-
Accounts Receivable from Assoc Companies	13,428,962.21	21,848,443.90
Materials & Supplies-At Average Cost		
Fuel	41,778,204.71	59,359,781.20
Plant Materials & Operating Supplies	27,414,373.87	26,095,404.11
Stores Expense	6,542,041.79	6,272,850.46
Allowance Inventory	339,421.31	1,519,813.08
Prepayments	5,417,348.90	5,898,441.47
Miscellaneous Current & Accrued Assets	329,914.34	1,035,311.86
Total	282,062,242.26	273,278,349.64
Deferred Debits and Other		
Unamortized Debt Expense	7,257,072.04	5,878,847.20
Unamortized Loss on Bonds	10,137,288.95	10,273,441.03
Accumulated Deferred Income Taxes	50,753,515.51	46,004,036.65
Deferred Regulatory Assets	82,329,873.40	115,103,369.06
Other Deferred Debits	54,724,025.35	66,186,489.35
Total	205,201,775.25	243,446,183.29
Total Assets and Other Debits	3,570,133,188.49	2,889,223,388.59

LIABILITIES AND OTHER CREDITS	THIS YEAR	LAST YEAR
Capitalization		
Common Stock	308,139,977.56	308,139,977.56
Common Stock Expense	(321,288.87)	(321,288.87)
Paid-In Capital	90,000,000.00	15,000,000.00
Other Comprehensive Income	-	-
Retained Earnings	1,032,360,104.32	868,164,231.37
Unappropriated Undistributed Subsidiary Earnings	24,392,477.00	18,193,887.00
Total Common Equity	1,454,571,270.01	1,209,176,807.06
Preferred Stock	-	-
Pollution Control Bonds	332,753,140.00	305,951,140.00
Other Long-Term Debt	-	-
LT Notes Payable to Associated Companies	931,000,000.00	483,000,000.00
Long-Term Debt Marked to Market	-	327,540.00
Total Long-Term Debt	1,263,753,140.00	789,278,680.00
Total Capitalization	2,718,324,410.01	1,998,455,487.06
Current and Accrued Liabilities		
Long-Term Debt Due in 1 Year	-	53,000,000.00
ST Notes Payable to Associated Companies	59,036,454.00	-
Notes Payable	-	-
Notes Payable to Associated Companies	-	93,891,054.00
Accounts Payable	152,833,670.83	91,061,074.16
Accounts Payable to Associated Companies	10,686,051.44	61,824,693.45
Customer Deposits	19,735,283.57	18,727,232.94
Taxes Accrued	15,664,813.20	11,769,290.36
Interest Accrued	13,918,111.42	7,608,061.58
Dividends Declared	-	-
Misc. Current & Accrued Liabilities	12,556,983.32	12,983,018.43
Total	284,431,367.78	350,864,424.92
Deferred Credits and Other		
Accumulated Deferred Income Taxes	333,296,780.67	330,151,853.21
Investment Tax Credit	54,972,919.32	12,974,499.32
Regulatory Liabilities	38,069,650.10	36,287,987.50
Customer Advances for Construction	2,783,322.27	1,977,833.15
Asset Retirement Obligations	30,480,217.20	28,636,295.60
Other Deferred Credits	16,115,991.84	7,155,813.31
Misc. Long-Term Liabilities	3,768,886.19	46,309,236.00
Accum Provision for Post-Retirement Benefits	87,889,643.11	76,409,958.52
Total	567,377,410.70	539,903,476.61
Total Liabilities and Other Credits	3,570,133,188.49	2,889,223,388.59

KENTUCKY UTILITIES COMPANY
STATEMENT OF CAPITALIZATION AND SHORT-TERM DEBT
JANUARY 31, 2008

	AUTHORIZED SHARES	ISSUED & OUTSTANDING SHARES	ISSUED & OUTSTANDING AMOUNT	PERCENT OF TOTAL CAPITAL & S/T DEBT	PERCENT OF TOTAL CAPITAL
Common Equity					
Common Stock - Without Par	80,000,000	37,817,878	308,139,977.56		
Common Stock Expense			(321,288.87)		
Paid-In Capital			90,000,000.00		
Retained Earnings			1,032,360,104.32		
Unappropriated Undistributed Subsidiary Earnings			24,392,477.00		
Total Common Equity			1,454,571,270.01	52.37	53.51
Long-Term Debt					
Mercer County 2000 Series A due 05/01/23 Var%			12,900,000.00		
Carroll County 2002 Series A due 02/01/32 Var%			20,930,000.00		
Carroll County 2002 Series B due 02/01/32 Var%			2,400,000.00		
Muhlenburg County 2002 Series A due 02/01/32 Var%			2,400,000.00		
Mercer County 2002 Series A due 02/01/32 Var%			7,400,000.00		
Carroll County 2002 Series C due 10/01/32 Var%			96,000,000.00		
Carroll County 2004 Series A due 10/01/34 Var%			50,000,000.00		
Carroll County 2005 Series A due 06/01/35 Var%			13,266,950.00		
Carroll County 2005 Series B due 06/01/35 Var%			13,266,950.00		
Carroll County 2006 Series A due 06/01/36 Var%			16,693,620.00		
Carroll County 2006 Series C due 06/01/36 Var%			16,693,620.00		
Carroll County 2006 Series B due 10/01/34 Var%			54,000,000.00		
Carroll County 2007 Series A due 02/01/26 Var%			17,875,000.00		
Trimble County 2007 Series A due 03/01/37 Var%			8,927,000.00		
Total Long-Term Debt			332,753,140.00	11.98	12.24
LT Notes Payable to Associated Companies			931,000,000.00	33.52	34.25
Total Capitalization			2,718,324,410.01	97.87	100.00
ST Notes Payable to Associated Companies			59,036,454.00	2.13	
Total Capitalization and Short-Term Debt			2,777,360,864.01	100.00	

KENTUCKY UTILITIES COMPANY
TRIAL BALANCE
JANUARY 31, 2008

ACCOUNT - SUBSIDIARY ACCOUNT	BALANCE SUBSIDIARY ACCOUNT	BALANCE AS SHOWN ON BALANCE SHEET
UTILITY PLANT		
At Original Cost	4,992,493,769.02	4,992,493,769 02
Reserves for Depreciation and Amortization		(1,942,102,310 23)
Depreciation	(1,924,893,570 44)	
Amortization of Plant	(17,208,739.79)	
INVESTMENTS - AT COST		32,477,712 19
Nonutility Property	179,120 94	
Nonutility Property Reserve	1,175.00	
Investments in Subsidiary Companies	25,688,277 00	
Ohio Valley Electric Corporation	250,000 00	
Other	411,140 00	
OMU - Interest on Reserve, New	1,267,496 83	
OMU - R&I on Maintenance Reserve	600,000 00	
OMU - R&I on Additions and Replacements	120,000 00	
OMU - R&I on Operations	538,067 36	
OMU - R&I Interest on Purchase Power	292,437 79	
OMU - Purchase Power, Coal Reserve	3,129,997.27	
CASH		3,212,082.40
Cash Accounts	1,788,087.05	
Bank of America	1,423,995.35	
SPECIAL DEPOSITS		6,621,781 66
Restricted Cash	5,806,017.87	
MAN Margin Call	815,763 79	
TEMPORARY CASH INVESTMENTS	17,552 89	17,552 89
Temporary Cash Investments		
ACCOUNTS RECEIVABLE - LESS RESERVE		176,960,558 18
Working Funds	36,817 13	
Customers - Active	105,273,824 46	
Wholesale Sales	3,587,347 94	
Transmission Receivable	578,230 00	
Unbilled Revenues	55,271,000 00	
PC Purchase Program	77,237 06	
Officers and Employees	89 63	
Damage Claims	116,918 98	
Insurance Claims	(105 69)	
IMEA	3,236,772 64	
IMPA	3,439,738 61	
Miscellaneous	7,278,959 78	
Uncollectible Accounts - Charged Off	269,210 95	
Uncollectible Accounts - Recovery	(68,865 38)	
Uncollectible Accounts - Reserve	(758,804 00)	
Uncollectible Accounts - Accrual	(204,649 86)	
Uncollectible Accounts - LEM Reserve	(1,156,024 04)	
Uncollectible Accounts - Miscellaneous	(23,300.71)	
Interest and DividendS Receivable	6,160 68	
ACCOUNTS RECEIVABLE FROM ASSOCIATED COMPANIES		13,428,962.21
E.ON US Services/Louisville Gas & Electric Company	13,428,962.21	

KENTUCKY UTILITIES COMPANY
TRIAL BALANCE
JANUARY 31, 2008

ACCOUNT - SUBSIDIARY ACCOUNT	BALANCE SUBSIDIARY ACCOUNT	BALANCE AS SHOWN ON BALANCE SHEET
FUEL		41,778,204 71
Coal 755,760 38 Tons @ $48 42; MMBTU 17,974,584 31 @ 203 60¢	36,596,729 24	
Fuel Oil 2,394,925 Gallons @ 214 62¢	5,140,103 12	
Gas Pipeline 4,225 40 MCF @ $9 79	41,372 35	
PLANT MATERIALS AND OPERATING SUPPLIES		27,414,373 87
Regular Materials and Supplies	27,151,636 53	
Limestone 35,446 36 Tons @ $7 41	262,737 34	
STORES EXPENSE		6,542,041 79
Stores Expense Undistributed	6,542,041 79	
ALLOWANCE INVENTORY		339,421 31
Allowance Inventory	339,421 31	
PREPAYMENTS		5,417,348 90
Insurance	2,706,743 08	
Taxes	746,048 60	
Risk Management and Workers Compensation	75,000 00	
Vehicle License	13,573 64	
Other	1,875,983 58	
MISCELLANEOUS CURRENT ASSETS		329,914 34
Derivative Asset - Non-Hedging	313,769 41	
Miscellaneous Current Assets	16,144 93	
UNAMORTIZED DEBT EXPENSE		7,257,072 04
Mercer County 2000 Series A due 05/01/23 Var%	263,675 29	
Carroll County 2002 Series A due 02/01/32 Var%	98,418 34	
Carroll County 2002 Series B due 02/01/32 Var%	68,415 62	
Muhlenburg County 2002 Series A due 02/01/32 Var%	76,162 11	
Mercer County 2002 Series A due 02/01/32 Var%	27,453 40	
Carroll County 2002 Series C due 10/01/32 Var%	1,793,395 04	
Carroll County 2004 Series A due 10/01/34 Var%	1,068,676 59	
Carroll County 2005 Series A due 06/01/35 Var%	483,647 30	
Carroll County 2005 Series B due 06/01/35 Var%	491,548 04	
Carroll County 2006 Series A due 06/01/36 Var%	586,268 05	
Carroll County 2006 Series C due 06/01/36 Var%	583,697 18	
Carroll County 2006 Series B due 10/01/34 Var%	998,923 98	
Carroll County 2007 Series A due 02/01/26 Var%	313,927 55	
Trimble County 2007 Series A due 03/01/37 Var%	402,863 55	
UNAMORTIZED LOSS ON BONDS		10,137,288 95
Reacquired Debt	10,137,288 95	
ACCUMULATED DEFERRED INCOME TAXES		50,753,515 51
Federal	42,853,061 75	
State	7,900,453 76	
DEFERRED REGULATORY ASSETS		82,329,873 40
Asset Retirement Obligations	24,306,003 81	
FERC Jurisdictional Pension Expense	2,513,026 88	
SFAS 109 - Deferred Taxes	6,547,298 00	
Pension & Postretirement Benefits	27,744,630 11	
Ice Storm Expenses	1,121,421 00	
MISO Exit Fee	20,097,493 60	
OTHER DEFERRED DEBITS	54,724,025 35	54,724,025 35
Total Assets and Other Debits	3,570,133,188.49	3,570,133,188.49

KENTUCKY UTILITIES COMPANY
TRIAL BALANCE
JANUARY 31, 2008

ACCOUNT - SUBSIDIARY ACCOUNT	BALANCE SUBSIDIARY ACCOUNT	BALANCE AS SHOWN ON BALANCE SHEET
COMMON EQUITY		1,454,571,270.01
Common Stock	308,139,977 56	
Common Stock Expense	(321,288 87)	
Paid-In Capital	90,000,000 00	
Retained Earnings	1,032,360,104 32	
Unappropriated Undistributed Subsidiary Earnings	24,392,477 00	
BONDS		332,753,140 00
Pollution Control Bonds	332,753,140 00	
LT NOTES PAYABLE TO ASSOCIATED COMPANIES	931,000,000 00	931,000,000 00
ST NOTES PAYABLE TO ASSOCIATED COMPANIES		59,036,454.00
Money Pool Payable	59,036,454 00	
ACCOUNTS PAYABLE		152,833,670 83
Regular	141,126,511.59	
Salaries and Wages Accrued	2,245,196 41	
Employee Withholdings Payable	5,190,863 04	
Tax Collections - Payable	4,271,099.79	
ACCOUNTS PAYABLE TO ASSOCIATED COMPANIES		10,686,051 44
E ON US Services/Louisville Gas & Electric Company	10,686,051 44	
CUSTOMERS' DEPOSITS	19,735,283.57	19,735,283.57
TAXES ACCRUED	15,664,813 20	15,664,813 20
INTEREST ACCRUED		13,918,111 42
Interest on Long-Term Debt		
Mercer County 2000 Series A due 05/01/23 Var%	22,843.75	
Carroll County 2002 Series A due 02/01/32 Var%	171,360 87	
Carroll County 2002 Series B due 02/01/32 Var%	19,649 58	
Muhlenburg County 2002 Series A due 02/01/32 Var%	19,649 58	
Mercer County 2002 Series A due 02/01/32 Var%	60,586 24	
Carroll County 2002 Series C due 10/01/32 Var%	260,666 68	
Carroll County 2004 Series A due 10/01/34 Var%	56,250 00	
Carroll County 2005 Series A due 06/01/35 Var%	1,547 81	
Carroll County 2005 Series B due 06/01/35 Var%	1,547 81	
Carroll County 2006 Series A due 06/01/36 Var%	81,381 41	
Carroll County 2006 Series C due 06/01/36 Var%	81,381 36	
Carroll County 2006 Series B due 10/01/34 Var%	51,450 00	
Carroll County 2007 Series A due 02/01/26 Var%	1,177 86	
Trimble County 2007 Series A due 03/01/37 Var%	2,358 49	
Customer Deposits	774,538 71	
Fidelia	12,311,721 27	

KENTUCKY UTILITIES COMPANY
TRIAL BALANCE
JANUARY 31, 2008

ACCOUNT - SUBSIDIARY ACCOUNT	BALANCE SUBSIDIARY ACCOUNT	BALANCE AS SHOWN ON BALANCE SHEET
MISCELLANEOUS CURRENT AND ACCRUED LIABILITIES		12,556,983 32
Customer Overpayments	1,255,183 55	
UK Emission Research Grant	250,000 00	
Vacation Pay Accrued	4,824,019 89	
Derivative Liability - Non-Hedging	695,938 87	
Franchise Fee Payable	5,893,443 94	
Postretirement Benefits - Current	426,231 69	
Other	(787,834 62)	
ACCUMULATED DEFERRED INCOME TAXES		333,296,780 67
Federal	287,349,410 55	
State	45,947,370 12	
INVESTMENT TAX CREDIT		54,972,919 32
Job Development Credit	406,272 32	
Advance Coal Credit	54,566,647 00	
REGULATORY LIABILITIES		38,069,650 10
Asset Retirement Obligations	2,191,877 35	
Deferred Taxes - SFAS 109	29,036,205 50	
Spare Parts	1,272,406 25	
MISO Schedule 10 Charges	5,569,161 00	
CUSTOMERS' ADVANCES FOR CONSTRUCTION		2,783,322 27
Line Extensions	1,901,389 36	
Outdoor Lighting Deposits	4,470 00	
Other	877,462 91	
ASSET RETIREMENT OBLIGATIONS	30,480,217 20	30,480,217 20
OTHER DEFERRED CREDITS	16,115,991 84	16,115,991 84
MISCELLANEOUS LONG-TERM LIABILITIES		3,768,886 19
Workers' Compensation	3,312,886 19	
Uncertain Tax Positions	456,000 00	
ACCUMULATED PROVISION FOR BENEFITS		87,889,643 11
Pension Payable	19,816,138 00	
Postretirement Benefits - SFAS 106	68,210,652 79	
Medicare Subsidy -SFAS 106	(5,203,549 00)	
Post Employment Benefits Payable	5,349,374 00	
Post Employment Medicare Subsidy	(282,973 00)	
Pension Payable SERP	0 32	
Total Liabilities and Other Credits	3,570,133,188.49	3,570,133,188.49

KENTUCKY UTILITIES COMPANY
STATEMENT OF CASH FLOWS
JANUARY 31, 2008

	YEAR TO DATE 2008	YEAR TO DATE 2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	19,055,531.31	15,978,803.84
Items not requiring cash currently:		
Depreciation	10,298,372.67	8,866,295.50
Amortization	386,147.65	434,637.24
Deferred income taxes - net	-	-
Investment tax credits deferred - net	(26,193.00)	(49,276.00)
Other	239,068.37	240,533.74
Change in receivables	(1,639,212.65)	28,790,920.34
Change in inventory	(139,158.52)	4,831,411.21
Change in allowance inventory	43,472.80	150,724.75
Change in payables and accrued expenses	(23,855,789.24)	(17,346,582.59)
Change in other regulatory assets	(164,622.78)	(86,526.12)
Change in other regulatory liabilities	348,614.02	348,614.02
Change in other deferred debits	10,278,789.59	(634,790.24)
Change in other deferred credits	2,679,848.24	(127,328.65)
Other	1,892,451.05	1,186,416.80
Less: Allowance for other funds used during construction	(539,278.31)	(209,583.70)
Less: Undistributed earnings of subsidiary company	(3,185,409.00)	(1,945,600.00)
Net cash provided (used) by operating activities	15,672,632.20	40,428,670.14
CASH FLOWS FROM INVESTING ACTIVITIES		
Gross additions to utility plant - construction expenditures	(53,469,444.86)	(34,630,979.97)
Less: Allowance for other funds used during construction	539,278.31	209,583.70
Change in other long-term debt	-	(106,000.00)
Change in long-term investments	(32,115.18)	(2,170,999.80)
Change in restricted cash	4,363,774.12	(93,262.31)
Net cash provided (used) by investing activities	(48,598,507.61)	(36,791,658.38)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	-	(26,434.93)
Net increase in short-term debt	35,817,000.00	-
Net decrease in short-term debt	-	(3,152,000.00)
Net cash provided (used) by financing activities	35,817,000.00	(3,178,434.93)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,891,124.59	458,576.83
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	338,510.70	5,313,043.20
CASH AND CASH EQUIVALENTS AT END OF PERIOD	3,229,635.29	5,771,620.03

KENTUCKY UTILITIES COMPANY
ANALYSIS OF INTEREST CHARGES
JANUARY 31, 2008

	CURRENT MONTH		YEAR TO DATE		YEAR ENDED CURRENT MONTH	
	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR
Interest On Long-Term Debt						
First Mortgage Bonds						
Series P 7.92%..	-	349,800.00	-	349,800.00	1,224,300.00	4,197,600.00
Series S 5.99%..	-	-	-	-	-	(89,850.00)
Loan Agreement - Poll. Control Bonds						
Series 10 (VARIABLE%)	-	172,400.55	-	172,400.55	809,541.38	1,959,075.63
Series 11 (VARIABLE%)	50,077.08	-	50,077.08	-	50,077.08	424,272.08
Series 12 (VARIABLE%)	62,496.31	65,416.29	62,496.31	65,416.29	776,375.50	750,033.75
Series 13 (VARIABLE%)	7,166.32	7,501.15	7,166.32	7,501.15	89,025.36	86,004.82
Series 14 (VARIABLE%)	7,166.32	7,501.15	7,166.32	7,501.15	89,025.36	86,004.80
Series 15 (VARIABLE%)	22,096.16	23,128.55	22,096.16	23,128.55	274,494.89	265,181.54
Series 16 (VARIABLE%)	357,093.33	302,666.67	357,093.33	302,666.67	3,830,421.32	3,469,613.32
Series 17 (VARIABLE%)	205,972.22	153,652.78	205,972.22	153,652.78	1,991,798.62	1,770,368.02
Series 18 (VARIABLE%)	48,534.93	40,077.25	48,534.93	40,077.25	517,185.53	467,602.14
Series 19 (VARIABLE%)	48,534.93	40,575.12	48,534.93	40,575.12	508,984.68	468,541.13
Series 20 (VARIABLE%)	83,491.29	52,839.94	83,491.29	52,839.94	685,713.65	332,641.24
Series 21 (VARIABLE%)	83,491.29	52,839.94	83,491.29	52,839.94	685,178.02	95,733.27
Series 22 (VARIABLE%)	214,275.00	-	214,275.00	-	2,008,905.00	-
PCB CC (VARIABLE%)	40,632.73	-	40,632.73	-	262,902.62	-
PCB TC (VARIABLE%)	81,361.04	-	81,361.04	-	526,612.40	-
Interest Rate Swaps	-	(10,075.52)	-	(10,075.52)	(76,780.63)	(300,443.81)
Marked to Market	-	(102,542.00)	-	(102,542.00)	(226,047.00)	(944,609.00)
Fidelia..	4,193,700.01	2,043,058.34	4,193,700.01	2,043,058.34	36,973,288.21	21,176,283.33
Hardin Promissory Note..................................	-	43,322.50	-	43,322.50	(236,592.17)	43,322.50
Total..	5,506,088.96	3,242,162.71	5,506,088.96	3,242,162.71	50,764,409.82	34,257,374.76
Amortization of Debt Expense - Net						
Amortization of Debt Expense..............................	24,059.12	22,806.00	24,059.12	22,806.00	336,187.74	250,962.20
Amort. of Loss on Reacquired Debt....................	36,378.00	53,751.00	36,378.00	53,751.00	501,192.90	680,366.87
Total..	60,437.12	76,557.00	60,437.12	76,557.00	837,380.64	931,329.07
Other Interest Charges						
Customers' Deposits..	89,184.61	86,125.09	89,184.61	86,125.09	1,105,072.92	1,006,756.29
Other Tax Deficiencies..............................	-	-	-	-	(2,967.92)	-
Interest on Debt to Associated Companies	114,011.42	343,629.57	114,011.42	343,629.57	6,192,102.11	3,009,281.78
AFUDC Borrowed Funds	(139,029.53)	(45,933.98)	(139,029.53)	(45,933.98)	(1,048,902.18)	(303,523.41)
Other Interest Expense..............................	-	-	-	-	301.29	108,890.38
Total..	64,166.50	383,820.68	64,166.50	383,820.68	6,245,606.22	3,821,405.04
Total Interest..	5,630,692.58	3,702,540.39	5,630,692.58	3,702,540.39	57,847,396.68	39,010,108.87

KENTUCKY UTILITIES COMPANY
ANALYSIS OF TAXES CHARGED
JANUARY 31, 2008

Kind of Taxes	Current Month This Year	Current Month Last Year	Year To Date This Year	Year To Date Last Year
Taxes Charged to Accounts 408.1 and 409.1				
Property Taxes	1,025,101.01	1,001,000.00	1,025,101.01	1,001,000.00
Unemployment	8,717.72	15,879.23	8,717.72	15,879.23
FICA	476,661.86	461,522.91	476,661.86	461,522.91
Public Service Commission Fee	149,209.73	138,724.62	149,209.73	138,724.62
Federal Income	8,772,033.89	7,958,903.73	8,772,033.89	7,958,903.73
State Income	1,686,929.60	1,785,651.48	1,686,929.60	1,785,651.48
Miscellaneous	7,549.87	7,813.86	7,549.87	7,813.86
Total Charged to Operating Expense	12,126,203.68	11,369,495.83	12,126,203.68	11,369,495.83
Taxes Charged to Other Accounts	1,059,909.96	298,882.15	1,059,909.96	298,882.15
Taxes Accrued on Intercompany Accounts	(175,936.97)	(208,620.88)	(175,936.97)	(208,620.88)
Total Taxes Charged	13,010,176.67	11,459,757.10	13,010,176.67	11,459,757.10

ANALYSIS OF TAXES ACCRUED - ACCOUNT 236

Kind of Taxes	Taxes Accrued At Beginning Of Year	Accruals To Date This Year	Payments To Date This Year	Taxes Accrued At End Of Month
Property Taxes	6,455,854.42	1,060,083.00	18,824.60	7,497,112.82
Unemployment	36,767.25	3,883.39	1,137.63	39,513.01
FICA	497,417.13	443,622.67	364,402.03	576,637.77
Federal Income	(5,097,779.62)	9,538,602.47	-	4,440,822.85
State Income	1,103,849.76	1,834,346.64	-	2,938,196.40
Kentucky Sales and Use Tax	618,307.69	153,023.75	618,542.28	152,789.16
Miscellaneous	18,792.54	(23,385.25)	(24,333.90)	19,741.19
Totals	3,633,209.17	13,010,176.67	978,572.64	15,664,813.20

KENTUCKY UTILITIES COMPANY
SUMMARY OF UTILITY PLANT
JANUARY 31, 2008

	NET BALANCE FIRST OF YEAR	ADDITIONS	RETIREMENTS	TRANSFER/ ADJUSTMENT	NET ADDITIONS	BALANCE TO DATE
UTILITY PLANT						
Plant In Service						
Intangibles	24,723,054.27	234,728.41	-	-	234,728.41	24,957,782.68
Steam Production	1,678,193,956.12	1,205,679.28	(179,819.00)	-	1,025,860.28	1,679,219,816.40
Hydro Production	10,974,095.24	62,158.95	(3,022.00)	-	59,136.95	11,033,232.19
Other Production	497,590,724.76	-	-	-	-	497,590,724.76
Transmission	520,264,996.06	1,591,732.31	(130,858.77)	-	1,460,873.54	521,725,869.60
Distribution	1,038,231,358.94	26,101,900.07	(10,942.10)	-	26,090,957.97	1,064,322,316.91
General	79,026,529.12	417,000.62	(172.34)	-	416,828.28	79,443,357.40
Transportation	18,955,797.89	-	-	-	-	18,955,797.89
Total Electric Plant In Service	3,867,960,512.40	29,613,199.64	(324,814.21)	-	29,288,385.43	3,897,248,897.83
Plant Purchased or Sold	-					-
Total Plant	3,867,960,512.40	29,613,199.64	(324,814.21)	-	29,288,385.43	3,897,248,897.83
Construction Work In Progress	1,071,388,625.97	23,856,245.22	-	-	23,856,245.22	1,095,244,871.19
Total Utility Plant at Original Cost	4,939,349,138.37	53,469,444.86	(324,814.21)	-	53,144,630.65	4,992,493,769.02

RESERVE FOR DEPRECIATION OF UTILITY	NET BALANCE FIRST OF YEAR	ACCRUAL	RETIREMENTS	TRANSFER/ ADJUSTMENT	RWIP TRANSFERS OUT	COST OF REMOVAL	SALVAGE	OTHER CREDITS	BALANCE TO DATE
Life Reserves									
Steam Production	(862,613,622.59)	(3,734,746.77)	179,819.00	-	-	-	-	-	(866,168,550.36)
Hydro Production	(7,502,640.82)	(11,281.18)	3,022.00	-	-	-	-	-	(7,510,900.00)
Other Production	(115,446,056.48)	(1,407,361.41)	-	-	-	-	-	-	(116,853,417.89)
Transmission	(202,816,756.20)	(711,630.08)	130,858.77	-	-	-	-	(76,966.41)	(203,474,493.92)
Distribution	(359,039,785.75)	(2,231,324.28)	10,942.10	-	-	-	-	(40,350.90)	(361,300,518.83)
General	(30,072,704.19)	(440,266.00)	172.34	-	-		-	-	(30,512,797.85)
Transportation	(18,834,788.98)	(3,342.29)	-	-	-		-	-	(18,838,131.27)
Total Life Reserve For Depreciation Of Utility Plant In Service	(1,596,326,355.01)	(8,539,952.01)	324,814.21	-	-	-	-	(117,317.31)	(1,604,658,810.12)
Salvage Reserves					-				
Steam Production	(65,099,820.34)	(516,444.20)		-	-	176,909.63	-	-	(65,439,354.91)
Hydro Production	(741,054.42)	(3,515.17)		-	-	6,931.47	-	-	(737,638.12)
Other Production	(1,081,369.18)	-		-	-	-	-	-	(1,081,369.18)
Transmission	(115,529,459.07)	(532,410.11)		-	-	404,791.50	(5,819.89)	-	(115,662,897.57)
Distribution	(140,499,986.35)	(757,017.28)	-		-	(21,349.00)	(339.90)	-	(141,278,692.53)
General	244,224.85	2,127.75	-		-	30,318.48	-	-	276,671.08
Total Salvage Reserve For Depreciation Of Utility Plant In Service	(322,707,464.51)	(1,807,259.01)	-	-	-	597,602.08	(6,159.79)	-	(323,923,281.23)
Total Reserves									
Steam Production	(927,713,442.93)	(4,251,190.97)	179,819.00	-	-	176,909.63	-	-	(931,607,905.27)
Hydro Production	(8,243,695.24)	(14,796.35)	3,022.00	-	-	6,931.47	-	-	(8,248,538.12)
Other Production	(116,527,425.66)	(1,407,361.41)	-	-	-	-	-	-	(117,934,787.07)
Transmission	(318,346,215.27)	(1,244,040.19)	130,858.77	-	-	404,791.50	(5,819.89)	(76,966.41)	(319,137,391.49)
Distribution	(499,539,772.10)	(2,988,341.56)	10,942.10	-	-	(21,349.00)	(339.90)	(40,350.90)	(502,579,211.36)
General	(29,828,479.34)	(438,138.25)	172.34	-	-	30,318.48	-	-	(30,236,126.77)
Transportation	(18,834,788.98)	(3,342.29)	-	-	-	-	-	-	(18,838,131.27)
Total Life Reserve For Depreciation Of Utility Plant In Service	(1,919,033,819.52)	(10,347,211.02)	324,814.21	-	-	597,602.08	(6,159.79)	(117,317.31)	(1,928,582,091.35)
Retirement of Work in Progress	4,401,887.42	-	-	-	(474,124.98)	1,133,613.22	(56,971.02)	(1,315,883.74)	3,688,520.90
YTD Activity	(1,914,631,932.09)	(10,347,211.02)	324,814.21	-	(474,124.98)	1,731,215.30	(63,130.81)	(1,433,201.05)	(1,924,893,570.44)
Intangibles	(16,822,592.14)	(386,147.65)	-	-	-	-	-	-	(17,208,739.79)
Leaseholds	-	-	-	-	-	-	-	-	-
Amortization - Utility Plant in Service	(1,931,454,524.23)	(10,733,358.67)	324,814.21	-	(474,124.98)	1,731,215.30	(63,130.81)	(1,433,201.05)	(1,942,102,310.23)
Utility Plant at Original Cost Less Reserve For Depreciation and Amortization	3,007,894,614.14								3,050,391,458.79

KU Monthly Report to KPSC – December 31, 2007

KENTUCKY UTILITIES COMPANY

Financial Reports

December 31, 2007

Prepared by Regulatory Accounting and Reporting

KENTUCKY UTILITIES COMPANY
COMPARATIVE STATEMENT OF INCOME
DECEMBER 31, 2007

	CURRENT MONTH			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	109,330,638.96	106,411,484.02	2,919,154.94	2.74
Total Operating Revenues	109,330,638.96	106,411,484.02	2,919,154.94	2.74
Operating Expenses				
Fuel	38,732,246.04	34,223,984.54	4,508,261.50	13.17
Power Purchased	14,091,114.31	13,189,817.35	901,296.96	6.83
Other Operation Expenses	14,168,917.45	12,830,785.80	1,338,131.65	10.43
Maintenance	8,599,447.45	6,735,082.65	1,864,364.80	27.68
Depreciation	10,107,998.15	9,540,136.04	567,862.11	5.95
Amortization Expense	416,450.50	425,633.31	(9,182.81)	(2.16)
Regulatory Credits	(179,667.07)	(170,394.41)	(9,272.66)	5.44
Taxes				
Federal Income	1,516,673.50	7,393,376.20	(5,876,702.70)	(79.49)
State Income	3,049,314.57	3,355,030.69	(305,716.12)	(9.11)
Deferred Federal Income - Net	(1,822,415.97)	(733,365.71)	(1,089,050.26)	148.50
Deferred State Income - Net	(362,501.56)	(471,505.98)	109,004.42	(23.12)
Federal Income - Estimated	(9,185,425.01)	(11,404,086.13)	2,218,661.12	(19.46)
State Income - Estimated	(1,766,427.89)	(2,558,609.07)	792,181.18	(30.96)
Property and Other	925,738.25	1,798,273.13	(872,534.88)	(48.52)
Investment Tax Credit	13,600,000.00	12,000,000.00	1,600,000.00	13.33
Loss (Gain) from Disposition of Allowances	-	-	-	-
Accretion Expense	155,089.06	145,635.00	9,454.06	6.49
Total Operating Expenses	92,046,551.78	86,299,793.41	5,746,758.37	6.66
Net Operating Income	17,284,087.18	20,111,690.61	(2,827,603.43)	(14.06)
Other Income Less Deductions				
Other Income Less Deductions	3,827,237.19	2,763,441.09	1,063,796.10	38.50
AFUDC - Equity	426,469.30	82,893.12	343,576.18	414.48
Total Other Income Less Deductions	4,253,706.49	2,846,334.21	1,407,372.28	49.45
Income Before Interest Charges	21,537,793.67	22,958,024.82	(1,420,231.15)	(6.19)
Interest on Long Term Debt	5,171,658.49	3,235,278.90	1,936,379.59	59.85
Amortization of Debt Expense - Net	60,437.12	76,481.00	(16,043.88)	(20.98)
Other Interest Expenses	429,603.30	317,251.99	112,351.31	35.41
AFUDC - Borrowed Funds	(122,738.89)	(56,677.70)	(66,061.19)	116.56
Total Interest Charges	5,538,960.02	3,572,334.19	1,966,625.83	55.05
Net Income	15,998,833.65	19,385,690.63	(3,386,856.98)	(17.47)
Preferred Dividend Requirements	-	-	-	-
Earnings Available for Common	15,998,833.65	19,385,690.63	(3,386,856.98)	(17.47)

KENTUCKY UTILITIES COMPANY
COMPARATIVE STATEMENT OF INCOME
DECEMBER 31, 2007

	YEAR TO DATE			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	1,272,548,899.24	1,210,019,284.57	62,529,614.67	5.17
Total Operating Revenues	1,272,548,899.24	1,210,019,284.57	62,529,614.67	5.17
Operating Expenses				
Fuel	460,118,684.64	422,993,144.97	37,125,539.67	8.78
Power Purchased	168,443,605.64	182,445,054.79	(14,001,449.15)	(7.67)
Other Operation Expenses	152,922,836.36	164,900,927.12	(11,978,090.76)	(7.26)
Maintenance	85,242,194.19	72,877,246.06	12,364,948.13	16.97
Depreciation	115,264,164.71	109,935,754.63	5,328,410.08	4.85
Amortization Expense	5,420,544.96	5,072,613.90	347,931.06	6.86
Regulatory Credits	(2,101,203.34)	(2,044,274.40)	(56,928.94)	2.78
Taxes				
Federal Income	27,762,415.79	48,696,525.01	(20,934,109.22)	(42.99)
State Income	13,060,218.03	11,375,571.97	1,684,646.06	14.81
Deferred Federal Income - Net	(6,360,163.38)	(204,370.34)	(6,155,793.04)	3,012.08
Deferred State Income - Net	(488,065.68)	875,065.43	(1,363,131.11)	(155.77)
Federal Income - Estimated	-	-	-	-
State Income - Estimated	-	-	-	-
Property and Other	18,439,076.67	18,603,067.79	(163,991.12)	(0.88)
Investment Tax Credit	42,566,647.00	12,000,000.00	30,566,647.00	254.72
Loss (Gain) from Disposition of Allowances	(706,851.51)	(1,283,929.13)	577,077.62	(44.95)
Accretion Expense	1,861,362.72	1,747,614.99	113,747.73	6.51
Total Operating Expenses	1,081,445,466.80	1,047,990,012.79	33,455,454.01	3.19
Net Operating Income	191,103,432.44	162,029,271.78	29,074,160.66	17.94
Other Income Less Deductions				
Other Income Less Deductions	28,450,681.68	27,804,120.11	646,561.57	2.33
AFUDC - Equity	3,327,704.85	384,044.07	2,943,660.78	766.49
Total Other Income Less Deductions	31,778,386.53	28,188,164.18	3,590,222.35	12.74
Income Before Interest Charges	222,881,818.97	190,217,435.96	32,664,383.01	17.17
Interest on Long Term Debt	48,500,483.57	33,670,960.89	14,829,522.68	44.04
Amortization of Debt Expense - Net	853,500.52	937,035.07	(83,534.55)	(8.91)
Other Interest Expenses	7,521,067.03	4,051,408.30	3,469,658.73	85.64
AFUDC - Borrowed Funds	(955,806.63)	(262,751.50)	(693,055.13)	263.77
Total Interest Charges	55,919,244.49	38,396,652.76	17,522,591.73	45.64
Net Income	166,962,574.48	151,820,783.20	15,141,791.28	9.97
Preferred Dividend Requirements	-	-	-	-
Earnings Available for Common	166,962,574.48	151,820,783.20	15,141,791.28	9.97

KENTUCKY UTILITIES COMPANY
COMPARATIVE STATEMENT OF INCOME
DECEMBER 31, 2007

	YEAR ENDED CURRENT MONTH			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	1,272,548,899.24	1,210,019,284.57	62,529,614.67	5.17
Total Operating Revenues	1,272,548,899.24	1,210,019,284.57	62,529,614.67	5.17
Operating Expenses				
Fuel	460,118,684.64	422,993,144.97	37,125,539.67	8.78
Power Purchased	168,443,605.64	182,445,054.79	(14,001,449.15)	(7.67)
Other Operation Expenses	152,922,836.36	164,900,927.12	(11,978,090.76)	(7.26)
Maintenance	85,242,194.19	72,877,246.06	12,364,948.13	16.97
Depreciation	115,264,164.71	109,935,754.63	5,328,410.08	4.85
Amortization Expense	5,420,544.96	5,072,613.90	347,931.06	6.86
Regulatory Credits	(2,101,203.34)	(2,044,274.40)	(56,928.94)	2.78
Taxes				
Federal Income	27,762,415.79	48,696,525.01	(20,934,109.22)	(42.99)
State Income	13,060,218.03	11,375,571.97	1,684,646.06	14.81
Deferred Federal Income - Net	(6,360,163.38)	(204,370.34)	(6,155,793.04)	3,012.08
Deferred State Income - Net	(488,065.68)	875,065.43	(1,363,131.11)	(155.77)
Federal Income - Estimated	-	-	-	-
State Income - Estimated	-	-	-	-
Property and Other	18,439,076.67	18,603,067.79	(163,991.12)	(0.88)
Investment Tax Credit	42,566,647.00	12,000,000.00	30,566,647.00	254.72
Loss (Gain) from Disposition of Allowances	(706,851.51)	(1,283,929.13)	577,077.62	(44.95)
Accretion Expense	1,861,362.72	1,747,614.99	113,747.73	6.51
Total Operating Expenses	1,081,445,466.80	1,047,990,012.79	33,455,454.01	3.19
Net Operating Income	191,103,432.44	162,029,271.78	29,074,160.66	17.94
Other Income Less Deductions				
Other Income Less Deductions	28,450,681.68	27,804,120.11	646,561.57	2.33
AFUDC - Equity	3,327,704.85	384,044.07	2,943,660.78	766.49
Total Other Income Less Deductions	31,778,386.53	28,188,164.18	3,590,222.35	12.74
Income Before Interest Charges	222,881,818.97	190,217,435.96	32,664,383.01	17.17
Interest on Long Term Debt	48,500,483.57	33,670,960.89	14,829,522.68	44.04
Amortization of Debt Expense - Net	853,500.52	937,035.07	(83,534.55)	(8.91)
Other Interest Expenses	7,521,067.03	4,051,408.30	3,469,658.73	85.64
AFUDC - Borrowed Funds	(955,806.63)	(262,751.50)	(693,055.13)	263.77
Total Interest Charges	55,919,244.49	38,396,652.76	17,522,591.73	45.64
Net Income	166,962,574.48	151,820,783.20	15,141,791.28	9.97
Preferred Dividend Requirements	-	-	-	-
Earnings Available for Common	166,962,574.48	151,820,783.20	15,141,791.28	9.97

KENTUCKY UTILITIES COMPANY
ANALYSIS OF RETAINED EARNINGS
DECEMBER 31, 2007

Retained Earnings and Undistributed Earnings	Current Month: Total Retained Earnings	Current Month: Undistributed Subsidiary Earnings	Year to Date: Total Retained Earnings	Year to Date: Undistributed Subsidiary Earnings	Year Ended Current Month: Total Retained Earnings	Year Ended Current Month: Undistributed Subsidiary Earnings
Balance Beginning of Period................	1,003,207,881.36	18,490,335.00	854,131,027.53	16,248,287.00	854,131,027.53	16,248,287.00
Net Income To Date..........................	15,998,833.65		166,962,574.48		166,962,574.48	
FIN 48 Adjustment............................			355,161.00		355,161.00	
Adjust for Equity in Subsidiary Earnings for Year						
-EE Inc....................................	(2,716,733.00)	2,716,733.00	(26,358,781.00)	26,358,781.00	(26,358,781.00)	26,358,781.00
Dividends Rec'd Current Year						
-EE Inc....................................	-	-	21,400,000.00	(21,400,000.00)	21,400,000.00	(21,400,000.00)
Balance End of Period........................	1,016,489,982.01	21,207,068.00	1,016,489,982.01	21,207,068.00	1,016,489,982.01	21,207,068.00

Combined Retained Earnings	12 MONTHS 12/31/07	12 MONTHS 12/31/2006
Retained Earnings Beginning of Period.....	870,379,314.53	718,558,531.33
Add Net Income................................	166,962,574.48	151,820,783.20
FIN 48 Adjustment............................	355,161.00	-
Subtotal..	1,037,697,050.01	870,379,314.53
Deduct		
Dividends on Preferred Stock............	-	-
Dividends on Common Stock............	-	-
Preferred Stock Redemption Exp	-	-
Other..	-	-
Retained Earnings End of Period............	1,037,697,050.01	870,379,314.53

KENTUCKY UTILITIES COMPANY
COMPARATIVE BALANCE SHEETS AS OF DECEMBER 31, 2007 AND 2006

ASSETS AND OTHER DEBITS	THIS YEAR	LAST YEAR
Utility Plant		
Utility Plant at Original Cost	4,939,349,138.37	4,167,978,126.69
Less Reserves for Depreciation & Amortization	1,931,454,524.23	1,850,012,155.14
Total	3,007,894,614.14	2,317,965,971.55
Investments - At Cost		
Ohio Valley Electric Corporation	250,000.00	250,000.00
Nonutility Property-Less Reserve	180,295.94	969,162.61
Investments in Subsidiary Companies	22,502,868.00	17,544,087.00
Special Funds	5,915,884.07	5,704,694.33
Other	411,140.00	426,140.00
Total	29,260,188.01	24,894,083.94
Current and Accrued Assets		
Cash	321,020.79	5,309,005.39
Special Deposits	10,985,555.78	22,807,516.43
Temporary Cash Investments	17,489.91	3,505.29
Accounts Receivable-Less Reserve	171,767,245.73	123,201,441.14
Notes Receivable from Assoc. Companies	-	-
Accounts Receivable from Assoc Companies	16,983,062.01	50,014,360.41
Materials & Supplies-At Average Cost		
Fuel	41,770,627.77	64,221,478.60
Plant Materials & Operating Supplies	27,370,026.45	25,951,429.35
Stores Expense	6,454,807.63	6,386,539.03
Allowance Inventory	382,894.11	1,670,537.83
Prepayments	5,293,878.66	5,878,487.31
Miscellaneous Current & Accrued Assets	554,123.63	895,626.67
Total	281,900,732.47	306,339,927.45
Deferred Debits and Other		
Unamortized Debt Expense	7,281,131.16	5,875,218.27
Unamortized Loss on Bonds	10,173,666.95	10,327,192.03
Accumulated Deferred Income Taxes	50,753,515.51	46,004,036.65
Deferred Regulatory Assets	82,165,250.62	115,016,842.94
Other Deferred Debits	66,575,299.74	67,133,954.81
Total	216,948,863.98	244,357,244.70
Total Assets and Other Debits	3,536,004,398.60	2,893,557,227.64

LIABILITIES AND OTHER CREDITS	THIS YEAR	LAST YEAR
Capitalization		
Common Stock	308,139,977.56	308,139,977.56
Common Stock Expense	(321,288.87)	(321,288.87)
Paid-In Capital	90,000,000.00	15,000,000.00
Other Comprehensive Income	-	0.26
Retained Earnings	1,016,489,982.01	854,131,027.53
Unappropriated Undistributed Subsidiary Earnings	21,207,068.00	16,248,287.00
Total Common Equity	1,435,515,738.70	1,193,198,003.48
Preferred Stock	-	-
Pollution Control Bonds	332,753,140.00	305,951,140.00
Other Long-Term Debt	-	-
LT Notes Payable to Associated Companies	931,000,000.00	483,000,000.00
Long-Term Debt Marked to Market	-	433,540.00
Total Long-Term Debt	1,263,753,140.00	789,384,680.00
Total Capitalization	2,699,268,878.70	1,982,582,683.48
Current and Accrued Liabilities		
Long-Term Debt Due in 1 Year	-	53,000,000.00
ST Notes Payable to Associated Companies	23,219,454.00	-
Notes Payable	-	-
Notes Payable to Associated Companies	-	97,043,054.00
Accounts Payable	165,373,890.06	84,148,386.38
Accounts Payable to Associated Companies	38,042,955.52	81,880,154.59
Customer Deposits	19,573,318.28	18,681,706.40
Taxes Accrued	3,633,209.17	5,483,045.29
Interest Accrued	11,932,026.45	7,375,553.83
Dividends Declared	-	-
Misc. Current & Accrued Liabilities	10,909,671.01	10,751,454.70
Total	272,684,524.49	358,363,355.19
Deferred Credits and Other		
Accumulated Deferred Income Taxes	333,296,780.67	330,151,853.21
Investment Tax Credit	54,999,112.32	13,023,775.32
Regulatory Liabilities	37,721,036.08	35,939,373.48
Customer Advances for Construction	2,803,336.61	1,972,866.14
Asset Retirement Obligations	30,315,059.26	28,481,206.54
Other Deferred Credits	13,436,143.60	7,283,141.96
Misc. Long-Term Liabilities	3,554,518.72	59,308,888.32
Accum Provision for Post-Retirement Benefits	87,925,008.15	76,450,084.00
Total	564,050,995.41	552,611,188.97
Total Liabilities and Other Credits	3,536,004,398.60	2,893,557,227.64

KENTUCKY UTILITIES COMPANY
STATEMENT OF CAPITALIZATION AND SHORT-TERM DEBT
DECEMBER 31, 2007

	AUTHORIZED	ISSUED & OUTSTANDING		PERCENT OF TOTAL	
	SHARES	SHARES	AMOUNT	CAPITAL & S/T DEBT	CAPITAL
Common Equity					
Common Stock - Without Par	80,000,000	37,817,878	308,139,977.56		
Common Stock Expense			(321,288.87)		
Paid-In Capital			90,000,000.00		
Other Comprehensive Income			-		
Retained Earnings			1,016,489,982.01		
Unappropriated Undistributed Subsidiary Earnings			21,207,068.00		
Total Common Equity			1,435,515,738.70	52.73	53.18
Long-Term Debt					
PCB 11 DUE 05/01/23 Variable%			12,900,000.00		
PCB 12 DUE 02/01/32 Variable%			20,930,000.00		
PCB 13 DUE 02/01/32 Variable%			2,400,000.00		
PCB 14 DUE 02/01/32 Variable%			2,400,000.00		
PCB 15 DUE 02/01/32 Variable%			7,400,000.00		
PCB 16 DUE 10/01/32 Variable%			96,000,000.00		
PCB 17 DUE 10/01/34 Variable%			50,000,000.00		
PCB 18 DUE 06/01/35 Variable%			13,266,950.00		
PCB 19 DUE 06/01/35 Variable%			13,266,950.00		
PCB 20 DUE 06/01/36 Variable%			16,693,620.00		
PCB 21 DUE 06/01/36 Variable%			16,693,620.00		
PCB 22 DUE 10/01/34 Variable%			54,000,000.00		
PCB CC DUE 02/01/26 Variable%			17,875,000.00		
PCB TC DUE 03/01/37 Variable%			8,927,000.00		
Total Long-Term Debt			332,753,140.00	12.22	12.33
LT Notes Payable to Associated Companies			931,000,000.00	34.20	34.49
Total Capitalization			2,699,268,878.70	99.15	100.00
Long-Term Debt Due in 1 Year			0.00	0.00	
ST Notes Payable to Associated Companies			23,219,454.00	0.85	
Total Capitalization and Short-Term Debt			2,722,488,332.70	100.00	

KENTUCKY UTILITIES COMPANY
TRIAL BALANCE - GENERAL LEDGER
DECEMBER 31, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
UTILITY PLANT		
At Original Cost	4,939,349,138 37	4,939,349,138.37
Reserves for Depreciation and Amortization		(1,931,454,524 23)
Depreciation	(1,914,631,932.09)	
Amortization of Plant	(16,822,592 14)	
INVESTMENTS - AT COST		29,260,188 01
Nonutility Property	179,120 94	
Nonutility Property Reserve	1,175 00	
Investments in Subsidiary Companies	22,502,868 00	
Ohio Valley Electric Corporation	250,000 00	
Other	411,140 00	
OMU-Interest on Reserve, New	1,257,481 65	
OMU-R&I on Maintenance Reserve	600,000.00	
OMU-R&I on Additions and Replacements	120,000.00	
OMU-R&I on Operations	538,067 36	
OMU-R&I Interest on Purchase Power	270,337 79	
OMU-Purchase Power, Coal Reserve	3,129,997.27	
CASH		321,020.79
Cash Accounts	321,020 79	
SPECIAL DEPOSITS		10,985,555 78
Restricted Cash	10,814,023 36	
MAN Margin Call	171,532 42	
TEMPORARY CASH INVESTMENTS		17,489.91
Temporary Cash Investments	17,489 91	
ACCOUNTS RECEIVABLE - LESS RESERVE		171,767,245 73
Working Funds	38,680.00	
Customers-Active	88,695,104.14	
Wholesale Sales	4,253,327.27	
Transmission Receivable	494,784.94	
Unbilled Revenues	58,867,000 00	
PC Purchase Program	78,961.50	
Damage Claims	159,520 54	
Insurance Claims	(105.69)	
IMEA	6,871,021.41	
IMPA	7,301,877 54	
Miscellaneous	6,850,556.06	
Uncollectible Accounts - Reserve	(755,509 00)	
Uncollectible Accounts - LEM Reserve	(1,156,094 53)	
Uncollectible Accounts - Miscellaneous	(27,605 00)	
Interest and Dividend Receivable	95,726 55	
NOTES RECEIVABLE FROM ASSOCIATED COMPANIES		16,983,062 01
Notes Receivable from Associated Companies	16,983,062.01	

KENTUCKY UTILITIES COMPANY
TRIAL BALANCE - GENERAL LEDGER
DECEMBER 31, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
FUEL		41,770,627.77
Coal 797,802.82 Tons @ $47.88; MMBTU 19,001,557.35 @ 201.02¢	38,196,560.38	
Fuel Oil 1,800,858 Gallons @ 192.96¢	3,474,913.62	
Gas Pipeline 12,011.20 MCF @ $8.26	99,153.77	
PLANT MATERIALS AND OPERATING SUPPLIES		27,370,026.45
Regular Materials and Supplies	27,149,258.38	
Limestone 30,186.36 Tons @ $7.31	220,768.07	
STORES EXPENSE		6,454,807.63
Stores Expense Undistributed	6,454,807.63	
ALLOWANCE INVENTORY		382,894.11
Allowance Inventory	382,894.11	
PREPAYMENTS		5,293,878.66
Insurance	2,260,935.06	
Taxes	895,258.33	
Risk Management and Workers Compensation	75,000.00	
Vehicle License	20,360.46	
Other	2,042,324.81	
MISCELLANEOUS CURRENT ASSETS		554,123.63
Derivative Asset - Non-Hedging	537,978.70	
Derivative Asset - Hedging	0.00	
Miscellaneous Current Assets	16,144.93	
UNAMORTIZED DEBT EXPENSE		7,281,131.16
KU Series 11, Variable%, Due 5/01/23	265,116.29	
KU Series 12, Variable%, Due 2/01/32	98,760.34	
KU Series 13, Variable%, Due 2/01/32	68,653.62	
KU Series 14, Variable%, Due 2/01/32	76,427.11	
KU Series 15, Variable%, Due 2/01/32	27,548.40	
KU Series 16, Variable%, Due 10/01/32	1,799,454.04	
KU Series 17, Variable%, Due 10/01/34	1,072,015.59	
KU Series 18, Variable%, Due 06/01/35	485,122.30	
KU Series 19, Variable%, Due 06/01/35	493,047.04	
KU Series 20, Variable%, Due 06/01/36	587,992.05	
KU Series 21, Variable%, Due 06/01/36	585,413.94	
KU Series 22, Variable%, Due 10/01/34	1,002,035.89	
KU Variable%, Due 03/01/37	314,824.49	
KU Variable%, Due 02/01/26	404,720.06	
UNAMORTIZED LOSS ON BONDS		10,173,666.95
Reacquired Debt	10,173,666.95	
ACCUMULATED DEFERRED INCOME TAXES		50,753,515.51
Federal	42,853,061.75	
State	7,900,453.76	
DEFERRED REGULATORY ASSET		82,165,250.62
Asset Retirement Obligations	24,116,267.95	
FERC Jurisdictional Pension Expense	2,472,172.96	
FASB 109 - Deferred Taxes	6,547,298.00	
Pension & Postretirement Benefits	27,744,630.11	
Ice Storm Expenses	1,187,388.00	
MISO Exit Fee	20,097,493.60	
Other		
OTHER DEFERRED DEBITS	66,575,299.74	66,575,299.74
Total Assets and Other Debits	3,536,004,398.60	3,536,004,398.60

KENTUCKY UTILITIES COMPANY
TRIAL BALANCE - GENERAL LEDGER
DECEMBER 31, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
COMMON EQUITY		1.435.515.738.70
Common Stock	308.139,977 56	
Common Stock Expense	(321,288 87)	
Paid-In Capital	90.000,000 00	
Retained Earnings	1,016,489,982 01	
Unappropriated Undistributed Subsidiary Earnings	21,207,068 00	
BONDS		332,753,140 00
Pollution Control Bonds		
KU Series 11, Variable%, Due 05/01/23	12,900,000 00	
KU Series 12, Variable%. Due 2/01/32	20,930,000 00	
KU Series 13. Variable%, Due 2/01/32	2,400,000 00	
KU Series 14, Variable%, Due 2/01/32	2,400,000 00	
KU Series 15, Variable%, Due 2/01/32	7,400,000 00	
KU Series 16, Variable%, Due 10/01/32	96,000,000 00	
KU Series 17, Variable%, Due 10/01/34	50,000,000 00	
KU Series 18, Variable%, Due 06/01/35	13,266,950 00	
KU Series 19. Variable%. Due 06/01/35	13,266,950 00	
KU Series 20, Variable%, Due 06/01/36	16,693,620 00	
KU Series 21, Variable%, Due 06/01/36	16,693,620 00	
KU Series 22, Variable%, Due 10/01/34	54,000,000 00	
KU Variable%, Due 03/01/37	8,927,000 00	
KU Variable%, Due 02/01/26	17,875,000 00	
LT NOTES PAYABLE TO ASSOCIATED COMPANIES	931,000,000 00	931,000,000.00
ST NOTES PAYABLE TO ASSOCIATED COMPANIES		23,219,454 00
Money Pool Payable	23,219,454 00	
ACCOUNTS PAYABLE		165,373,890.06
Regular	155,089,047.31	
Salaries and Wages Accrued	1,580,764 34	
Employee Withholdings Payable	5,188,620 91	
Tax Collections - Payable	3,515,457 50	
ACCOUNTS PAYABLE TO ASSOCIATED COMPANIES		38,042,955.52
E.ON US Services/Louisville Gas & Electric Company	38,042,955 52	
CUSTOMERS' DEPOSITS	19,573,318.28	19,573,318.28
TAXES ACCRUED	3,633,209 17	3,633,209.17
INTEREST ACCRUED		11,932,026.45
Interest on Long-Term Debt		
KU Series 11, Variable%, Due 05/01/23	32,339.59	
KU Series 12, Variable%, Due 2/01/32	108,864.56	
KU Series 13, Variable%, Due 2/01/32	12,483.26	
KU Series 14, Variable%. Due 2/01/32	12,483 26	
KU Series 15, Variable%, Due 2/01/32	38,490 08	
KU Series 16, Variable%, Due 10/01/32	325,440.02	
KU Series 17, Variable%, Due 10/01/34	88,472.22	
KU Series 18, Variable%, Due 06/01/35	8,476 10	
KU Series 19, Variable%, Due 06/01/35	8,476 10	
KU Series 20, Variable%. Due 06/01/36	71,736 20	
KU Series 21. Variable%, Due 06/01/36	71,736.15	
KU Series 22, Variable%, Due 10/01/34	28,800 00	
KU Variable%, Due 03/01/37	6,509.26	
KU Variable%, Due 02/01/26	13,033.84	
Other		
Customer Deposits	705,414 55	
Fidelia	10,399,271.26	

KENTUCKY UTILITIES COMPANY
TRIAL BALANCE - GENERAL LEDGER
DECEMBER 31, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
MISCELLANEOUS CURRENT AND ACCRUED LIABILITIES		10,909,671 01
Customer Overpayments	2,147,282 67	
Vacation Pay Accrued	4,824,019 89	
Derivative Liabilities - Non-Hedging	152,956 12	
Franchise Fee Payable	4,120,915 45	
Other	(335,503 12)	
ACCUMULATED DEFERRED INCOME TAXES		333,296,780 67
Federal	287,349,410 55	
State	45,947,370 12	
INVESTMENT TAX CREDIT		54,999,112 32
Job Development Credit	432,465 32	
Advance Coal Credit	54,566,647 00	
REGULATORY LIABILITIES		37,721,036 08
Asset Retirement Obligations	2,170,861 33	
Deferred Taxes - FAS 109	29,036,205 50	
Spare Parts	1,272,406 25	
MISO Schedule 10 Charges	5,241,563 00	
CUSTOMERS' ADVANCES FOR CONSTRUCTION		2,803,336 61
Line Extensions	1,921,176 20	
Outdoor Lighting Deposits	4,470 00	
Other	877,690 41	
ASSET RETIREMENT OBLIGATIONS	30,315,059 26	30,315,059 26
OTHER DEFERRED CREDITS	13,436,143 60	13,436,143 60
MISCELLANEOUS LONG-TERM LIABILITIES		3,554,518 72
Workers' Compensation	3,098,518 72	
Uncertain Tax Positions	456,000 00	
ACCUMULATED PROVISION FOR BENEFITS		87,925,008 15
Pension Payable	19,816,138 00	
Postretirement Benefits - FAS 106	68,246,017 83	
Medicare Subsidy - FAS 106	(5,203,549 00)	
Post Employment Benefit Payable	5,349,374 00	
Post Employment Medicare Subsidy	(282,973 00)	
Pension Payable SERP	0 32	
Total Liabilities and Other Credits	3,536,004,398.60	3,536,004,398.60

KENTUCKY UTILITIES COMPANY
STATEMENT OF CASH FLOWS
DECEMBER 31, 2007

	Year to Date 2007	Year to Date 2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	166,962,574 48	151,820,783 20
Items not requiring cash currently:		
Depreciation	115,264,164 71	109,935,754 63
Amortization	5,420,544 96	5,072,613 90
Deferred income taxes - net	(1,604,551 40)	10,301,779 99
Investment tax credits deferred - net	41,975,337 00	10,918,128 00
Other	15,645,380 56	29,512,176 13
Change in receivables	(15,534,506 19)	(6,154,811 04)
Change in inventory	20,963,985 13	(10,174,514 82)
Change in allowance inventory	1,287,643 72	(210,850 92)
Change in payables and accrued expenses	(78,888,021 24)	44,723,474 32
Change in other regulatory assets	32,851,592 32	(81,702,098 20)
Change in other regulatory liabilities	1,781,662 60	4,314,684 39
Change in other deferred debits	(3,188,788 46)	(912,809 86)
Change in other deferred credits	6,153,001 64	(8,202,494 34)
Other	2,610,853 43	(8,343,098 58)
Less: Allowance for other funds used during construction	(4,283,511 48)	(646,795 57)
Less: Undistributed earnings of subsidiary company	(4,958,781 00)	(1,905,773 00)
Net cash provided (used) by operating activities	302,458,580 78	248,346,148 23
CASH FLOWS FROM INVESTING ACTIVITIES		
Gross additions to utility plant - construction expenditures	(743,093,685 48)	(370,912,356 07)
Less: Allowance for other funds used during construction	4,283,511 48	646,795 57
Loss on disposal of property	(741,720 25)	-
Change in other long-term debt	(433,540 00)	(1,606,960 00)
Change in long-term investments	(196,189 74)	(165,426 12)
Change in restricted cash	11,821,428 13	(1,209,168 95)
Net cash provided (used) by investing activities	(728,360,195 86)	(373,247,115 57)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	526,750,682 58	132,224,310 80
Net increase in short-term debt	-	27,378,054 00
Payments for retirement of long-term debt	(107,000,000 00)	(36,000,000 00)
Net decrease in short-term debt	(73,823,600 00)	-
Contributed capital	75,000,000.00	-
Net cash provided (used) by financing activities	420,927,082 58	123,602,364 80
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,974,532 50)	(1,298,602 54)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	5,313,043 20	6,611,645 74
CASH AND CASH EQUIVALENTS AT END OF PERIOD	338,510.70	5,313,043.20

KENTUCKY UTILITIES COMPANY
ANALYSIS OF INTEREST CHARGES
DECEMBER 31, 2007

	CURRENT MONTH		YEAR TO DATE		YEAR ENDED CURRENT MONTH	
	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR
Interest On Long-Term Debt						
First Mortgage Bonds						
Series P 7.92%	-	349,800.00	1,574,100.00	4,197,600.00	1,574,100.00	4,197,600.00
Series S 5.99%	-	-	-	89,850.00	-	89,850.00
Loan Agreement - Poll. Control Bonds						
Series 10 (VARIABLE%)	-	176,069.60	981,941.93	1,927,947.96	981,941.93	1,927,947.96
Series 11 (VARIABLE%)	-	40,903.75	-	457,991.25	-	457,991.25
Series 12 (VARIABLE%)	62,496.31	65,416.29	779,295.48	740,841.75	779,295.48	740,841.75
Series 13 (VARIABLE%)	7,166.32	7,501.15	89,360.19	84,950.79	89,360.19	84,950.79
Series 14 (VARIABLE%)	7,166.32	7,501.15	89,360.19	84,950.77	89,360.19	84,950.77
Series 15 (VARIABLE%)	22,096.16	23,128.55	275,527.28	261,931.62	275,527.28	261,931.62
Series 16 (VARIABLE%)	363,296.00	298,266.66	3,775,994.66	3,426,466.65	3,775,994.66	3,426,466.65
Series 17 (VARIABLE%)	188,472.22	152,847.22	1,939,479.18	1,750,358.30	1,939,479.18	1,750,358.30
Series 18 (VARIABLE%)	50,340.70	41,006.66	508,727.85	463,028.84	508,727.85	463,028.84
Series 19 (VARIABLE%)	50,340.70	41,620.62	501,024.87	461,548.35	501,024.87	461,548.35
Series 20 (VARIABLE%)	65,406.53	52,531.11	655,062.30	279,801.30	655,062.30	279,801.30
Series 21 (VARIABLE%)	65,406.53	42,893.33	654,526.67	42,893.33	654,526.67	42,893.33
Series 22 (VARIABLE%)	207,300.00	-	1,794,630.00	-	1,794,630.00	-
PCB CC (VARIABLE%)	37,257.83	-	222,269.89	-	222,269.89	-
PCB TC (VARIABLE%)	74,603.30	-	445,251.36	-	445,251.36	-
Interest Rate Swaps	-	(10,075.52)	(86,856.15)	(347,623.01)	(86,856.15)	(347,623.01)
Marked to Market	-	(97,190.00)	(328,589.00)	(927,652.00)	(328,589.00)	(927,652.00)
Fidelia	3,921,199.99	2,043,058.33	34,822,646.54	20,676,074.99	34,822,646.54	20,676,074.99
Hardin Promissory Note	49,109.58	-	(193,269.67)	-	(193,269.67)	-
Total	5,171,658.49	3,235,278.90	48,500,483.57	33,670,960.89	48,500,483.57	33,670,960.89
Amortization of Debt Expense - Net						
Amortization of Debt Expense	24,059.12	22,730.00	334,934.62	247,830.20	334,934.62	247,830.20
Amort. of Loss on Reacquired Debt	36,378.00	53,751.00	518,565.90	689,204.87	518,565.90	689,204.87
Total	60,437.12	76,481.00	853,500.52	937,035.07	853,500.52	937,035.07
Other Interest Charges						
Customers' Deposits	89,319.62	66,151.74	1,102,013.40	998,928.49	1,102,013.40	998,928.49
Other Tax Deficiencies	(3,424.00)	-	(2,967.92)	-	(2,967.92)	-
Interest on Debt to Associated Companies	343,707.68	251,100.25	6,421,720.26	2,943,089.43	6,421,720.26	2,943,089.43
AFUDC Borrowed Funds	(122,738.89)	(56,677.70)	(955,806.63)	(262,751.50)	(955,806.63)	(262,751.50)
Other Interest Expense	-	-	301.29	109,390.38	301.29	109,390.38
Total	306,864.41	260,574.29	6,565,260.40	3,788,656.80	6,565,260.40	3,788,656.80
Total Interest	5,538,960.02	3,572,334.19	55,919,244.49	38,396,652.76	55,919,244.49	38,396,652.76

KENTUCKY UTILITIES COMPANY
ANALYSIS OF TAXES CHARGED
DECEMBER 31, 2007

Kind of Taxes	Current Month This Year	Current Month Last Year	Year To Date This Year	Year To Date Last Year
Taxes Charged to Accounts 408.1 and 409.1				
Property Taxes	409,782.01	939,795.00	10,864,406.61	11,367,261.37
Unemployment	38,040.16	37,802.02	179,964.46	182,437.16
Federal Old Age and Survivors Insurance	326,840.32	679,981.66	5,717,314.82	5,469,566.73
Public Service Commission Fee	149,209.73	138,724.63	1,727,606.09	1,535,521.19
Federal Income	(7,668,751.51)	(4,010,709.93)	27,762,415.79	48,696,525.01
State Income	1,282,886.68	796,421.62	13,060,218.03	11,375,571.97
Miscellaneous	1,866.03	1,969.82	(50,215.31)	48,281.34
Total Charged to Operating Expense	(5,460,126.58)	(1,416,015.18)	59,261,710.49	78,675,164.77
Taxes Charged to Other Accounts	1,374,642.43	(1,496,423.47)	2,589,797.12	4,935,861.43
Taxes Accrued on Intercompany Accounts	(99,828.78)	(186,107.02)	(2,240,702.48)	(2,162,857.76)
Total Taxes Charged	(4,185,312.93)	(3,098,545.67)	59,610,805.13	81,448,168.44

ANALYSIS OF TAXES ACCRUED - ACCOUNT 236

Kind of Taxes	Taxes Accrued At Beginning Of Year	Accruals To Date This Year	Payments To Date This Year	Taxes Accrued At End Of Month
Property Taxes	11,128,630.22	10,984,270.60	15,657,046.40	6,455,854.42
Unemployment	31,909.04	99,169.38	94,311.17	36,767.25
Federal Old Age and Survivors	436,199.68	5,198,228.54	5,137,011.09	497,417.13
Federal Income	(11,303,186.47)	27,053,661.05	20,848,254.20	(5,097,779.62)
State Income	4,945,219.18	12,850,753.58	16,692,123.00	1,103,849.76
Kentucky Sales and Use Tax	244,273.64	3,266,314.26	2,892,280.21	618,307.69
Miscellaneous	0.00	158,407.72	139,615.18	18,792.54
Totals	5,483,045.29	59,610,805.13	61,460,641.25	3,633,209.17

KENTUCKY UTILITIES COMPANY
SUMMARY OF UTILITY PLANT
DECEMBER 31, 2007

	NET BALANCE FIRST OF YEAR	ADDITIONS	RETIREMENTS	TRANSFER/ ADJUSTMENT	NET ADDITIONS	BALANCE TO DATE
UTILITY PLANT						
Plant In Service						
Intangibles	25,650,657.82	2,263,289.02	(3,190,892.57)	-	(927,603.55)	24,723,054.27
Steam Production	1,528,205,107.62	164,315,339.13	(14,722,228.77)	395,738.14	149,988,848.50	1,678,193,956.12
Hydro Production	9,946,337.38	1,072,820.18	(45,062.32)	-	1,027,757.86	10,974,095.24
Other Production	490,394,644.70	9,220,658.05	(2,024,577.99)	-	7,196,080.06	497,590,724.76
Transmission	506,489,863.16	14,641,296.85	(930,590.22)	64,426.27	13,775,132.90	520,264,996.06
Distribution	1,013,864,108.52	28,117,791.48	(4,002,781.49)	252,240.43	24,367,250.42	1,038,231,358.94
General	82,323,413.89	3,517,124.85	(6,578,866.89)	(235,142.73)	(3,296,884.77)	79,026,529.12
Transportation	23,860,353.39	78,801.10	(4,934,986.28)	(48,370.32)	(4,904,555.50)	18,955,797.89
Total Electric Plant In Service	3,680,734,486.48	223,227,120.66	(36,429,986.53)	428,891.79	187,226,025.92	3,867,960,512.40
Plant Purchased or Sold	-					-
Total Plant	3,680,734,486.48	223,227,120.66	(36,429,986.53)	428,891.79	187,226,025.92	3,867,960,512.40
Construction Work In Progress	487,243,640.21	584,144,985.76	-	-	584,144,985.76	1,071,388,625.97
Total Utility Plant at Original Cost	4,167,978,126.69	807,372,106.42	(36,429,986.53)	428,891.79	771,371,011.68	4,939,349,138.37

RESERVE FOR DEPRECIATION OF UTILITY	NET BALANCE FIRST OF YEAR	ACCRUAL	RETIREMENTS	TRANSFER/ ADJUSTMENT	RWIP TRANSFERS OUT	COST OF REMOVAL	SALVAGE	OTHER CREDITS	BALANCE TO DATE
Life Reserves									
Steam Production	(835,316,309.29)	(40,973,153.36)	14,722,228.77	-	-	-	-	(1,046,388.71)	(862,613,622.59)
Hydro Production	(7,418,715.60)	(128,987.54)	45,062.32	-	-	-	-	-	(7,502,640.82)
Other Production	(100,459,175.61)	(17,011,458.86)	2,024,577.99	-	-	-	-	-	(115,446,056.48)
Transmission	(193,145,219.41)	(9,150,138.33)	930,590.22	-	-	-	-	(1,451,988.68)	(202,816,756.20)
Distribution	(339,507,651.05)	(22,685,853.51)	4,002,781.49	6,549.60	-	-	-	(855,612.28)	(359,039,785.75)
General	(29,777,581.81)	(6,867,439.67)	6,578,866.89	(6,549.60)	-		-	-	(30,072,704.19)
Transportation	(23,717,823.29)	(51,951.97)	4,934,986.28	-	-		-	-	(18,834,788.98)
Total Life Reserve For Depreciation Of Utility Plant In Service	(1,529,342,476.06)	(96,868,983.24)	33,239,093.96	-	-	-	-	(3,353,989.67)	(1,596,326,355.01)
Salvage Reserves					-				
Steam Production	(62,263,334.97)	(5,642,713.91)		-	-	2,806,528.54	(300.00)	-	(65,099,820.34)
Hydro Production	(748,788.82)	(40,088.10)		-	-	47,822.50	-	-	(741,054.42)
Other Production	(1,319,813.89)	-		-	-	238,444.71	-	-	(1,081,369.18)
Transmission	(110,346,842.22)	(6,207,889.55)		-	-	1,088,008.31	(62,735.61)	-	(115,529,459.07)
Distribution	(131,526,999.25)	(8,774,651.50)	-		-	187,292.82	(385,628.42)	-	(140,499,986.35)
General	164,993.50	25,368.70	-		-	56,862.65	(3,000.00)	-	244,224.85
Total Salvage Reserve For Depreciation Of Utility Plant In Service	(306,040,785.65)	(20,639,974.36)	-	-	-	4,424,959.53	(451,664.03)	-	(322,707,464.51)
Total Reserves									
Steam Production	(897,579,644.26)	(46,615,867.27)	14,722,228.77	-	-	2,806,528.54	(300.00)	(1,046,388.71)	(927,713,442.93)
Hydro Production	(8,167,504.42)	(169,075.64)	45,062.32	-	-	47,822.50	-	-	(8,243,695.24)
Other Production	(101,778,989.50)	(17,011,458.86)	2,024,577.99	-	-	238,444.71	-	-	(116,527,425.66)
Transmission	(303,492,061.63)	(15,358,027.88)	930,590.22	-	-	1,088,008.31	(62,735.61)	(1,451,988.68)	(318,346,215.27)
Distribution	(471,034,650.30)	(31,460,505.01)	4,002,781.49	6,549.60	-	187,292.82	(385,628.42)	(855,612.28)	(499,539,772.10)
General	(29,612,588.31)	(6,842,070.97)	6,578,866.89	(6,549.60)	-	56,862.65	(3,000.00)	-	(29,828,479.34)
Transportation	(23,717,823.29)	(51,951.97)	4,934,986.28	-	-	-	-	-	(18,834,788.98)
Total Life Reserve For Depreciation Of Utility Plant In Service	(1,835,383,261.70)	(117,508,957.60)	33,239,093.96	-	-	4,424,959.53	(451,664.03)	(3,353,989.67)	(1,919,033,819.52)
Retirement of Work in Progress	(35,953.69)	-	-	2,748,583.33	(619,305.83)	6,343,912.21	(610,802.16)	(3,424,546.44)	4,401,887.42
YTD Activity	(1,835,419,215.39)	(117,508,957.60)	33,239,093.96	2,748,583.33	(619,305.83)	10,768,871.74	(1,062,466.19)	(6,778,536.11)	(1,914,631,932.09)
Intangibles	(14,592,939.75)	(5,420,544.96)	3,190,892.57	-	-	-	-	-	(16,822,592.14)
Leaseholds	-	-	-	-	-	-	-	-	-
Amortization - Utility Plant In Service	(1,850,012,155.14)	(122,929,502.56)	36,429,986.53	2,748,583.33	(619,305.83)	10,768,871.74	(1,062,466.19)	(6,778,536.11)	(1,931,454,524.23)
Utility Plant at Original Cost Less Reserve For Depreciation and Amortization	2,639,057,291.20								3,007,894,614.14

KU Monthly Report to KPSC – November 30, 2007

KENTUCKY UTILITIES COMPANY

Financial Reports

November 30, 2007

Prepared by Regulatory Accounting and Reporting

KENTUCKY UTILITIES COMPANY
COMPARATIVE STATEMENT OF INCOME
NOVEMBER 30, 2007

	CURRENT MONTH			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	103,051,682.15	102,194,089.82	857,592.33	0.84
Total Operating Revenues	103,051,682.15	102,194,089.82	857,592.33	0.84
Operating Expenses				
Fuel	33,283,160.13	35,785,050.56	(2,501,890.43)	(6.99)
Power Purchased	13,407,717.32	14,877,373.12	(1,469,655.80)	(9.88)
Other Operation Expenses	12,805,053.14	12,237,750.02	567,303.12	4.64
Maintenance	9,587,062.36	4,138,135.09	5,448,927.27	131.68
Depreciation	10,058,130.83	9,323,642.20	734,488.63	7.88
Amortization Expense	421,190.07	429,771.21	(8,581.14)	(2.00)
Regulatory Credits	(180,018.48)	(170,394.41)	(9,624.07)	5.65
Taxes				
Federal Income	-	-	-	-
State Income	-	-	-	-
Deferred Federal Income - Net	-	-	-	-
Deferred State Income - Net	-	-	-	-
Federal Income - Estimated	5,390,081.89	6,510,639.11	(1,120,557.22)	(17.21)
State Income - Estimated	1,036,554.22	1,460,720.32	(424,166.10)	(29.04)
Property and Other	1,961,430.73	1,527,487.41	433,943.32	28.41
Investment Tax Credit	-	-	-	-
Loss (Gain) from Disposition of Allowances	-	-	-	-
Accretion Expense	155,089.06	145,635.00	9,454.06	6.49
Total Operating Expenses	87,925,451.27	86,265,809.63	1,659,641.64	1.92
Net Operating Income	15,126,230.88	15,928,280.19	(802,049.31)	(5.04)
Other Income Less Deductions				
Other Income Less Deductions	2,256,769.74	513,705.25	1,743,064.49	339.31
AFUDC - Equity	407,271.68	60,686.11	346,585.57	571.11
Total Other Income Less Deductions	2,664,041.42	574,391.36	2,089,650.06	363.80
Income Before Interest Charges	17,790,272.30	16,502,671.55	1,287,600.75	7.80
Interest on Long Term Debt	4,776,411.12	3,231,451.12	1,544,960.00	47.81
Amortization of Debt Expense - Net	59,625.81	75,355.00	(15,729.19)	(20.87)
Other Interest Expenses	319,397.32	186,875.20	132,522.12	70.91
AFUDC - Borrowed Funds	(117,189.39)	(41,496.02)	(75,693.37)	182.41
Total Interest Charges	5,038,244.86	3,452,185.30	1,586,059.56	45.94
Net Inc Before Cumulative Effect of Acctg Chg	12,752,027.44	13,050,486.25	(298,458.81)	(2.29)
Cumulative Effect of Accounting Chg Net of Tax	-	-	-	-
Net Income	12,752,027.44	13,050,486.25	(298,458.81)	(2.29)
Preferred Dividend Requirements	-	-	-	-
Earnings Available for Common	12,752,027.44	13,050,486.25	(298,458.81)	(2.29)

KENTUCKY UTILITIES COMPANY
COMPARATIVE STATEMENT OF INCOME
NOVEMBER 30, 2007

	YEAR TO DATE			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	1,163,218,260.28	1,103,607,800.55	59,610,459.73	5.40
Total Operating Revenues	1,163,218,260.28	1,103,607,800.55	59,610,459.73	5.40
Operating Expenses				
Fuel	421,386,438.60	388,769,160.43	32,617,278.17	8.39
Power Purchased	154,352,491.33	169,255,237.44	(14,902,746.11)	(8.80)
Other Operation Expenses	138,753,918.91	152,070,141.32	(13,316,222.41)	(8.76)
Maintenance	76,642,746.74	66,142,163.41	10,500,583.33	15.88
Depreciation	105,156,166.56	100,395,618.59	4,760,547.97	4.74
Amortization Expense	5,004,094.46	4,646,980.59	357,113.87	7.68
Regulatory Credits	(1,921,536.27)	(1,873,879.99)	(47,656.28)	2.54
Taxes				
Federal Income	26,245,742.29	41,303,148.81	(15,057,406.52)	(36.46)
State Income	10,010,903.46	8,020,541.28	1,990,362.18	24.82
Deferred Federal Income - Net	(4,537,747.41)	528,995.37	(5,066,742.78)	(957.80)
Deferred State Income - Net	(125,564.12)	1,346,571.41	(1,472,135.53)	(109.32)
Federal Income - Estimated	9,185,425.01	11,404,086.13	(2,218,661.12)	(19.46)
State Income - Estimated	1,766,427.89	2,558,609.07	(792,181.18)	(30.96)
Property and Other	17,513,338.42	16,804,794.66	708,543.76	4.22
Investment Tax Credit	28,966,647.00	-	28,966,647.00	100.00
Loss (Gain) from Disposition of Allowances	(706,851.51)	(1,283,929.13)	577,077.62	(44.95)
Accretion Expense	1,706,273.66	1,601,979.99	104,293.67	6.51
Total Operating Expenses	989,398,915.02	961,690,219.38	27,708,695.64	2.88
Net Operating Income	173,819,345.26	141,917,581.17	31,901,764.09	22.48
Other Income Less Deductions				
Other Income Less Deductions	24,623,444.49	25,040,679.02	(417,234.53)	(1.67)
AFUDC - Equity	2,901,235.55	301,150.95	2,600,084.60	863.38
Total Other Income Less Deductions	27,524,680.04	25,341,829.97	2,182,850.07	8.61
Income Before Interest Charges	201,344,025.30	167,259,411.14	34,084,614.16	20.38
Interest on Long Term Debt	43,328,825.08	30,435,681.99	12,893,143.09	42.36
Amortization of Debt Expense - Net	793,063.40	860,554.07	(67,490.67)	(7.84)
Other Interest Expenses	7,091,463.73	3,734,156.31	3,357,307.42	89.91
AFUDC - Borrowed Funds	(833,067.74)	(206,073.80)	(626,993.94)	304.26
Total Interest Charges	50,380,284.47	34,824,318.57	15,555,965.90	44.67
Net Inc Before Cumulative Effect of Acctg Chg	150,963,740.83	132,435,092.57	18,528,648.26	13.99
Cumulative Effect of Accounting Chg Net of Tax	-	-	-	-
Net Income	150,963,740.83	132,435,092.57	18,528,648.26	13.99
Preferred Dividend Requirements	-	-	-	-
Earnings Available for Common	150,963,740.83	132,435,092.57	18,528,648.26	13.99

KENTUCKY UTILITIES COMPANY
COMPARATIVE STATEMENT OF INCOME
NOVEMBER 30, 2007

	YEAR ENDED CURRENT MONTH			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	1,269,629,744.30	1,227,087,803.80	42,541,940.50	3.47
Total Operating Revenues	1,269,629,744.30	1,227,087,803.80	42,541,940.50	3.47
Operating Expenses				
Fuel	455,610,423.14	426,393,454.78	29,216,968.36	6.85
Power Purchased	167,542,308.68	190,396,169.86	(22,853,861.18)	(12.00)
Other Operation Expenses	151,584,704.71	178,033,050.38	(26,448,345.67)	(14.86)
Maintenance	83,377,829.39	70,927,067.93	12,450,761.46	17.55
Depreciation	114,696,302.60	109,741,568.24	4,954,734.36	4.51
Amortization Expense	5,429,727.77	5,020,060.45	409,667.32	8.16
Regulatory Credits	(2,091,930.68)	(7,528,323.11)	5,436,392.43	(72.21)
Taxes				
Federal Income	33,639,118.49	60,500,664.56	(26,861,546.07)	(44.40)
State Income	13,365,934.15	12,187,147.99	1,178,786.16	9.67
Deferred Federal Income - Net	(5,271,113.12)	(4,528,399.25)	(742,713.87)	16.40
Deferred State Income - Net	(597,070.10)	(103,207.24)	(493,862.86)	478.52
Federal Income - Estimated	(2,218,661.12)	5,915,764.68	(8,134,425.80)	(137.50)
State Income - Estimated	(792,181.18)	1,119,049.34	(1,911,230.52)	(170.79)
Property and Other	19,311,611.55	18,143,518.75	1,168,092.80	6.44
Investment Tax Credit	40,966,647.00	-	40,966,647.00	100.00
Loss (Gain) from Disposition of Allowances	(706,851.51)	(1,283,929.13)	577,077.62	(44.95)
Accretion Expense	1,851,908.66	1,717,658.99	134,249.67	7.82
Total Operating Expenses	1,075,698,708.43	1,066,651,317.22	9,047,391.21	0.85
Net Operating Income	193,931,035.87	160,436,486.58	33,494,549.29	20.88
Other Income Less Deductions				
Other Income Less Deductions	27,386,885.58	26,290,319.28	1,096,566.30	4.17
AFUDC - Equity	2,984,128.67	309,608.78	2,674,519.89	863.84
Total Other Income Less Deductions	30,371,014.25	26,599,928.06	3,771,086.19	14.18
Income Before Interest Charges	224,302,050.12	187,036,414.64	37,265,635.48	19.92
Interest on Long Term Debt	46,564,103.98	32,858,005.73	13,706,098.25	41.71
Amortization of Debt Expense - Net	869,544.40	949,602.29	(80,057.89)	(8.43)
Other Interest Expenses	7,408,715.72	4,103,385.27	3,305,330.45	80.55
AFUDC - Borrowed Funds	(889,745.44)	(207,890.18)	(681,855.26)	327.99
Total Interest Charges	53,952,618.66	37,703,103.11	16,249,515.55	43.10
Net Inc Before Cumulative Effect of Acctg Chg	170,349,431.46	149,333,311.53	21,016,119.93	14.07
Cumulative Effect of Accounting Chg Net of Tax	-	3,337,340.49	(3,337,340.49)	(100.00)
Net Income	170,349,431.46	145,995,971.04	24,353,460.42	16.68
Preferred Dividend Requirements	-	-	-	-
Earnings Available for Common	170,349,431.46	145,995,971.04	24,353,460.42	16.68

KENTUCKY UTILITIES COMPANY
ANALYSIS OF RETAINED EARNINGS
NOVEMBER 30, 2007

Retained Earnings and Undistributed Earnings	Current Month		Year to Date		Year Ended Current Month	
	Total Retained Earnings	Undistributed Subsidiary Earnings	Total Retained Earnings	Undistributed Subsidiary Earnings	Total Retained Earnings	Undistributed Subsidiary Earnings
Balance Beginning of Period................	987,505,007.92	21,433,493.00	854,131,027.53	16,248,287.00	836,768,647.10	14,224,976.80
Net Income To Date..........................	12,752,027.44		150,963,740.83		170,349,431.46	
FIN 48 Adjustment............................	7,688.00		355,161.00		355,161.00	
Adjust for Equity in Subsidiary Earnings for Year						
-EE Inc..................................	(2,406,842.00)	2,406,842.00	(23,642,048.00)	23,642,048.00	(25,665,358.20)	25,665,358.20
Dividends Rec'd Current Year						
-EE Inc..................................	5,350,000.00	(5,350,000.00)	21,400,000.00	(21,400,000.00)	21,400,000.00	(21,400,000.00)
Balance End of Period......................	1,003,207,881.36	18,490,335.00	1,003,207,881.36	18,490,335.00	1,003,207,881.36	18,490,335.00

Combined Retained Earnings	12 MONTHS 11/30/07	12 MONTHS 11/30/2006
Retained Earnings Beginning of Period.....	850,993,623.90	704,982,390.77
Add Net Income..............................	170,349,431.46	145,995,971.04
FIN 48 Adjustment............................	355,161.00	-
Subtotal....................................	1,021,698,216.36	850,978,361.81
Deduct		
Dividends on Preferred Stock............	-	-
Dividends on Common Stock............	-	-
Preferred Stock Redemption Exp	-	(15,262.09)
Other..	-	-
Retained Earnings End of Period...........	1,021,698,216.36	850,993,623.90

KENTUCKY UTILITIES COMPANY
COMPARATIVE BALANCE SHEETS AS OF NOVEMBER 30, 2007 AND 2006

ASSETS AND OTHER DEBITS	THIS YEAR	LAST YEAR
Utility Plant		
Utility Plant at Original Cost	4,853,873,483.09	4,143,992,375.03
Less Reserves for Depreciation & Amortization	1,924,495,166.46	1,861,615,290.68
Total	2,929,378,316.63	2,282,377,084.35
Investments - At Cost		
Ohio Valley Electric Corporation	250,000.00	250,000.00
Nonutility Property-Less Reserve	968,786.41	969,196.81
Investments in Subsidiary Companies	19,786,135.00	15,520,776.80
Special Funds	5,883,768.89	8,100,756.47
Other	411,140.00	426,140.00
Total	27,299,830.30	25,266,870.08
Current and Accrued Assets		
Cash	2,945,591.49	5,036,413.20
Special Deposits	12,141,117.76	7,654,957.70
Temporary Cash Investments	17,423.17	3,490.29
Accounts Receivable-Less Reserve	160,501,130.95	118,080,730.92
Notes Receivable from Assoc. Companies	-	-
Accounts Receivable from Assoc Companies	8,630,576.88	23,546,621.15
Materials & Supplies-At Average Cost		
Fuel	52,764,896.36	68,945,062.47
Plant Materials & Operating Supplies	26,588,016.84	26,564,957.73
Stores Expense	6,404,130.12	5,630,932.22
Allowance Inventory	645,074.49	2,020,836.43
Prepayments	5,873,040.99	6,488,602.11
Miscellaneous Current & Accrued Assets	636,144.36	2,856,968.42
Total	277,147,143.41	266,829,572.64
Deferred Debits and Other		
Unamortized Debt Expense	7,063,840.87	5,499,273.80
Unamortized Loss on Bonds	10,210,044.95	10,380,943.03
Accumulated Deferred Income Taxes	49,793,664.13	54,390,522.51
Deferred Regulatory Assets	117,201,313.85	51,547,854.85
Other Deferred Debits	74,365,480.84	72,263,259.78
Total	258,634,344.64	194,081,853.97
Total Assets and Other Debits	3,492,459,634.98	2,768,555,381.04

LIABILITIES AND OTHER CREDITS	THIS YEAR	LAST YEAR
Capitalization		
Common Stock	308,139,977.56	308,139,977.56
Common Stock Expense	(321,288.87)	(321,288.87)
Paid-In Capital	70,000,000.00	15,000,000.00
Other Comprehensive Income	-	(19,336,790.74)
Retained Earnings	1,003,207,881.36	836,768,647.10
Unappropriated Undistributed Subsidiary Earnings	18,490,335.00	14,224,976.80
Total Common Equity	1,399,516,905.05	1,154,475,521.85
Preferred Stock	-	-
Pollution Control Bonds	332,753,140.00	289,257,520.00
Other Long-Term Debt	-	-
LT Notes Payable to Associated Companies	831,000,000.00	483,000,000.00
Long-Term Debt Marked to Market	-	539,010.00
Total Long-Term Debt	1,163,753,140.00	772,796,530.00
Total Capitalization	2,563,270,045.05	1,927,272,051.85
Current and Accrued Liabilities		
Long-Term Debt Due in 1 Year	-	53,000,000.00
ST Notes Payable to Associated Companies	116,692,054.00	-
Notes Payable	-	-
Notes Payable to Associated Companies	-	65,186,054.00
Accounts Payable	145,273,216.97	75,749,025.88
Accounts Payable to Associated Companies	20,034,820.56	67,751,556.65
Customer Deposits	19,390,486.81	18,603,266.79
Taxes Accrued	20,709,829.47	26,776,332.04
Interest Accrued	12,721,456.84	8,163,536.56
Dividends Declared	-	-
Misc. Current & Accrued Liabilities	10,345,241.35	10,364,737.63
Total	345,167,106.00	325,594,509.55
Deferred Credits and Other		
Accumulated Deferred Income Taxes	334,869,627.27	334,100,655.86
Investment Tax Credit	41,448,386.32	1,113,931.32
Regulatory Liabilities	37,399,707.93	28,936,525.46
Customer Advances for Construction	4,822,751.59	1,712,601.98
Asset Retirement Obligations	30,159,970.20	28,335,571.54
Other Deferred Credits	16,717,054.49	25,163,515.70
Misc. Long-Term Liabilities	4,325,309.06	32,077,956.49
Accum Provision for Post-Retirement Benefits	114,279,677.07	64,248,061.29
Total	584,022,483.93	515,688,819.64
Total Liabilities and Other Credits	3,492,459,634.98	2,768,555,381.04

KENTUCKY UTILITIES COMPANY
STATEMENT OF CAPITALIZATION AND SHORT-TERM DEBT
NOVEMBER 30, 2007

	AUTHORIZED SHARES	ISSUED & OUTSTANDING SHARES	ISSUED & OUTSTANDING AMOUNT	PERCENT OF TOTAL CAPITAL & S/T DEBT	PERCENT OF TOTAL CAPITAL
Common Equity					
Common Stock - Without Par	80,000,000	37,817,878	308,139,977.56		
Common Stock Expense			(321,288.87)		
Paid-In Capital			70,000,000.00		
Other Comprehensive Income			-		
Retained Earnings			1,003,207,881.36		
Unappropriated Undistributed Subsidiary Earnings			18,490,335.00		
Total Common Equity			1,399,516,905.05	52.22	54.60
Long-Term Debt					
PCB 11 DUE 05/01/23 Variable%			12,900,000.00		
PCB 12 DUE 02/01/32 Variable%			20,930,000.00		
PCB 13 DUE 02/01/32 Variable%			2,400,000.00		
PCB 14 DUE 02/01/32 Variable%			2,400,000.00		
PCB 15 DUE 02/01/32 Variable%			7,400,000.00		
PCB 16 DUE 10/01/32 Variable%			96,000,000.00		
PCB 17 DUE 10/01/34 Variable%			50,000,000.00		
PCB 18 DUE 06/01/35 Variable%			13,266,950.00		
PCB 19 DUE 06/01/35 Variable%			13,266,950.00		
PCB 20 DUE 06/01/36 Variable%			16,693,620.00		
PCB 21 DUE 06/01/36 Variable%			16,693,620.00		
PCB 22 DUE 10/01/34 Variable%			54,000,000.00		
PCB CC DUE 02/01/26 Variable%			17,875,000.00		
PCB TC DUE 03/01/37 Variable%			8,927,000.00		
Total Long-Term Debt			332,753,140.00	12.42	12.98
LT Notes Payable to Associated Companies			831,000,000.00	31.01	32.42
Total Capitalization			2,563,270,045.05	95.65	100.00
Long-Term Debt Due in 1 Year			0.00	0.00	
ST Notes Payable to Associated Companies			116,692,054.00	4.35	
Total Capitalization and Short-Term Debt			2,679,962,099.05	100.00	

KENTUCKY UTILITIES COMPANY
TRIAL BALANCE - GENERAL LEDGER
NOVEMBER 30, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
UTILITY PLANT		
At Original Cost	4,853,873,483 09	4,853,873,483 09
Reserves for Depreciation and Amortization		(1,924,495,166 46)
Depreciation	(1,904,898,132 25)	
Amortization of Plant	(19,597,034 21)	
INVESTMENTS - AT COST		27,299,830 30
Nonutility Property	1,025,914 06	
Nonutility Property Reserve	(57,127 65)	
Investments in Subsidiary Companies	19,786,135 00	
Ohio Valley Electric Corporation	250,000 00	
Other	411,140 00	
OMU-Interest on Reserve, New	1,247,466 47	
OMU-R&I on Maintenance Reserve	600,000 00	
OMU-R&I on Additions and Replacements	120,000 00	
OMU-R&I on Operations	538,067 36	
OMU-R&I Interest on Purchase Power	248,237 79	
OMU-Purchase Power, Coal Reserve	3,129,997 27	
CASH		2,945,591 49
Cash Accounts	2,945,591 49	
SPECIAL DEPOSITS		12,141,117 76
Restricted Cash	11,541,403 72	
MAN Margin Call	599,714 04	
TEMPORARY CASH INVESTMENTS		17,423 17
Temporary Cash Investments	17,423 17	
ACCOUNTS RECEIVABLE - LESS RESERVE		160,501,130 95
Working Funds	39,180 00	
Customers-Active	77,374,240 90	
Wholesale Sales	3,737,979 44	
Transmission Receivable	397,661 38	
Unbilled Revenues	51,033,000 00	
PC Purchase Program	76,853 57	
Damage Claims	214,888 91	
Insurance Claims	(105 69)	
IMEA	8,701,574 60	
IMPA	9,247,217 92	
Miscellaneous	6,236,154 39	
Uncollectible Accounts - Charged Off	2,782,645 70	
Uncollectible Accounts - Recovery	(808,195 16)	
Uncollectible Accounts - Reserve	(751,364 00)	
Uncollectible Accounts - Accrual	(1,958,112 61)	
Uncollectible Accounts - LEM Reserve	(1,154,136 35)	
Uncollectible Accounts - Miscellaneous	(41,507 93)	
Interest and Dividend Receivable	5,373,155 88	
ACCOUNTS RECEIVABLE FROM ASSOCIATED COMPANIES		8,630,576 88
E ON US Services/Louisville Gas & Electric Company	8,630,576 88	

KENTUCKY UTILITIES COMPANY
TRIAL BALANCE - GENERAL LEDGER
NOVEMBER 30, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
FUEL		52,764,896.36
Coal 1,027,263.73 Tons @ $47.68; MMBTU 24,574,883.35 @ 199.30¢	48,978,617.55	
Fuel Oil 2,083,745 Gallons @ 179.74¢	3,745,360.66	
Gas Pipeline 4,602.30 MCF @ $8.89	40,918.15	
PLANT MATERIALS AND OPERATING SUPPLIES		26,588,016.84
Regular Materials and Supplies	26,412,508.34	
Limestone 25,032.36 Tons @ $7.01	175,508.50	
STORES EXPENSE		6,404,130.12
Stores Expense Undistributed	6,404,130.12	
ALLOWANCE INVENTORY		645,074.49
Allowance Inventory	645,074.49	
PREPAYMENTS		5,873,040.99
Insurance	2,429,887.20	
Taxes	1,044,468.06	
Risk Management and Workers Compensation	75,000.00	
Vehicle License	27,147.28	
Other	2,296,538.45	
MISCELLANEOUS CURRENT ASSETS		636,144.36
Derivative Asset - Non-Hedging	619,999.43	
Miscellaneous Current Assets	16,144.93	
UNAMORTIZED DEBT EXPENSE		7,063,840.87
Pollution Control Bonds		
KU Series 11, Variable%, Due 5/01/23	266,557.29	
KU Series 12, Variable%, Due 2/01/32	99,102.34	
KU Series 13, Variable%, Due 2/01/32	68,891.62	
KU Series 14, Variable%, Due 2/01/32	76,692.11	
KU Series 15, Variable%, Due 2/01/32	27,643.40	
KU Series 16, Variable%, Due 10/01/32	1,805,513.04	
KU Series 17, Variable%, Due 10/01/34	1,075,354.59	
KU Series 18, Variable%, Due 06/01/35	486,597.30	
KU Series 19, Variable%, Due 06/01/35	494,546.04	
KU Series 20, Variable%, Due 06/01/36	589,716.05	
KU Series 21, Variable%, Due 06/01/36	530,555.19	
KU Series 22, Variable%, Due 10/01/34	925,415.25	
KU Variable%, Due 03/01/37	266,406.56	
KU Variable%, Due 02/01/26	350,850.09	
UNAMORTIZED LOSS ON BONDS		10,210,044.95
Reacquired Debt	10,210,044.95	
ACCUMULATED DEFERRED INCOME TAXES		49,793,664.13
Federal	42,275,003.19	
State	7,518,660.94	
DEFERRED REGULATORY ASSET		117,201,313.85
Asset Retirement Obligations	23,936,600.88	
FERC Jurisdictional Pension Expense	2,444,169.26	
FASB 109 - Deferred Taxes	6,034,542.00	
Pension & Postretirement Benefits	63,435,153.11	
Ice Storm Expenses	1,253,355.00	
MISO Exit Fee	20,097,493.60	
OTHER DEFERRED DEBITS	74,365,480.84	74,365,480.84
Total Assets and Other Debits	3,492,459,634.98	3,492,459,634.98

KENTUCKY UTILITIES COMPANY
TRIAL BALANCE - GENERAL LEDGER
NOVEMBER 30, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
COMMON EQUITY		1,399,516,905 05
Common Stock	308,139,977 56	
Common Stock Expense	(321,288 87)	
Paid-In Capital	70,000,000 00	
Retained Earnings	1,003,207,881 36	
Unappropriated Undistributed Subsidiary Earnings	18,490,335 00	
BONDS		332,753,140 00
Pollution Control Bonds		
KU Series 11, Variable%, Due 05/01/23	12,900,000 00	
KU Series 12, Variable%, Due 2/01/32	20,930,000 00	
KU Series 13, Variable%, Due 2/01/32	2,400,000 00	
KU Series 14, Variable%, Due 2/01/32	2,400,000 00	
KU Series 15, Variable%, Due 2/01/32	7,400,000 00	
KU Series 16, Variable%, Due 10/01/32	96,000,000 00	
KU Series 17, Variable%, Due 10/01/34	50,000,000 00	
KU Series 18, Variable%, Due 06/01/35	13.266,950 00	
KU Series 19, Variable%, Due 06/01/35	13,266,950 00	
KU Series 20, Variable%, Due 06/01/36	16,693,620 00	
KU Series 21, Variable%, Due 06/01/36	16,693,620 00	
KU Series 22, Variable%, Due 10/01/34	54,000,000 00	
KU Variable%, Due 03/01/37	8,927,000 00	
KU Variable%, Due 02/01/26	17,875,000 00	
LT NOTES PAYABLE TO ASSOCIATED COMPANIES	831,000,000 00	831,000,000 00
ST NOTES PAYABLE TO ASSOCIATED COMPANIES		116,692,054 00
Money Pool Payable	116,692,054 00	
ACCOUNTS PAYABLE		145,273,216 97
Regular	141,325,977 71	
Salaries and Wages Accrued	1,297,529 22	
Employee Withholdings Payable	25,335 25	
Tax Collections - Payable	2,624,374 79	
ACCOUNTS PAYABLE TO ASSOCIATED COMPANIES		20,034,820 56
E ON US Services/Louisville Gas & Electric Company	20,034,820 56	
CUSTOMERS' DEPOSITS	19,390,486 81	19,390,486 81
TAXES ACCRUED	20,709,829 47	20,709,829 47
INTEREST ACCRUED		12,721,456 84
Interest on Long-Term Debt		
KU Series 11, Variable%, Due 05/01/23	32,142 51	
KU Series 12, Variable%, Due 2/01/32	46,368 25	
KU Series 13, Variable%, Due 2/01/32	5,316 94	
KU Series 14, Variable%, Due 2/01/32	5,316 94	
KU Series 15, Variable%, Due 2/01/32	16,393 92	
KU Series 16, Variable%, Due 10/01/32	293,384 02	
KU Series 17, Variable%, Due 10/01/34	94,444 44	
KU Series 18, Variable%, Due 06/01/35	3,021 92	
KU Series 19, Variable%, Due 06/01/35	3,021 92	
KU Series 20, Variable%, Due 06/01/36	6,329 67	
KU Series 21, Variable%, Due 06/01/36	6,329 62	
KU Series 22, Variable%, Due 10/01/34	6,300 00	
KU Variable%, Due 03/01/37	2,231 75	
KU Variable%, Due 02/01/26	4,468 74	
Other		
Customer Deposits	630,814 93	
Fidelia	11,565,571 27	

KENTUCKY UTILITIES COMPANY
TRIAL BALANCE - GENERAL LEDGER
NOVEMBER 30, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
MISCELLANEOUS CURRENT AND ACCRUED LIABILITIES		10,345,241 35
Customer Overpayments	1,926,675 82	
UK Emission Research Grant	250,000 00	
Vacation Pay Accrued	4,930,617 28	
Derivative Liabilities - Non-Hedging	365,794 85	
Franchise Fee Payable	2,764,834 81	
Other	107,318 59	
ACCUMULATED DEFERRED INCOME TAXES		334,869,627.27
Federal	288,812,526.17	
State	46,057,101 10	
INVESTMENT TAX CREDIT		41,448,386 32
Job Development Credit	481,739 32	
Advance Coal Credit	40,966,647 00	
REGULATORY LIABILITIES		37,399,707 93
Asset Retirement Obligations	2,149,845 31	
Deferred Taxes - FAS 109	29,126,991 50	
Spare Parts	1,208,906.12	
MISO Schedule 10 Charges	4,913,965.00	
CUSTOMERS' ADVANCES FOR CONSTRUCTION		4,822,751 59
Line Extensions	1,818,281 59	
Outdoor Lighting Deposits	4,470 00	
Other	3,000,000 00	
ASSET RETIREMENT OBLIGATIONS	30,159,970 20	30,159,970 20
OTHER DEFERRED CREDITS	16,717,054 49	16,717,054 49
MISCELLANEOUS LONG-TERM LIABILITIES		4,325,309 06
Workers' Compensation	3,865,885 06	
Uncertain Tax Positions	459,424 00	
ACCUMULATED PROVISION FOR BENEFITS		114,279,677 07
Pension Payable	36,482,933 00	
Postretirement Benefits - FAS 106	71,526,872 07	
Postretirement Benefit Payable	6,269,872.00	
Total Liabilities and Other Credits	3,492,459,634.98	3,492,459,634.98

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KENTUCKY UTILITIES COMPANY
STATEMENT OF CASH FLOWS
NOVEMBER 30, 2007

	Year to Date 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	150,963,740.83	132,435,092.57
Items not requiring cash currently:		
Depreciation	105,156,166.56	100,395,618.59
Amortization	5,004,094.46	4,646,980.59
Deferred income taxes - net	928,146.58	5,864,096.78
Investment tax credits deferred - net	28,424,611.00	(991,716.00)
Other	40,424,245.21	(2,331,155.64)
Change in receivables	4,084,093.72	25,433,638.44
Change in inventory	10,802,403.66	(14,756,020.26)
Change in allowance inventory	1,025,463.34	(561,149.52)
Change in payables and accrued expenses	(95,949,666.69)	16,580,696.85
Change in other regulatory assets	(2,184,470.91)	(18,233,110.11)
Change in other regulatory liabilities	1,460,334.45	(2,688,163.63)
Change in other deferred debits	(13,679,027.10)	(11,469,769.57)
Change in other deferred credits	9,433,912.53	9,677,879.40
Other	3,675,376.14	(5,361,552.59)
Less: Allowance for other funds used during construction	(3,734,303.29)	(507,224.75)
Less: Undistributed earnings of subsidiary company	(2,242,048.00)	117,537.20
Net cash provided (used) by operating activities	243,593,072.49	238,251,678.35
CASH FLOWS FROM INVESTING ACTIVITIES		
Gross additions to utility plant - construction expenditures	(654,387,064.10)	(325,693,821.42)
Less: Allowance for other funds used during construction	3,734,303.29	507,224.75
Change in other long-term debt	(433,540.00)	(1,501,490.00)
Change in long-term investments	(163,698.36)	(2,561,522.46)
Change in restricted cash	10,665,866.15	13,943,387.67
Net cash provided (used) by investing activities	(640,584,133.02)	(315,306,221.46)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	426,992,031.99	115,962,277.27
Net increase in short-term debt	19,649,000.00	-
Payments for retirement of long-term debt	(107,000,000.00)	(36,000,000.00)
Net decrease in short-term debt	-	(4,478,946.00)
Contributed capital	55,000,000.00	-
Net cash provided (used) by financing activities	394,641,031.99	75,483,331.27
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,350,028.54)	(1,571,211.84)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	5,313,043.20	6,611,645.74
CASH AND CASH EQUIVALENTS AT END OF PERIOD	2,963,014.66	5,040,433.90

KENTUCKY UTILITIES COMPANY
ANALYSIS OF INTEREST CHARGES
NOVEMBER 30, 2007

	CURRENT MONTH		YEAR TO DATE		YEAR ENDED CURRENT MONTH	
	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR
Interest On Long-Term Debt						
First Mortgage Bonds						
Series P 7.92%	-	349,800.00	1,574,100.00	3,847,800.00	1,923,900.00	4,197,600.00
Series R 7.55%	-	-	-	-	-	-
Series S 5.99%	-	-	-	89,850.00	-	269,550.00
Loan Agreement - Poll. Control Bonds						
Series 10 (VARIABLE%)	-	167,636.71	981,941.93	1,751,878.36	1,158,011.53	1,897,693.15
Series 11 (VARIABLE%)	-	38,825.42	-	417,087.50	40,903.75	450,770.83
Series 12 (VARIABLE%)	61,340.35	63,231.54	716,799.17	675,425.46	782,215.46	731,420.38
Series 13 (VARIABLE%)	7,033.77	7,250.63	82,193.87	77,449.64	89,695.02	83,870.46
Series 14 (VARIABLE%)	7,033.77	7,250.63	82,193.87	77,449.62	89,695.02	83,870.44
Series 15 (VARIABLE%)	21,687.46	22,356.11	253,431.12	238,803.07	276,559.67	258,600.60
Series 16 (VARIABLE%)	283,920.00	284,746.67	3,412,698.66	3,128,199.99	3,710,965.32	3,379,506.66
Series 17 (VARIABLE%)	165,763.89	147,916.67	1,751,006.96	1,597,511.08	1,903,854.18	1,723,916.64
Series 18 (VARIABLE%)	41,201.25	39,438.96	458,387.15	422,022.18	499,393.81	458,402.59
Series 19 (VARIABLE%)	41,201.25	39,093.27	450,684.17	419,927.73	492,304.79	454,481.50
Series 20 (VARIABLE%)	54,532.49	50,197.25	589,655.77	227,270.19	642,186.88	227,270.19
Series 21 (VARIABLE%)	54,532.49	-	589,120.14	-	632,013.47	-
Series 22 (VARIABLE%)	168,975.00	-	1,587,330.00	-	1,587,330.00	-
PCB CC (VARIABLE%)	28,963.16	-	185,012.06	-	185,012.06	-
PCB TC (VARIABLE%)	58,391.67	-	370,648.06	-	370,648.06	-
Interest Rate Swaps	-	(18,329.07)	(86,856.15)	(337,547.49)	(96,931.67)	(394,802.21)
Marked to Market	-	(11,022.00)	(328,589.00)	(830,462.00)	(425,779.00)	(1,031,283.00)
Fidelia	3,739,533.32	2,043,058.33	30,901,446.55	18,633,016.66	32,944,504.88	20,067,137.50
Hardin Promissory Note	42,301.25	-	(242,379.25)	-	(242,379.25)	-
Total	4,776,411.12	3,231,451.12	43,328,825.08	30,435,681.99	46,564,103.98	32,858,005.73
Amortization of Debt Expense - Net						
Amortization of Debt Expense	23,247.81	21,604.00	310,875.50	225,100.20	333,605.50	247,525.12
Amort. of Loss on Reacquired Debt	36,378.00	53,751.00	482,187.90	635,453.87	535,938.90	702,077.17
Total	59,625.81	75,355.00	793,063.40	860,554.07	869,544.40	949,602.29
Other Interest Charges						
Customers' Deposits	93,662.30	83,377.88	1,012,693.78	932,776.75	1,078,845.52	1,020,477.46
Other Tax Deficiencies	-	-	456.08	-	456.08	(10,066.00)
Interest on Debt to Associated Companies	225,735.02	103,497.32	6,078,012.58	2,691,989.18	6,329,112.83	2,905,033.86
AFUDC Borrowed Funds	(117,189.39)	(41,496.02)	(833,067.74)	(206,073.80)	(889,745.44)	(207,890.18)
Other Interest Expense	-	-	301.29	109,390.38	301.29	187,939.95
Total	202,207.93	145,379.18	6,258,395.99	3,528,082.51	6,518,970.28	3,895,495.09
Total Interest	5,038,244.86	3,452,185.30	50,380,284.47	34,824,318.57	53,952,618.66	37,703,103.11

KENTUCKY UTILITIES COMPANY
ANALYSIS OF TAXES CHARGED
NOVEMBER 30, 2007

Kind of Taxes	Current Month		Year To Date	
	This Year	Last Year	This Year	Last Year
Taxes Charged to Accounts 408.1 and 409.1				
Property Taxes	1,067,735.01	939,795.00	10,454,624.60	10,427,466.37
Unemployment	4,498.75	7,065.36	141,924.30	144,635.14
Federal Old Age and Survivors Insurance	737,488.56	440,093.87	5,390,474.50	4,789,585.07
Public Service Commission Fee	149,209.73	138,724.63	1,578,396.36	1,396,796.56
Federal Income	5,390,081.89	6,510,639.11	35,431,167.30	52,707,234.94
State Income	1,036,554.22	1,460,720.32	11,777,331.35	10,579,150.35
Miscellaneous	2,498.68	1,808.55	(52,081.34)	46,311.52
Total Charged to Operating Expense	8,388,066.84	9,498,846.84	64,721,837.07	80,091,179.95
Taxes Charged to Other Accounts	1,407,734.34	556,149.24	1,215,154.69	6,432,284.90
Taxes Accrued on Intercompany Accounts	(163,837.80)	(169,314.53)	(2,140,873.70)	(1,976,750.74)
Total Taxes Charged	9,631,963.38	9,885,681.55	63,796,118.06	84,546,714.11

ANALYSIS OF TAXES ACCRUED - ACCOUNT 236

Kind of Taxes	Taxes Accrued At Beginning Of Year	Accruals To Date This Year	Payments To Date This Year	Taxes Accrued At End Of Month
Property Taxes	11,128,630.22	10,563,156.60	15,654,892.18	6,036,894.64
Unemployment	31,909.04	62,954.29	94,311.17	552.16
Federal Old Age and Survivors	436,199.68	4,737,910.68	4,779,389.34	394,721.02
Federal Income	(11,303,186.47)	34,208,015.48	14,320,346.20	8,584,482.81
State Income	4,945,219.18	11,454,267.01	11,047,761.00	5,351,725.19
Kentucky Sales and Use Tax	244,273.64	2,648,006.60	2,567,721.83	324,558.41
Miscellaneous	0.00	121,807.40	104,912.16	16,895.24
Totals	5,483,045.29	63,796,118.06	48,569,333.88	20,709,829.47

KENTUCKY UTILITIES COMPANY
SUMMARY OF UTILITY PLANT
NOVEMBER 30, 2007

	NET BALANCE FIRST OF YEAR	ADDITIONS	RETIREMENTS	TRANSFER/ ADJUSTMENT	NET ADDITIONS	BALANCE TO DATE
UTILITY PLANT						
Plant In Service						
Intangibles	25,650,657.82	2,231,861.51	-	-	2,231,861.51	27,882,519.33
Steam Production	1,528,205,107.62	161,022,450.74	(14,465,904.48)	(271.13)	146,556,275.13	1,674,761,382.75
Hydro Production	9,946,337.38	1,072,820.18	(45,062.32)	-	1,027,757.86	10,974,095.24
Other Production	490,394,644.70	9,220,658.05	(2,024,577.99)	-	7,196,080.06	497,590,724.76
Transmission	506,489,863.16	13,459,376.80	(779,422.91)	(65,302.13)	12,614,651.76	519,104,514.92
Distribution	1,013,864,108.52	13,972,447.84	(4,114,387.42)	(17,423.54)	9,840,636.88	1,023,704,745.40
General	82,323,413.89	2,674,648.54	(2,881,694.69)	(235,142.73)	(442,188.88)	81,881,225.01
Transportation	23,860,353.39	78,801.10	(4,934,986.29)	(48,370.31)	(4,904,555.50)	18,955,797.89
Total Electric Plant in Service	3,680,734,486.48	203,733,064.76	(29,246,036.10)	(366,509.84)	174,120,518.82	3,854,855,005.30
Plant Purchased or Sold	-					-
Total Plant	3,680,734,486.48	203,733,064.76	(29,246,036.10)	(366,509.84)	174,120,518.82	3,854,855,005.30
Construction Work In Progress	487,243,640.21	511,774,837.58	-	-	511,774,837.58	999,018,477.79
Total Utility Plant at Original Cost	4,167,978,126.69	715,507,902.34	(29,246,036.10)	(366,509.84)	685,895,356.40	4,853,873,483.09

RESERVE FOR DEPRECIATION OF UTILITY	NET BALANCE FIRST OF YEAR	ACCRUAL	RETIREMENTS	TRANSFER/ ADJUSTMENT	RWIP TRANSFERS OUT	COST OF REMOVAL	SALVAGE	OTHER CREDITS	BALANCE TO DATE
Life Reserves									
Steam Production	*(835,316,309.29)*	*(37,373,561.84)*	*14,465,904.48*	-	-	-	-	(1,046,388.71)	(859,270,355.36)
Hydro Production	(7,418,715.60)	(118,105.52)	45,062.32	-	-	-	-	-	(7,491,758.80)
Other Production	(100,459,175.61)	(15,604,097.45)	2,024,577.99	-	-	-	-	-	(114,038,695.07)
Transmission	(193,145,219.41)	(8,383,441.34)	779,422.91	-	-	-	-	(1,428,920.68)	(202,178,158.52)
Distribution	(339,507,651.05)	(20,660,847.70)	4,114,387.42	6,549.60	-	-	-	(855,612.28)	(356,903,174.01)
General	(29,777,581.81)	(6,312,920.48)	2,881,694.69	(6,549.60)	-		-	-	(33,215,357.20)
Transportation	(23,717,823.29)	(48,724.51)	4,934,986.29	-	-		-	-	(18,831,561.51)
Total Life Reserve For Depreciation Of Utility Plant in Service	(1,529,342,476.06)	(88,501,698.84)	29,246,036.10	-	-	-	-	(3,330,921.67)	(1,591,929,060.47)
Salvage Reserves									
Steam Production	(62,263,334.97)	(5,127,146.71)		-	-	2,511,468.76	(300.00)	-	(64,879,312.92)
Hydro Production	(748,788.82)	(36,582.79)		-	-	47,822.50	-	-	(737,549.11)
Other Production	(1,319,813.89)	-		-	-	238,444.71	-	-	(1,081,369.18)
Transmission	(110,346,842.22)	(5,676,915.30)		-	-	1,057,863.77	(29,663.40)	-	(114,995,557.15)
Distribution	(131,526,999.25)	(8,035,926.29)	-		-	*2,755,560.65*	*(357,630.61)*	-	*(137,164,995.50)*
General	164,993.50	23,240.95	-		-	56,862.65	(3,000.00)	-	242,097.10
Total Salvage Reserve For Depreciation Of Utility Plant in Service	(306,040,785.65)	(18,853,330.14)	-	-	-	6,668,023.04	(390,594.01)	-	(318,616,686.76)
Total Reserves									
Steam Production	(897,579,644.26)	(42,500,708.55)	14,465,904.48	-	-	2,511,468.76	(300.00)	(1,046,388.71)	(924,149,668.28)
Hydro Production	*(8,167,504.42)*	*(154,688.31)*	*45,062.32*	-	-	47,822.50	-	-	(8,229,307.91)
Other Production	(101,778,989.50)	(15,604,097.45)	2,024,577.99	-	-	238,444.71	-	-	(115,120,064.25)
Transmission	(303,492,061.63)	(14,060,356.64)	779,422.91	-	-	1,057,863.77	(29,663.40)	(1,428,920.68)	(317,173,715.67)
Distribution	(471,034,650.30)	(28,696,773.99)	4,114,387.42	6,549.60	-	2,755,560.65	(357,630.61)	(855,612.28)	(494,068,169.51)
General	(29,612,588.31)	(6,289,679.53)	2,881,694.69	(6,549.60)	-	56,862.65	(3,000.00)	-	(32,973,260.10)
Transportation	(23,717,823.29)	(48,724.51)	4,934,986.29	-	-	-	-	-	(18,831,561.51)
Total Life Reserve For Depreciation Of Utility *Plant in Service*	(1,835,383,261.70)	(107,355,028.98)	29,246,036.10	-	-	6,668,023.04	(390,594.01)	(3,330,921.67)	(1,910,545,747.23)
Retirement of Work in Progress	(35,953.69)	-	-	2,748,583.33	(2,946,507.36)	6,277,856.11	(605,119.04)	208,755.62	5,647,614.97
YTD Activity	(1,835,419,215.39)	(107,355,028.98)	29,246,036.10	2,748,583.33	(2,946,507.36)	12,945,879.15	(995,713.05)	(3,122,166.05)	(1,904,898,132.25)
Intangibles	(14,592,939.75)	(5,004,094.46)	-	-	-	-	-	-	(19,597,034.21)
Leaseholds	-	-	-	-	-	-	-	-	-
Amortization - *Utility Plant in* Service	(1,850,012,155.14)	(112,359,123.44)	29,246,036.10	2,748,583.33	(2,946,507.36)	12,945,879.15	(995,713.05)	(3,122,166.05)	(1,924,495,166.46)
Utility Plant at Original Cost Less Reserve For Depreciation and Amortization	2,639,057,291.20								2,929,378,316.63

KU Monthly Report to KPSC – October 31, 2007

KENTUCKY UTILITIES COMPANY

Financial Reports

October 31, 2007

Prepared by Regulatory Accounting and Reporting

KENTUCKY UTILITIES COMPANY
COMPARATIVE STATEMENT OF INCOME
OCTOBER 31, 2007

	CURRENT MONTH			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	97,376,660.23	90,905,488.08	6,471,172.15	7.12
Total Operating Revenues	97,376,660.23	90,905,488.08	6,471,172.15	7.12
Operating Expenses				
Fuel	34,271,578.35	28,431,772.12	5,839,806.23	20.54
Power Purchased	12,371,207.86	14,675,600.48	(2,304,392.62)	(15.70)
Other Operation Expenses	11,844,537.75	11,417,341.67	427,196.08	3.74
Maintenance	10,026,873.23	6,719,949.90	3,306,923.33	49.21
Depreciation	10,124,876.07	9,129,452.35	995,423.72	10.90
Amortization Expense	411,749.86	438,323.18	(26,573.32)	(6.06)
Regulatory Credits	(179,631.83)	(170,394.41)	(9,237.42)	5.42
Taxes				
Federal Income	-	-	-	-
State Income	-	-	-	-
Deferred Federal Income - Net	-	-	-	-
Deferred State Income - Net	-	-	-	-
Federal Income - Estimated	3,795,343.12	4,893,447.02	(1,098,103.90)	(22.44)
State Income - Estimated	729,873.67	1,097,888.75	(368,015.08)	(33.52)
Property and Other	1,723,355.10	1,380,790.22	342,564.88	24.81
Investment Tax Credit	-	-	-	-
Loss (Gain) from Disposition of Allowances	-	-	-	-
Accretion Expense	155,089.06	145,635.00	9,454.06	6.49
Total Operating Expenses	85,274,852.24	78,159,806.28	7,115,045.96	9.10
Net Operating Income	12,101,807.99	12,745,681.80	(643,873.81)	(5.05)
Other Income Less Deductions				
Other Income Less Deductions	1,271,958.28	975,990.02	295,968.26	30.32
AFUDC - Equity	365,858.81	64,823.60	301,035.21	464.39
Total Other Income Less Deductions	1,637,817.09	1,040,813.62	597,003.47	57.36
Income Before Interest Charges	13,739,625.08	13,786,495.42	(46,870.34)	(0.34)
Interest on Long Term Debt	4,774,447.75	3,184,100.24	1,590,347.51	49.95
Amortization of Debt Expense - Net	59,614.20	75,182.00	(15,567.80)	(20.71)
Other Interest Expenses	460,757.08	243,237.62	217,519.46	89.43
AFUDC - Borrowed Funds	(105,261.28)	(44,319.44)	(60,941.84)	137.51
Total Interest Charges	5,189,557.75	3,458,200.42	1,731,357.33	50.07
Net Inc Before Cumulative Effect of Acctg Chg	8,550,067.33	10,328,295.00	(1,778,227.67)	(17.22)
Cumulative Effect of Accounting Chg Net of Tax	-	-	-	-
Net Income	8,550,067.33	10,328,295.00	(1,778,227.67)	(17.22)
Preferred Dividend Requirements	-	-	-	-
Earnings Available for Common	8,550,067.33	10,328,295.00	(1,778,227.67)	(17.22)

KENTUCKY UTILITIES COMPANY
COMPARATIVE STATEMENT OF INCOME
OCTOBER 31, 2007

	YEAR TO DATE			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	1,060,166,578.13	1,001,413,710.73	58,752,867.40	5.87
Total Operating Revenues	1,060,166,578.13	1,001,413,710.73	58,752,867.40	5.87
Operating Expenses				
Fuel	388,103,278.47	352,984,109.87	35,119,168.60	9.95
Power Purchased	140,944,774.01	154,377,864.32	(13,433,090.31)	(8.70)
Other Operation Expenses	125,948,865.77	139,832,391.30	(13,883,525.53)	(9.93)
Maintenance	67,055,684.38	62,004,028.32	5,051,656.06	8.15
Depreciation	95,098,035.73	91,071,976.39	4,026,059.34	4.42
Amortization Expense	4,582,904.39	4,217,209.38	365,695.01	8.67
Regulatory Credits	(1,741,517.79)	(1,703,485.58)	(38,032.21)	2.23
Taxes				
Federal Income	26,245,742.29	41,303,148.81	(15,057,406.52)	(36.46)
State Income	10,010,903.46	8,020,541.28	1,990,362.18	24.82
Deferred Federal Income - Net	(4,537,747.41)	528,995.37	(5,066,742.78)	(957.80)
Deferred State Income - Net	(125,564.12)	1,346,571.41	(1,472,135.53)	(109.32)
Federal Income - Estimated	3,795,343.12	4,893,447.02	(1,098,103.90)	(22.44)
State Income - Estimated	729,873.67	1,097,888.75	(368,015.08)	(33.52)
Property and Other	15,551,907.69	15,277,307.25	274,600.44	1.80
Investment Tax Credit	28,966,647.00	-	28,966,647.00	100.00
Loss (Gain) from Disposition of Allowances	(706,851.51)	(1,283,929.13)	577,077.62	(44.95)
Accretion Expense	1,551,184.60	1,456,344.99	94,839.61	6.51
Total Operating Expenses	901,473,463.75	875,424,409.75	26,049,054.00	2.98
Net Operating Income	158,693,114.38	125,989,300.98	32,703,813.40	25.96
Other Income Less Deductions				
Other Income Less Deductions	22,366,674.75	24,526,973.77	(2,160,299.02)	(8.81)
AFUDC - Equity	2,493,963.87	240,464.84	2,253,499.03	937.14
Total Other Income Less Deductions	24,860,638.62	24,767,438.61	93,200.01	0.38
Income Before Interest Charges	183,553,753.00	150,756,739.59	32,797,013.41	21.75
Interest on Long Term Debt	38,552,413.96	27,204,230.87	11,348,183.09	41.71
Amortization of Debt Expense - Net	733,437.59	785,199.07	(51,761.48)	(6.59)
Other Interest Expenses	6,772,066.41	3,547,281.11	3,224,785.30	90.91
AFUDC - Borrowed Funds	(715,878.35)	(164,577.78)	(551,300.57)	334.98
Total Interest Charges	45,342,039.61	31,372,133.27	13,969,906.34	44.53
Net Inc Before Cumulative Effect of Acctg Chg	138,211,713.39	119,384,606.32	18,827,107.07	15.77
Cumulative Effect of Accounting Chg Net of Tax	-	-	-	-
Net Income	138,211,713.39	119,384,606.32	18,827,107.07	15.77
Preferred Dividend Requirements	-	-	-	-
Earnings Available for Common	138,211,713.39	119,384,606.32	18,827,107.07	15.77

KENTUCKY UTILITIES COMPANY
COMPARATIVE STATEMENT OF INCOME
OCTOBER 31, 2007

	YEAR ENDED CURRENT MONTH			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	1,268,772,151.97	1,220,228,473.45	48,543,678.52	3.98
Total Operating Revenues	1,268,772,151.97	1,220,228,473.45	48,543,678.52	3.98
Operating Expenses				
Fuel	458,112,313.57	419,518,176.35	38,594,137.22	9.20
Power Purchased	169,011,964.48	192,234,838.25	(23,222,873.77)	(12.08)
Other Operation Expenses	151,017,401.59	181,990,824.88	(30,973,423.29)	(17.02)
Maintenance	77,928,902.12	71,617,138.25	6,311,763.87	8.81
Depreciation	113,961,813.97	109,426,966.84	4,534,847.13	4.14
Amortization Expense	5,438,308.91	4,985,405.56	452,903.35	9.08
Regulatory Credits	(2,082,306.61)	(7,491,543.33)	5,409,236.72	(72.20)
Taxes				
Federal Income	33,639,118.49	60,500,664.56	(26,861,546.07)	(44.40)
State Income	13,365,934.15	12,187,147.99	1,178,786.16	9.67
Deferred Federal Income - Net	(5,271,113.12)	(4,528,399.25)	(742,713.87)	16.40
Deferred State Income - Net	(597,070.10)	(103,207.24)	(493,862.86)	478.52
Federal Income - Estimated	(1,098,103.90)	3,743,466.78	(4,841,570.68)	(129.33)
State Income - Estimated	(368,015.08)	796,254.59	(1,164,269.67)	(146.22)
Property and Other	18,877,668.23	17,935,263.59	942,404.64	5.25
Investment Tax Credit	40,966,647.00	-	40,966,647.00	100.00
Loss (Gain) from Disposition of Allowances	(706,851.51)	(1,283,929.13)	577,077.62	(44.95)
Accretion Expense	1,842,454.60	1,687,702.99	154,751.61	9.17
Total Operating Expenses	1,074,039,066.79	1,063,216,771.68	10,822,295.11	1.02
Net Operating Income	194,733,085.18	157,011,701.77	37,721,383.41	24.02
Other Income Less Deductions				
Other Income Less Deductions	25,643,821.09	26,212,702.14	(568,881.05)	(2.17)
AFUDC - Equity	2,637,543.10	254,093.92	2,383,449.18	938.02
Total Other Income Less Deductions	28,281,364.19	26,466,796.06	1,814,568.13	6.86
Income Before Interest Charges	223,014,449.37	183,478,497.83	39,535,951.54	21.55
Interest on Long Term Debt	45,019,143.98	32,488,505.12	12,530,638.86	38.57
Amortization of Debt Expense - Net	885,273.59	963,082.05	(77,808.46)	(8.08)
Other Interest Expenses	7,276,193.60	5,051,669.76	2,224,523.84	44.04
AFUDC - Borrowed Funds	(814,052.07)	(167,505.26)	(646,546.81)	385.99
Total Interest Charges	52,366,559.10	38,335,751.67	14,030,807.43	36.60
Net Inc Before Cumulative Effect of Acctg Chg	170,647,890.27	145,142,746.16	25,505,144.11	17.57
Cumulative Effect of Accounting Chg Net of Tax	-	3,337,340.49	(3,337,340.49)	(100.00)
Net Income	170,647,890.27	141,805,405.67	28,842,484.60	20.34
Preferred Dividend Requirements	-	-	-	-
Earnings Available for Common	170,647,890.27	141,805,405.67	28,842,484.60	20.34

KENTUCKY UTILITIES COMPANY
ANALYSIS OF RETAINED EARNINGS
OCTOBER 31, 2007

	Current Month		Year to Date		Year Ended Current Month	
Retained Earnings and Undistributed Earnings	Total Retained Earnings	Undistributed Subsidiary Earnings	Total Retained Earnings	Undistributed Subsidiary Earnings	Total Retained Earnings	Undistributed Subsidiary Earnings
Balance Beginning of Period................	980,854,356.59	19,534,077.00	854,131,027.53	16,248,287.00	818,405,757.85	19,537,379.80
Net Income To Date..........................	8,550,067.33		138,211,713.39		170,647,890.27	
FIN 48 Adjustment............................	-		347,473.00		347,473.00	
Adjust for Equity in Subsidiary						
Earnings for Year						
-EE Inc...................................	(1,899,416.00)	1,899,416.00	(21,235,206.00)	21,235,206.00	(24,821,113.20)	24,821,113.20
Dividends Rec'd Current Year						
-EE Inc...................................	-	-	16,050,000.00	(16,050,000.00)	22,925,000.00	(22,925,000.00)
Balance End of Period......................	987,505,007.92	21,433,493.00	987,505,007.92	21,433,493.00	987,505,007.92	21,433,493.00

Combined Retained Earnings	12 MONTHS 10/31/07	12 MONTHS 10/31/2006
Retained Earnings Beginning of Period.....	837,943,137.65	696,122,469.89
Add Net Income..................................	170,647,890.27	141,805,405.67
FIN 48 Adjustment............................	347,473.00	-
Subtotal..	1,008,938,500.92	837,927,875.56
Deduct		
Dividends on Preferred Stock............	-	-
Dividends on Common Stock..............	-	-
Preferred Stock Redemption Exp	-	(15,262.09)
Other..	-	-
Retained Earnings End of Period............	1,008,938,500.92	837,943,137.65

KENTUCKY UTILITIES COMPANY
COMPARATIVE BALANCE SHEETS AS OF OCTOBER 31, 2007 AND 2006

ASSETS AND OTHER DEBITS	THIS YEAR	LAST YEAR
Utility Plant		
Utility Plant at Original Cost	4,803,713,147.94	4,083,563,836.51
Less Reserves for Depreciation & Amortization	1,919,414,160.77	1,854,305,787.51
Total	2,884,298,987.17	2,229,258,049.00
Investments - At Cost		
Ohio Valley Electric Corporation	250,000.00	250,000.00
Nonutility Property-Less Reserve	968,820.61	969,231.01
Investments in Subsidiary Companies	22,729,293.00	20,833,179.80
Special Funds	5,851,653.71	9,650,633.36
Other	411,140.00	426,140.00
Total	30,210,907.32	32,129,184.17
Current and Accrued Assets		
Cash	(837,913.41)	7,215,811.55
Special Deposits	19,398,150.14	13,142,300.34
Temporary Cash Investments	17,356.60	3,461.01
Accounts Receivable-Less Reserve	150,183,408.69	108,771,107.29
Notes Receivable from Assoc. Companies	-	-
Accounts Receivable from Assoc Companies	15,525,808.62	22,746,132.46
Materials & Supplies-At Average Cost		
Fuel	55,304,779.03	69,718,716.76
Plant Materials & Operating Supplies	26,453,369.52	26,388,759.84
Stores Expense	6,569,540.14	5,580,372.58
Allowance Inventory	877,581.02	2,357,016.78
Prepayments	3,972,947.13	3,834,014.83
Miscellaneous Current & Accrued Assets	193,113.63	3,259,323.43
Total	277,658,141.11	263,017,016.87
Deferred Debits and Other		
Unamortized Debt Expense	7,086,171.68	5,459,377.64
Unamortized Loss on Bonds	10,246,422.95	10,434,694.03
Accumulated Deferred Income Taxes	49,793,664.13	54,390,522.51
Deferred Regulatory Assets	117,057,347.88	51,409,598.44
Other Deferred Debits	77,410,140.17	73,600,873.66
Total	261,593,746.81	195,295,066.28
Total Assets and Other Debits	3,453,761,782.41	2,719,699,316.32

LIABILITIES AND OTHER CREDITS	THIS YEAR	LAST YEAR
Capitalization		
Common Stock	308,139,977.56	308,139,977.56
Common Stock Expense	(321,288.87)	(321,288.87)
Paid-In Capital	70,000,000.00	15,000,000.00
Other Comprehensive Income	-	(19,336,790.74)
Retained Earnings	987,505,007.92	818,405,757.85
Unappropriated Undistributed Subsidiary Earnings	21,433,493.00	19,537,379.80
Total Common Equity	1,386,757,189.61	1,141,425,035.60
Preferred Stock	-	-
Pollution Control Bonds	332,753,140.00	289,257,520.00
Other Long-Term Debt	-	-
LT Notes Payable to Associated Companies	831,000,000.00	483,000,000.00
Long-Term Debt Marked to Market	-	639,710.00
Total Long-Term Debt	1,163,753,140.00	772,897,230.00
Total Capitalization	2,550,510,329.61	1,914,322,265.60
Current and Accrued Liabilities		
Long-Term Debt Due in 1 Year	-	53,000,000.00
ST Notes Payable to Associated Companies	51,345,054.00	-
Notes Payable	-	-
Notes Payable to Associated Companies	-	29,400,054.00
Accounts Payable	199,086,231.88	92,395,888.97
Accounts Payable to Associated Companies	15,086,941.87	57,075,197.25
Customer Deposits	19,298,874.97	18,436,275.20
Taxes Accrued	13,527,042.59	17,582,885.60
Interest Accrued	9,527,391.65	8,836,093.71
Dividends Declared	-	-
Misc. Current & Accrued Liabilities	13,649,184.44	12,835,299.63
Total	321,520,721.40	289,561,694.36
Deferred Credits and Other		
Accumulated Deferred Income Taxes	334,877,315.27	334,100,655.86
Investment Tax Credit	41,497,662.32	1,204,087.32
Regulatory Liabilities	37,051,093.91	28,587,911.44
Customer Advances for Construction	1,822,788.68	1,725,496.22
Asset Retirement Obligations	30,004,881.14	28,218,011.28
Other Deferred Credits	16,765,082.46	25,632,827.40
Misc. Long-Term Liabilities	4,325,309.06	32,077,956.49
Accum Provision for Post-Retirement Benefits	115,386,598.56	64,268,410.35
Total	581,730,731.40	515,815,356.36
Total Liabilities and Other Credits	3,453,761,782.41	2,719,699,316.32

KENTUCKY UTILITIES COMPANY
STATEMENT OF CAPITALIZATION AND SHORT-TERM DEBT
OCTOBER 31, 2007

	AUTHORIZED SHARES	ISSUED & OUTSTANDING SHARES	ISSUED & OUTSTANDING AMOUNT	PERCENT OF TOTAL CAPITAL & S/T DEBT	PERCENT OF TOTAL CAPITAL
Common Equity					
Common Stock - Without Par	80,000,000	37,817,878	308,139,977.56		
Common Stock Expense			(321,288.87)		
Paid-In Capital			70,000,000.00		
Other Comprehensive Income			-		
Retained Earnings			987,505,007.92		
Unappropriated Undistributed Subsidiary Earnings			21,433,493.00		
Total Common Equity			1,386,757,189.61	53.30	54.37
Long-Term Debt					
PCB 11 DUE 05/01/23 Variable%			12,900,000.00		
PCB 12 DUE 02/01/32 Variable%			20,930,000.00		
PCB 13 DUE 02/01/32 Variable%			2,400,000.00		
PCB 14 DUE 02/01/32 Variable%			2,400,000.00		
PCB 15 DUE 02/01/32 Variable%			7,400,000.00		
PCB 16 DUE 10/01/32 Variable%			96,000,000.00		
PCB 17 DUE 10/01/34 Variable%			50,000,000.00		
PCB 18 DUE 06/01/35 Variable%			13,266,950.00		
PCB 19 DUE 06/01/35 Variable%			13,266,950.00		
PCB 20 DUE 06/01/36 Variable%			16,693,620.00		
PCB 21 DUE 06/01/36 Variable%			16,693,620.00		
PCB 22 DUE 10/01/34 Variable%			54,000,000.00		
PCB CC DUE 02/01/26 Variable%			17,875,000.00		
PCB TC DUE 03/01/37 Variable%			8,927,000.00		
Total Long-Term Debt			332,753,140.00	12.79	13.05
LT Notes Payable to Associated Companies			831,000,000.00	31.94	32.58
Total Capitalization			2,550,510,329.61	98.03	100.00
Long-Term Debt Due in 1 Year			0.00	0.00	
ST Notes Payable to Associated Companies			51,345,054.00	1.97	
Total Capitalization and Short-Term Debt			2,601,855,383.61	100.00	

KENTUCKY UTILITIES COMPANY
TRIAL BALANCE - GENERAL LEDGER
OCTOBER 31, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
UTILITY PLANT		
At Original Cost	4,803,713,147 94	4,803,713,147 94
Reserves for Depreciation and Amortization		(1,919,414,160 77)
Depreciation	(1,900,238,316 63)	
Amortization of Plant	(19,175,844 14)	
INVESTMENTS - AT COST		30,210,907 32
Nonutility Property	1,025,914 06	
Nonutility Property Reserve	(57,093 45)	
Investments in Subsidiary Companies	22,729,293 00	
Ohio Valley Electric Corporation	250,000 00	
Other	411,140 00	
OMU-Interest on Reserve, New	1,237,451 29	
OMU-R&I on Maintenance Reserve	600,000 00	
OMU-R&I on Additions and Replacements	120,000 00	
OMU-R&I on Operations	538,067 36	
OMU-R&I Interest on Purchase Power	226,137 79	
OMU-Purchase Power, Coal Reserve	3,129,997 27	
CASH		(837,913 41)
Cash Accounts	(837,913 41)	
SPECIAL DEPOSITS		19,398,150 14
Restricted Cash	18,178,994 48	
MAN Margin Call	1,219,155 66	
TEMPORARY CASH INVESTMENTS		17,356 60
Temporary Cash Investments	17,356 60	
ACCOUNTS RECEIVABLE - LESS RESERVE		150,183,408 69
Working Funds	39,180 00	
Customers-Active	83,345,716 58	
Wholesale Sales	3,902,932 20	
Transmission Receivable	636,533 24	
Unbilled Revenues	37,905,000 00	
PC Purchase Program	79,902 82	
Damage Claims	206,145 82	
Insurance Claims	(105 69)	
IMEA	11,113,620 16	
IMPA	11,810,513 84	
Miscellaneous	2,921,305 25	
Uncollectible Accounts - Charged Off	2,539,488 28	
Uncollectible Accounts - Recovery	(740,700 27)	
Uncollectible Accounts - Reserve	(744,536 00)	
Uncollectible Accounts - Accrual	(1,782,450 08)	
Uncollectible Accounts - LEM Reserve	(1,042,451 80)	
Uncollectible Accounts - Miscellaneous	(41,507 93)	
Interest and Dividend Receivable	34,822 27	
ACCOUNTS RECEIVABLE FROM ASSOCIATED COMPANIES		15,525,808 62
E ON US Services/Louisville Gas & Electric Company	15,525,808 62	

KENTUCKY UTILITIES COMPANY
TRIAL BALANCE - GENERAL LEDGER
OCTOBER 31, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
FUEL		55,304,779 03
Coal 1,076,645.50 Tons @ $47 43; MMBTU 25,892,884 50 @ 197 24¢	51,070,501 70	
Fuel Oil 2,304,855 Gallons @ 180.02¢	4,149,276 93	
Gas Pipeline 10,975.50 MCF @ $7.74	85,000 40	
PLANT MATERIALS AND OPERATING SUPPLIES		26,453,369 52
Regular Materials and Supplies	26,307,053 78	
Limestone 23,805 36 Tons @ $6 15	146,315 74	
STORES EXPENSE		6,569,540 14
Stores Expense Undistributed	6,569,540 14	
ALLOWANCE INVENTORY		877,581 02
Allowance Inventory	877,581 02	
PREPAYMENTS		3,972,947 13
Insurance	116,298.34	
Taxes	1,193,677.79	
Risk Management and Workers Compensation	75,000.00	
Vehicle License	33,934 10	
Other	2,554,036.90	
MISCELLANEOUS CURRENT ASSETS		193,113.63
Derivative Asset - Non-Hedging	176,968 70	
Miscellaneous Current Assets	16,144 93	
UNAMORTIZED DEBT EXPENSE		7,086,171 68
Pollution Control Bonds		
KU Series 11, Variable%, Due 5/01/23	267,998.29	
KU Series 12, Variable%, Due 2/01/32	99,444 34	
KU Series 13, Variable%, Due 2/01/32	69,129.62	
KU Series 14, Variable%, Due 2/01/32	76,957 11	
KU Series 15, Variable%, Due 2/01/32	27,738 40	
KU Series 16, Variable%, Due 10/01/32	1,811,572 04	
KU Series 17, Variable%, Due 10/01/34	1,078,693 59	
KU Series 18, Variable%, Due 06/01/35	488,072 30	
KU Series 19, Variable%, Due 06/01/35	496,045 04	
KU Series 20, Variable%, Due 06/01/36	591,440.05	
KU Series 21, Variable%, Due 06/01/36	532,102 04	
KU Series 22, Variable%, Due 10/01/34	927,363 31	
KU Variable%, Due 03/01/37	267,163 40	
KU Variable%, Due 02/01/26	352,452 15	
UNAMORTIZED LOSS ON BONDS		10,246,422.95
Reacquired Debt	10,246,422 95	
ACCUMULATED DEFERRED INCOME TAXES		49,793,664 13
Federal	41,843,229.19	
State	7,950,434 94	
DEFERRED REGULATORY ASSET		117,057,347.88
Asset Retirement Obligations	23,756,582 40	
FERC Jurisdictional Pension Expense	2,414,254.77	
FASB 109 - Deferred Taxes	6,034,542.00	
Pension & Postretirement Benefits	63,435,153 11	
Ice Storm Expenses	1,319,322 00	
MISO Exit Fee	20,097,493.60	
OTHER DEFERRED DEBITS	77,410,140 17	77,410,140.17
Total Assets and Other Debits	3,453,761,782.41	3,453,761,782.41

KENTUCKY UTILITIES COMPANY
TRIAL BALANCE - GENERAL LEDGER
OCTOBER 31, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
COMMON EQUITY		1,386,757,189.61
Common Stock	308,139,977.56	
Common Stock Expense	(321,288.87)	
Paid-In Capital	70,000,000.00	
Retained Earnings	987,505,007.92	
Unappropriated Undistributed Subsidiary Earnings	21,433,493.00	
BONDS		332,753,140.00
Pollution Control Bonds		
KU Series 11, Variable%, Due 05/01/23	12,900,000.00	
KU Series 12, Variable%, Due 2/01/32	20,930,000.00	
KU Series 13, Variable%, Due 2/01/32	2,400,000.00	
KU Series 14, Variable%, Due 2/01/32	2,400,000.00	
KU Series 15, Variable%, Due 2/01/32	7,400,000.00	
KU Series 16, Variable%, Due 10/01/32	96,000,000.00	
KU Series 17, Variable%, Due 10/01/34	50,000,000.00	
KU Series 18, Variable%, Due 06/01/35	13,266,950.00	
KU Series 19, Variable%, Due 06/01/35	13,266,950.00	
KU Series 20, Variable%, Due 06/01/36	16,693,620.00	
KU Series 21, Variable%, Due 06/01/36	16,693,620.00	
KU Series 22, Variable%, Due 10/01/34	54,000,000.00	
KU Variable%, Due 03/01/37	8,927,000.00	
KU Variable%, Due 02/01/26	17,875,000.00	
LT NOTES PAYABLE TO ASSOCIATED COMPANIES	831,000,000.00	831,000,000.00
ST NOTES PAYABLE TO ASSOCIATED COMPANIES		51,345,054.00
Money Pool Payable	51,345,054.00	
ACCOUNTS PAYABLE		199,086,231.88
Regular	192,274,683.93	
Salaries and Wages Accrued	3,363,401.94	
Employee Withholdings Payable	26,032.51	
Tax Collections - Payable	3,422,113.50	
ACCOUNTS PAYABLE TO ASSOCIATED COMPANIES		15,086,941.87
E ON US Services/Louisville Gas & Electric Company	15,086,941.87	
CUSTOMERS' DEPOSITS	19,298,874.97	19,298,874.97
TAXES ACCRUED	13,527,042.59	13,527,042.59
INTEREST ACCRUED		9,527,391.65
Interest on Long-Term Debt		
KU Series 11, Variable%, Due 05/01/23	40,635.01	
KU Series 12, Variable%, Due 2/01/32	111,221.46	
KU Series 13, Variable%, Due 2/01/32	12,753.53	
KU Series 14, Variable%, Due 2/01/32	12,753.53	
KU Series 15, Variable%, Due 2/01/32	39,323.39	
KU Series 16, Variable%, Due 10/01/32	9,464.02	
KU Series 17, Variable%, Due 10/01/34	120,694.44	
KU Series 18, Variable%, Due 06/01/35	9,415.86	
KU Series 19, Variable%, Due 06/01/35	9,673.83	
KU Series 20, Variable%, Due 06/01/36	14,282.33	
KU Series 21, Variable%, Due 06/01/36	14,282.28	
KU Series 22, Variable%, Due 10/01/34	34,200.00	
KU Variable%, Due 03/01/37	6,682.85	
KU Variable%, Due 02/01/26	13,381.40	
Other		
Customer Deposits	552,989.77	
Fidelia	8,525,637.95	

KENTUCKY UTILITIES COMPANY
TRIAL BALANCE - GENERAL LEDGER
OCTOBER 31, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
MISCELLANEOUS CURRENT AND ACCRUED LIABILITIES		13,649,184 44
Customer Overpayments	1,741,223 17	
UK Emission Research Grant	250,000 00	
Vacation Pay Accrued	4,930,617 28	
Derivative Liabilities - Non-Hedging	652,819.89	
Franchise Fee Payable	6,010,249 06	
Other	64,275 04	
ACCUMULATED DEFERRED INCOME TAXES		334,877,315 27
Federal	288,820,385.17	
State	46,056,930 10	
INVESTMENT TAX CREDIT		41,497,662 32
Job Development Credit	531,015.32	
Advance Coal Credit	40,966,647 00	
REGULATORY LIABILITIES		37,051,093 91
Asset Retirement Obligations	2,128,829.29	
Deferred Taxes - FAS 109	29,126,991 50	
Spare Parts	1,208,906 12	
MISO Schedule 10 Charges	4,586,367 00	
CUSTOMERS' ADVANCES FOR CONSTRUCTION		1,822,788 68
Line Extensions	1,818,318 68	
Outdoor Lighting Deposits	4,470 00	
ASSET RETIREMENT OBLIGATIONS	30,004,881.14	30,004,881 14
OTHER DEFERRED CREDITS	16,765,082 46	16,765,082 46
MISCELLANEOUS LONG-TERM LIABILITIES		4,325,309 06
Workers' Compensation	3,865,885 06	
Uncertain Tax Positions	459,424.00	
ACCUMULATED PROVISION FOR BENEFITS		115,386,598 56
Pension Payable	36,482,933 00	
Postretirement Benefits - FAS 106	72,633,793 56	
Postretirement Benefit Payable	6,269,872 00	
Total Liabilities and Other Credits	3,453,761,782.41	3,453,761,782.41

KENTUCKY UTILITIES COMPANY
STATEMENT OF CASH FLOWS
OCTOBER 31, 2007

	Year to Date	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	138,211,713.39	119,384,606.32
Items not requiring cash currently:		
Depreciation	95,098,035.73	91,071,976.39
Amortization	4,582,904.39	4,217,209.38
Deferred income taxes - net	935,834.58	5,864,096.78
Investment tax credits deferred - net	28,473,887.00	(901,560.00)
Other	43,184,392.32	(2,553,211.89)
Change in receivables	7,506,584.24	35,543,750.76
Change in inventory	8,231,758.29	(15,302,917.02)
Change in allowance inventory	792,956.81	(897,329.87)
Change in payables and accrued expenses	(54,249,051.29)	16,333,881.66
Change in other regulatory assets	(2,040,504.94)	(18,094,853.70)
Change in other regulatory liabilities	1,111,720.43	(3,036,777.65)
Change in other deferred debits	(14,560,413.07)	(11,496,681.04)
Change in other deferred credits	9,481,940.50	10,147,191.10
Other	1,943,561.56	(3,900,557.95)
Less: Allowance for other funds used during construction	(3,209,842.22)	(405,042.62)
Less: Undistributed earnings of subsidiary company	(5,185,206.00)	(5,194,865.80)
Net cash provided (used) by operating activities	260,310,271.72	220,778,914.85
CASH FLOWS FROM INVESTING ACTIVITIES		
Gross additions to utility plant - construction expenditures	(601,792,339.33)	(263,278,453.15)
Less: Allowance for other funds used during construction	3,209,842.22	405,042.62
Change in other long-term debt	(433,540.00)	(1,400,790.00)
Change in long-term investments	(131,617.38)	(4,111,433.55)
Change in restricted cash	3,408,833.77	8,456,042.99
Net cash provided (used) by investing activities	(595,738,820.72)	(259,929,591.09)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	426,992,948.99	116,023,777.43
Payments for retirement of long-term debt	(107,000,000.00)	(36,000,000.00)
Net decrease in short-term debt	(45,698,000.00)	(40,264,946.00)
Contributed capital	55,000,000.00	-
Net cash provided (used) by financing activities	329,294,948.99	39,758,831.43
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(6,133,600.01)	608,155.19
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	5,313,043.20	6,611,645.74
CASH AND CASH EQUIVALENTS AT END OF PERIOD	(820,556.81)	7,219,800.93

KENTUCKY UTILITIES COMPANY
ANALYSIS OF INTEREST CHARGES
OCTOBER 31, 2007

	CURRENT MONTH		YEAR TO DATE		YEAR ENDED CURRENT MONTH	
	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR
Interest On Long-Term Debt						
First Mortgage Bonds						
Series P 7.92%.........	-	349,800.00	1,574,100.00	3,498,000.00	2,273,700.00	4,197,600.00
Series R 7.55%.........	-	-	-	-	-	-
Series S 5.99%.........	-	-	-	89,850.00	-	449,250.00
Loan Agreement - Poll. Control Bonds						
Series 10 (VARIABLE%)	-	168,509.59	981,941.93	1,584,241.65	1,325,648.24	1,856,357.26
Series 11 (VARIABLE%)	-	39,661.05	-	378,262.08	79,729.17	442,009.58
Series 12 (VARIABLE%)	66,305.09	65,238.51	655,458.82	612,193.92	784,106.65	719,544.75
Series 13 (VARIABLE%)	7,603.07	7,480.77	75,160.10	70,199.01	89,911.88	82,508.71
Series 14 (VARIABLE%)	7,603.07	7,480.77	75,160.10	70,198.99	89,911.88	82,508.69
Series 15 (VARIABLE%)	23,442.79	23,065.70	231,743.66	216,446.96	277,228.32	254,401.86
Series 16 (VARIABLE%)	483,112.00	390,400.00	3,128,778.66	2,843,453.32	3,711,791.99	3,311,666.60
Series 17 (VARIABLE%)	171,944.44	154,513.89	1,585,243.07	1,449,594.41	1,886,006.96	1,688,249.97
Series 18 (VARIABLE%)	44,775.96	40,139.89	417,185.90	382,583.22	497,631.52	450,325.23
Series 19 (VARIABLE%)	43,131.59	37,325.09	409,482.92	380,834.46	490,196.81	430,247.21
Series 20 (VARIABLE%)	59,076.87	53,011.52	535,123.28	177,072.94	637,851.64	177,072.94
Series 21 (VARIABLE%)	59,076.87	-	534,587.65	-	577,480.98	-
Series 22 (VARIABLE%)	185,415.00	-	1,418,355.00	-	1,418,355.00	-
PCB CC (VARIABLE%)	31,207.30	-	156,048.90	-	156,048.90	-
PCB TC (VARIABLE%)	62,488.02	-	312,256.39	-	312,256.39	-
Interest Rate Swaps	-	(4,085.21)	(86,856.15)	(319,218.42)	(115,260.74)	(453,446.85)
Marked to Market	-	(2,333.00)	(328,589.00)	(819,440.00)	(436,801.00)	(574,845.00)
Fidelia.........	3,484,169.43	1,853,891.67	27,161,913.23	16,589,958.33	31,248,029.89	19,375,054.17
Hardin Promissory Note.........	45,096.25	-	(284,680.50)	-	(284,680.50)	-
Total.........	4,774,447.75	3,184,100.24	38,552,413.96	27,204,230.87	45,019,143.98	32,488,505.12
Amortization of Debt Expense - Net						
Amortization of Debt Expense.........	23,236.20	21,431.00	287,627.69	203,496.20	331,961.69	248,128.88
Amort. of Loss on Reacquired Debt.........	36,378.00	53,751.00	445,809.90	581,702.87	553,311.90	714,953.17
Total.........	59,614.20	75,182.00	733,437.59	785,199.07	885,273.59	963,082.05
Other Interest Charges						
Customers' Deposits.........	89,819.61	108,079.60	919,031.48	849,398.87	1,068,561.10	1,015,450.86
Other Tax Deficiencies.........	-	-	456.08	-	456.08	871,229.00
Interest on Debt to Associated Companies	370,937.47	135,158.02	5,852,277.56	2,588,491.86	6,206,875.13	2,976,549.95
AFUDC Borrowed Funds	(105,261.28)	(44,319.44)	(715,878.35)	(164,577.78)	(814,052.07)	(167,505.26)
Other Interest Expense.........	-	-	301.29	109,390.38	301.29	188,439.95
Total.........	355,495.80	198,918.18	6,056,188.06	3,382,703.33	6,462,141.53	4,884,164.50
Total Interest.........	5,189,557.75	3,458,200.42	45,342,039.61	31,372,133.27	52,366,559.10	38,335,751.67

KENTUCKY UTILITIES COMPANY
ANALYSIS OF TAXES CHARGED
OCTOBER 31, 2007

Kind of Taxes	Current Month This Year	Current Month Last Year	Year To Date This Year	Year To Date Last Year
Taxes Charged to Accounts 408.1 and 409.1				
Property Taxes	1,067,735.01	939,795.00	9,386,889.59	9,487,671.37
Unemployment	(43,357.65)	4,894.79	137,425.55	137,569.78
Federal Old Age and Survivors Insurance	541,428.24	295,669.30	4,652,985.94	4,349,491.20
Public Service Commission Fee	149,209.73	138,724.63	1,429,186.63	1,258,071.93
Federal Income	3,795,343.12	4,893,447.02	30,041,085.41	46,196,595.83
State Income	729,873.67	1,097,888.75	10,740,777.13	9,118,430.03
Miscellaneous	8,339.77	1,706.50	(54,580.02)	44,502.97
Total Charged to Operating Expense	6,248,571.89	7,372,125.99	56,333,770.23	70,592,333.11
Taxes Charged to Other Accounts	788,064.26	1,716,777.91	(192,579.65)	5,877,324.39
Taxes Accrued on Intercompany Accounts	(183,417.49)	(173,621.66)	(1,977,035.90)	(1,807,436.21)
Total Taxes Charged	6,853,218.66	8,915,282.24	54,164,154.68	74,662,221.29

ANALYSIS OF TAXES ACCRUED - ACCOUNT 236

Kind of Taxes	Taxes Accrued At Beginning Of Year	Accruals To Date This Year	Payments To Date This Year	Taxes Accrued At End Of Month
Property Taxes	11,128,630.22	9,484,089.60	15,445,792.16	5,166,927.66
Unemployment	31,909.04	62,733.81	94,311.17	331.68
Federal Old Age and Survivors	436,199.68	4,107,665.17	4,207,869.39	335,995.46
Federal Income	(11,303,186.47)	27,828,456.01	14,320,346.20	2,204,923.34
State Income	4,945,219.18	10,227,428.64	9,785,281.00	5,387,366.82
Kentucky Sales and Use Tax	244,273.64	2,323,448.22	2,164,508.54	403,213.32
Miscellaneous	0.00	130,333.23	102,048.92	28,284.31
Totals	5,483,045.29	54,164,154.68	46,120,157.38	13,527,042.59

KENTUCKY UTILITIES COMPANY
SUMMARY OF UTILITY PLANT
OCTOBER 31, 2007

	NET BALANCE FIRST OF YEAR	ADDITIONS	RETIREMENTS	TRANSFER/ ADJUSTMENT	NET ADDITIONS	BALANCE TO DATE
UTILITY PLANT						
Plant In Service						
Intangibles	25,650,657.82	2,175,753.15	-	-	2,175,753.15	27,826,410.97
Steam Production	1,528,205,107.62	152,252,830.95	(12,214,051.37)	(271.13)	140,038,508.45	1,668,243,616.07
Hydro Production	9,946,337.38	1,072,820.18	(45,062.32)	-	1,027,757.86	10,974,095.24
Other Production	490,394,644.70	9,179,227.47	(2,007,146.80)	-	7,172,080.67	497,566,725.37
Transmission	506,489,863.16	10,522,955.25	(662,098.16)	(65,223.94)	9,795,633.15	516,285,496.31
Distribution	1,013,864,108.52	13,681,543.95	(4,071,410.36)	(16,962.03)	9,593,171.56	1,023,457,280.08
General	82,323,413.89	2,647,654.22	(2,878,693.90)	(233,879.71)	(464,919.39)	81,858,494.50
Transportation	23,860,353.39	78,801.10	(4,934,986.29)	(48,370.31)	(4,904,555.50)	18,955,797.89
Total Electric Plant In Service	3,680,734,486.48	191,611,586.27	(26,813,449.20)	(364,707.12)	164,433,429.95	3,845,167,916.43
Plant Purchased or Sold	-					-
Total Plant	3,680,734,486.48	191,611,586.27	(26,813,449.20)	(364,707.12)	164,433,429.95	3,845,167,916.43
Construction Work in Progress	487,243,640.21	471,301,591.30	-	-	471,301,591.30	958,545,231.51
Total Utility Plant at Original Cost	4,167,978,126.69	662,913,177.57	(26,813,449.20)	(364,707.12)	635,735,021.25	4,803,713,147.94

RESERVE FOR DEPRECIATION OF UTILITY	NET BALANCE FIRST OF YEAR	ACCRUAL	RETIREMENTS	TRANSFER/ ADJUSTMENT	RWIP TRANSFERS OUT	COST OF REMOVAL	SALVAGE	OTHER CREDITS	BALANCE TO DATE
Life Reserves									
Steam Production	(835,316,309.29)	(33,472,064.36)	12,214,051.37	-	-	-	-	(635,366.63)	(857,209,688.91)
Hydro Production	(7,418,715.60)	(107,223.50)	45,062.32	-	-	-	-	-	(7,480,876.78)
Other Production	(100,459,175.61)	(14,195,845.12)	2,007,146.80	-	-	-	-	-	(112,647,873.93)
Transmission	(193,145,219.41)	(7,629,227.79)	662,098.16	-	-	-	-	(1,428,920.68)	(201,541,269.72)
Distribution	(339,507,651.05)	(18,812,394.59)	4,071,410.36	6,549.60	-	-	-	(855,612.28)	(355,097,697.96)
General	(29,777,581.81)	(5,906,505.55)	2,878,693.90	(6,549.60)	-		-	-	(32,811,943.06)
Transportation	(23,717,823.29)	(45,497.01)	4,934,986.29	-	-			-	(18,828,334.01)
Total Life Reserve For Depreciation Of Utility Plant In Service	(1,529,342,476.06)	(80,168,757.92)	26,813,449.20	-	-	-	-	(2,919,899.59)	(1,585,617,684.37)
Salvage Reserves									
Steam Production	(62,263,334.97)	(4,613,600.83)		-	-	1,755,507.88	(300.00)	-	(65,121,727.92)
Hydro Production	(748,788.82)	(33,077.48)		-	-	47,822.50	-	-	(734,043.80)
Other Production	(1,319,813.89)	-		-	-	237,931.71	-	-	(1,081,882.18)
Transmission	(110,346,842.22)	(5,148,290.31)		-	-	880,400.82	(29,393.22)	-	(114,644,124.93)
Distribution	(131,526,999.25)	(7,302,776.57)	-		-	2,724,714.25	(357,231.01)	-	(136,462,292.58)
General	164,993.50	21,121.57	-		-	56,862.65	(3,000.00)	-	239,977.72
Total Salvage Reserve For Depreciation Of Utility Plant in Service	(306,040,785.65)	(17,076,623.62)	-		-	5,703,239.81	(389,924.23)	-	(317,804,093.69)
Total Reserves									
Steam Production	(897,579,644.26)	(38,085,665.19)	12,214,051.37	-	-	1,755,507.88	(300.00)	(635,366.63)	(922,331,416.83)
Hydro Production	(8,167,504.42)	(140,300.98)	45,062.32	-	-	47,822.50	-	-	(8,214,920.58)
Other Production	(101,778,989.50)	(14,195,845.12)	2,007,146.80	-	-	237,931.71	-	-	(113,729,756.11)
Transmission	(303,492,061.63)	(12,777,518.10)	662,098.16	-	-	880,400.82	(29,393.22)	(1,428,920.68)	(316,185,394.65)
Distribution	(471,034,650.30)	(26,115,171.16)	4,071,410.36	6,549.60	-	2,724,714.25	(357,231.01)	(855,612.28)	(491,559,990.54)
General	(29,612,588.31)	(5,885,383.98)	2,878,693.90	(6,549.60)	-	56,862.65	(3,000.00)	-	(32,571,965.34)
Transportation	(23,717,823.29)	(45,497.01)	4,934,986.29	-	-	-	-	-	(18,828,334.01)
Total Life Reserve For Depreciation Of Utility Plant In Service	(1,835,383,261.70)	(97,245,381.54)	26,813,449.20	-	-	5,703,239.81	(389,924.23)	(2,919,899.59)	(1,903,421,778.06)
Retirement of Work in Progress	(35,953.69)	-	-	2,719,729.37	(2,393,415.99)	5,121,827.60	(619,715.76)	(1,609,010.11)	3,183,461.42
YTD Activity	(1,835,419,215.39)	(97,245,381.54)	26,813,449.20	2,719,729.37	(2,393,415.99)	10,825,067.41	(1,009,639.99)	(4,528,909.70)	(1,900,238,316.63)
Intangibles	(14,592,939.75)	(4,582,904.39)	-	-	-	-	-	-	(19,175,844.14)
Leaseholds	-	-	-	-	-	-	-	-	-
Amortization - Utility Plant in Service	(1,850,012,155.14)	(101,828,285.93)	26,813,449.20	2,719,729.37	(2,393,415.99)	10,825,067.41	(1,009,639.99)	(4,528,909.70)	(1,919,414,160.77)
Utility Plant at Original Cost Less Reserve For Depreciation and Amortization	2,639,057,291.20								2,884,298,987.17

KU Monthly Report to KPSC – September 30, 2007

KENTUCKY UTILITIES COMPANY

Financial Reports

September 30, 2007

Prepared by Regulatory Accounting and Reporting

KENTUCKY UTILITIES COMPANY
COMPARATIVE STATEMENT OF INCOME
SEPTEMBER 30, 2007

	CURRENT MONTH			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	102,511,641.15	88,400,117.77	14,111,523.38	15.96
Total Operating Revenues	102,511,641.15	88,400,117.77	14,111,523.38	15.96
Operating Expenses				
Fuel	38,942,653.82	29,937,998.79	9,004,655.03	30.08
Power Purchased	10,743,979.70	11,082,826.02	(338,846.32)	(3.06)
Other Operation Expenses	13,268,233.07	15,557,161.06	(2,288,927.99)	(14.71)
Maintenance	7,006,805.90	6,403,973.01	602,832.89	9.41
Depreciation	9,798,184.49	8,880,746.13	917,438.36	10.33
Amortization Expense	410,714.99	440,323.32	(29,608.33)	(6.72)
Regulatory Credits	(179,631.83)	(170,393.84)	(9,237.99)	5.42
Taxes				
Federal Income	7,145,968.61	19,420,024.28	(12,274,055.67)	(63.20)
State Income	3,291,030.10	3,820,630.94	(529,600.84)	(13.86)
Deferred Federal Income - Net	(75,350.13)	(1,386,488.48)	1,311,138.35	(94.57)
Deferred State Income - Net	193,384.96	366,626.70	(173,241.74)	(47.25)
Federal Income - Estimated	(14,135,896.28)	(15,633,923.99)	1,498,027.71	(9.58)
State Income - Estimated	(2,718,441.59)	(3,507,611.15)	789,169.56	(22.50)
Property and Other	1,055,774.46	1,540,883.48	(485,109.02)	(31.48)
Investment Tax Credit	9,875,000.00	-	9,875,000.00	100.00
Loss (Gain) from Disposition of Allowances	-	-	-	-
Accretion Expense	155,089.06	145,634.44	9,454.62	6.49
Total Operating Expenses	84,777,499.33	76,898,410.71	7,879,088.62	10.25
Net Operating Income	17,734,141.82	11,501,707.06	6,232,434.76	54.19
Other Income Less Deductions				
Other Income Less Deductions	1,457,761.93	5,767,999.25	(4,310,237.32)	(74.73)
AFUDC - Equity	323,754.48	33,939.59	289,814.89	853.91
Total Other Income Less Deductions	1,781,516.41	5,801,938.84	(4,020,422.43)	(69.29)
Income Before Interest Charges	19,515,658.23	17,303,645.90	2,212,012.33	12.78
Interest on Long Term Debt	4,283,734.64	2,937,726.72	1,346,007.92	45.82
Amortization of Debt Expense - Net	59,396.66	74,980.00	(15,583.34)	(20.78)
Other Interest Expenses	858,374.75	280,058.73	578,316.02	206.50
AFUDC - Borrowed Funds	(93,132.51)	(23,209.07)	(69,923.44)	301.28
Total Interest Charges	5,108,373.54	3,269,556.38	1,838,817.16	56.24
Net Inc Before Cumulative Effect of Acctg Chg	14,407,284.69	14,034,089.52	373,195.17	2.66
Cumulative Effect of Accounting Chg Net of Tax	-	-	-	-
Net Income	14,407,284.69	14,034,089.52	373,195.17	2.66
Preferred Dividend Requirements	-	-	-	-
Earnings Available for Common	14,407,284.69	14,034,089.52	373,195.17	2.66

KENTUCKY UTILITIES COMPANY
COMPARATIVE STATEMENT OF INCOME
SEPTEMBER 30, 2007

	YEAR TO DATE			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	962,789,917.90	910,508,222.65	52,281,695.25	5.74
Total Operating Revenues	962,789,917.90	910,508,222.65	52,281,695.25	5.74
Operating Expenses				
Fuel	353,831,700.12	324,552,337.75	29,279,362.37	9.02
Power Purchased	128,573,566.15	139,702,263.84	(11,128,697.69)	(7.97)
Other Operation Expenses	114,104,328.02	128,415,049.63	(14,310,721.61)	(11.14)
Maintenance	57,028,811.15	55,284,078.42	1,744,732.73	3.16
Depreciation	84,973,159.66	81,942,524.04	3,030,635.62	3.70
Amortization Expense	4,171,154.53	3,778,886.20	392,268.33	10.38
Regulatory Credits	(1,561,885.96)	(1,533,091.17)	(28,794.79)	1.88
Taxes				
Federal Income	26,245,742.29	41,303,148.81	(15,057,406.52)	(36.46)
State Income	10,010,903.46	8,020,541.28	1,990,362.18	24.82
Deferred Federal Income - Net	(4,537,747.41)	528,995.37	(5,066,742.78)	(957.80)
Deferred State Income - Net	(125,564.12)	1,346,571.41	(1,472,135.53)	(109.32)
Federal Income - Estimated	-	-	-	-
State Income - Estimated	-	-	-	-
Property and Other	13,828,552.59	13,896,517.03	(67,964.44)	(0.49)
Investment Tax Credit	28,966,647.00	-	28,966,647.00	100.00
Loss (Gain) from Disposition of Allowances	(706,851.51)	(1,283,929.13)	577,077.62	(44.95)
Accretion Expense	1,396,095.54	1,310,709.99	85,385.55	6.51
Total Operating Expenses	816,198,611.51	797,264,603.47	18,934,008.04	2.37
Net Operating Income	146,591,306.39	113,243,619.18	33,347,687.21	29.45
Other Income Less Deductions				
Other Income Less Deductions	21,094,716.47	23,550,983.75	(2,456,267.28)	(10.43)
AFUDC - Equity	2,128,105.06	175,641.24	1,952,463.82	1,111.62
Total Other Income Less Deductions	23,222,821.53	23,726,624.99	(503,803.46)	(2.12)
Income Before Interest Charges	169,814,127.92	136,970,244.17	32,843,883.75	23.98
Interest on Long Term Debt	33,777,966.21	24,020,130.63	9,757,835.58	40.62
Amortization of Debt Expense - Net	673,823.39	710,017.07	(36,193.68)	(5.10)
Other Interest Expenses	6,311,309.33	3,304,043.49	3,007,265.84	91.02
AFUDC - Borrowed Funds	(610,617.07)	(120,258.34)	(490,358.73)	407.75
Total Interest Charges	40,152,481.86	27,913,932.85	12,238,549.01	43.84
Net Inc Before Cumulative Effect of Acctg Chg	129,661,646.06	109,056,311.32	20,605,334.74	18.89
Cumulative Effect of Accounting Chg Net of Tax	-	-	-	-
Net Income	129,661,646.06	109,056,311.32	20,605,334.74	18.89
Preferred Dividend Requirements	-	-	-	-
Earnings Available for Common	129,661,646.06	109,056,311.32	20,605,334.74	18.89

KENTUCKY UTILITIES COMPANY
COMPARATIVE STATEMENT OF INCOME
SEPTEMBER 30, 2007

	YEAR ENDED CURRENT MONTH			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	1,262,300,979.82	1,218,399,143.16	43,901,836.66	3.60
Total Operating Revenues	1,262,300,979.82	1,218,399,143.16	43,901,836.66	3.60
Operating Expenses				
Fuel	452,272,507.34	418,414,148.53	33,858,358.81	8.09
Power Purchased	171,316,357.10	197,576,467.62	(26,260,110.52)	(13.29)
Other Operation Expenses	150,590,205.51	191,376,390.25	(40,786,184.74)	(21.31)
Maintenance	74,621,978.79	68,926,626.01	5,695,352.78	8.26
Depreciation	112,966,390.25	109,381,791.67	3,584,598.58	3.28
Amortization Expense	5,464,882.23	4,958,738.90	506,143.33	10.21
Regulatory Credits	(2,073,069.19)	(7,454,763.55)	5,381,694.36	(72.19)
Taxes				
Federal Income	33,639,118.49	61,242,779.56	(27,603,661.07)	(45.07)
State Income	13,365,934.15	12,023,226.99	1,342,707.16	11.17
Deferred Federal Income - Net	(5,271,113.12)	(5,633,048.25)	361,935.13	(6.43)
Deferred State Income - Net	(597,070.10)	(1,021,481.24)	424,411.14	(41.55)
Federal Income - Estimated	-	-	-	-
State Income - Estimated	-	-	-	-
Property and Other	18,535,103.35	17,981,826.73	553,276.62	3.08
Investment Tax Credit	40,966,647.00	-	40,966,647.00	100.00
Loss (Gain) from Disposition of Allowances	(706,851.51)	(1,283,929.13)	577,077.62	(44.95)
Accretion Expense	1,833,000.54	1,657,746.99	175,253.55	10.57
Total Operating Expenses	1,066,924,020.83	1,068,146,521.08	(1,222,500.25)	(0.11)
Net Operating Income	195,376,958.99	150,252,622.08	45,124,336.91	30.03
Other Income Less Deductions				
Other Income Less Deductions	25,347,852.83	24,524,485.25	823,367.58	3.36
AFUDC - Equity	2,336,507.89	193,852.67	2,142,655.22	1,105.30
Total Other Income Less Deductions	27,684,360.72	24,718,337.92	2,966,022.80	12.00
Income Before Interest Charges	223,061,319.71	174,970,960.00	48,090,359.71	27.48
Interest on Long Term Debt	43,428,796.47	31,620,121.14	11,808,675.33	37.35
Amortization of Debt Expense - Net	900,841.39	975,843.13	(75,001.74)	(7.69)
Other Interest Expenses	7,058,674.14	4,960,768.75	2,097,905.39	42.29
AFUDC - Borrowed Funds	(753,110.23)	(124,170.33)	(628,939.90)	506.51
Total Interest Charges	50,635,201.77	37,432,562.69	13,202,639.08	35.27
Net Inc Before Cumulative Effect of Acctg Chg	172,426,117.94	137,538,397.31	34,887,720.63	25.37
Cumulative Effect of Accounting Chg Net of Tax	-	3,337,340.49	(3,337,340.49)	(100.00)
Net Income	172,426,117.94	134,201,056.82	38,225,061.12	28.48
Preferred Dividend Requirements	-	-	-	-
Earnings Available for Common	172,426,117.94	134,201,056.82	38,225,061.12	28.48

KENTUCKY UTILITIES COMPANY
ANALYSIS OF RETAINED EARNINGS
SEPTEMBER 30, 2007

Retained Earnings and Undistributed Earnings	Current Month Total Retained Earnings	Current Month Undistributed Subsidiary Earnings	Year to Date Total Retained Earnings	Year to Date Undistributed Subsidiary Earnings	Year Ended Current Month Total Retained Earnings	Year Ended Current Month Undistributed Subsidiary Earnings
Balance Beginning of Period................	963,308,067.90	22,673,081.00	854,131,027.53	16,248,287.00	812,007,147.85	15,607,694.80
Net Income To Date..........................	14,407,284.69		129,661,646.06		172,426,117.94	
FIN 48 Adjustment............................	-		347,473.00		347,473.00	
Adjust for Equity in Subsidiary Earnings for Year -EE Inc..................................	(2,210,996.00)	2,210,996.00	(19,335,790.00)	19,335,790.00	(26,851,382.20)	26,851,382.20
Dividends Rec'd Current Year -EE Inc..................................	5,350,000.00	(5,350,000.00)	16,050,000.00	(16,050,000.00)	22,925,000.00	(22,925,000.00)
Balance End of Period.........................	980,854,356.59	19,534,077.00	980,854,356.59	19,534,077.00	980,854,356.59	19,534,077.00

Combined Retained Earnings	12 MONTHS 09/30/07	12 MONTHS 9/30/2006
Retained Earnings Beginning of Period.....	827,614,842.65	694,527,174.98
Add Net Income..................................	172,426,117.94	134,201,056.82
FIN 48 Adjustment............................	347,473.00	-
Subtotal..	1,000,388,433.59	828,728,231.80
Deduct		
Dividends on Preferred Stock.............	-	-
Dividends on Common Stock..............	-	-
Preferred Stock Redemption Exp	-	1,113,389.15
Other...	-	-
Retained Earnings End of Period...........	1,000,388,433.59	827,614,842.65

KENTUCKY UTILITIES COMPANY
COMPARATIVE BALANCE SHEETS AS OF SEPTEMBER 30, 2007 AND 2006

ASSETS AND OTHER DEBITS	THIS YEAR	LAST YEAR
Utility Plant		
Utility Plant at Original Cost	4,714,552,494.95	4,057,001,842.43
Less Reserves for Depreciation & Amortization	1,907,960,569.29	1,845,780,699.35
Total	2,806,591,925.66	2,211,221,143.08
Investments - At Cost		
Ohio Valley Electric Corporation	250,000.00	250,000.00
Nonutility Property-Less Reserve	968,854.81	969,265.21
Investments in Subsidiary Companies	20,829,877.00	16,903,494.80
Special Funds	5,819,538.53	5,604,171.38
Other	411,140.00	426,140.00
Total	28,279,410.34	24,153,071.39
Current and Accrued Assets		
Cash	699,888.38	5,406,649.56
Special Deposits	39,560,528.27	15,213,186.13
Temporary Cash Investments	17,285.71	3,461.01
Accounts Receivable-Less Reserve	168,287,527.61	117,910,976.18
Notes Receivable from Assoc. Companies	-	-
Accounts Receivable from Assoc Companies	6,101,670.82	13,809,929.21
Materials & Supplies-At Average Cost		
Fuel	48,956,337.99	59,288,091.09
Plant Materials & Operating Supplies	26,521,211.16	26,146,218.09
Stores Expense	6,557,506.46	6,105,228.78
Allowance Inventory	1,134,464.02	2,622,223.56
Prepayments	3,877,386.62	2,872,869.06
Miscellaneous Current & Accrued Assets	544,963.83	4,911,485.48
Total	302,258,770.87	254,290,318.15
Deferred Debits and Other		
Unamortized Debt Expense	7,052,374.28	5,408,983.60
Unamortized Loss on Bonds	10,282,800.95	10,488,445.03
Accumulated Deferred Income Taxes	49,793,664.13	54,390,522.51
Deferred Regulatory Assets	116,914,952.93	51,267,026.96
Other Deferred Debits	88,371,551.13	87,111,341.80
Total	272,415,343.42	208,666,319.90
Total Assets and Other Debits	3,409,545,450.29	2,698,330,852.52

LIABILITIES AND OTHER CREDITS	THIS YEAR	LAST YEAR
Capitalization		
Common Stock	308,139,977.56	308,139,977.56
Common Stock Expense	(321,288.87)	(321,288.87)
Paid-In Capital	70,000,000.00	15,000,000.00
Other Comprehensive Income	-	(19,336,790.74)
Retained Earnings	980,854,356.59	812,007,147.85
Unappropriated Undistributed Subsidiary Earnings	19,534,077.00	15,607,694.80
Total Common Equity	1,378,207,122.28	1,131,096,740.60
Preferred Stock	-	-
Pollution Control Bonds	332,753,140.00	289,257,520.00
Other Long-Term Debt	-	-
LT Notes Payable to Associated Companies	761,000,000.00	433,000,000.00
Long-Term Debt Marked to Market	-	648,190.00
Total Long-Term Debt	1,093,753,140.00	722,905,710.00
Total Capitalization	2,471,960,262.28	1,854,002,450.60
Current and Accrued Liabilities		
Long-Term Debt Due in 1 Year	-	53,000,000.00
ST Notes Payable to Associated Companies	105,303,054.00	-
Notes Payable	-	-
Notes Payable to Associated Companies	-	58,962,054.00
Accounts Payable	165,428,468.75	90,807,225.48
Accounts Payable to Associated Companies	29,100,254.30	75,970,641.86
Customer Deposits	19,132,528.90	18,044,558.00
Taxes Accrued	12,202,694.51	9,485,485.81
Interest Accrued	11,818,539.15	8,778,522.98
Dividends Declared	-	-
Misc. Current & Accrued Liabilities	11,468,261.47	11,476,967.79
Total	354,453,801.08	326,525,455.92
Deferred Credits and Other		
Accumulated Deferred Income Taxes	334,877,315.27	334,100,655.86
Investment Tax Credit	41,546,938.32	1,294,243.32
Regulatory Liabilities	36,702,479.89	28,239,297.42
Customer Advances for Construction	1,832,678.97	1,451,073.15
Asset Retirement Obligations	29,849,792.08	28,098,536.56
Other Deferred Credits	18,566,468.70	26,351,866.52
Misc. Long-Term Liabilities	4,351,189.06	32,077,956.49
Accum Provision for Post-Retirement Benefits	115,404,524.64	66,189,316.68
Total	583,131,386.93	517,802,946.00
Total Liabilities and Other Credits	3,409,545,450.29	2,698,330,852.52

KENTUCKY UTILITIES COMPANY
STATEMENT OF CAPITALIZATION AND SHORT-TERM DEBT
SEPTEMBER 30, 2007

	AUTHORIZED	ISSUED & OUTSTANDING		PERCENT OF TOTAL	
	SHARES	SHARES	AMOUNT	CAPITAL & S/T DEBT	CAPITAL
Common Equity					
Common Stock - Without Par	80,000,000	37,817,878	308,139,977.56		
Common Stock Expense			(321,288.87)		
Paid-In Capital			70,000,000.00		
Other Comprehensive Income			-		
Retained Earnings			980,854,356.59		
Unappropriated Undistributed Subsidiary Earnings			19,534,077.00		
Total Common Equity			1,378,207,122.28	53.47	55.75
Long-Term Debt					
PCB 11 DUE 05/01/23 Variable%			12,900,000.00		
PCB 12 DUE 02/01/32 Variable%			20,930,000.00		
PCB 13 DUE 02/01/32 Variable%			2,400,000.00		
PCB 14 DUE 02/01/32 Variable%			2,400,000.00		
PCB 15 DUE 02/01/32 Variable%			7,400,000.00		
PCB 16 DUE 10/01/32 Variable%			96,000,000.00		
PCB 17 DUE 10/01/34 Variable%			50,000,000.00		
PCB 18 DUE 06/01/35 Variable%			13,266,950.00		
PCB 19 DUE 06/01/35 Variable%			13,266,950.00		
PCB 20 DUE 06/01/36 Variable%			16,693,620.00		
PCB 21 DUE 06/01/36 Variable%			16,693,620.00		
PCB 22 DUE 10/01/34 Variable%			54,000,000.00		
PCB CC DUE 02/01/26 Variable%			17,875,000.00		
PCB TC DUE 03/01/37 Variable%			8,927,000.00		
Total Long-Term Debt			332,753,140.00	12.91	13.46
LT Notes Payable to Associated Companies			761,000,000.00	29.53	30.79
Total Capitalization			2,471,960,262.28	95.91	100.00
Long-Term Debt Due in 1 Year			0.00	0.00	
ST Notes Payable to Associated Companies			105,303,054.00	4.09	
Total Capitalization and Short-Term Debt			2,577,263,316.28	100.00	

KENTUCKY UTILITIES COMPANY
TRIAL BALANCE - GENERAL LEDGER
SEPTEMBER 30, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
UTILITY PLANT		
At Original Cost	4,714,552,494 95	4,714,552,494.95
Reserves for Depreciation and Amortization		(1,907,960,569 29)
Depreciation	(1,889,196,475 01)	
Amortization of Plant	(18,764,094 28)	
INVESTMENTS - AT COST		28,279,410 34
Nonutility Property	1,025,914 06	
Nonutility Property Reserve	(57,059 25)	
Investments in Subsidiary Companies	20,829,877 00	
Ohio Valley Electric Corporation	250,000 00	
Other	411,140 00	
OMU-Interest on Reserve, New	1,227,436 11	
OMU-R&I on Maintenance Reserve	600,000 00	
OMU-R&I on Additions and Replacements	120,000.00	
OMU-R&I on Operations	538,067 36	
OMU-R&I Interest on Purchase Power	204,037 79	
OMU-Purchase Power, Coal Reserve	3,129,997 27	
CASH		699,888.38
Cash Accounts	699,888 38	
SPECIAL DEPOSITS		39,560,528 27
Restricted Cash	38,365,335.54	
MAN Margin Call	1,195,192 73	
TEMPORARY CASH INVESTMENTS		17,285 71
Temporary Cash Investments	17,285 71	
ACCOUNTS RECEIVABLE - LESS RESERVE		168,287,527 61
Working Funds	39,438 58	
Customers-Active	105,478,326 96	
Wholesale Sales	3,797,302 41	
Transmission Receivable	594,565 32	
Unbilled Revenues	38,631,000 00	
PC Purchase Program	84,669 37	
Damage Claims	142,583 38	
Insurance Claims	(105 69)	
IMEA	8,903,072 30	
IMPA	9,461,350 77	
Miscellaneous	2,869,179 87	
Uncollectible Accounts - Charged Off	2,353,199 45	
Uncollectible Accounts - Recovery	(667,945 94)	
Uncollectible Accounts - Reserve	(747,386 00)	
Uncollectible Accounts - Accrual	(1,668,915.58)	
Uncollectible Accounts - LEM Reserve	(1,003,314 58)	
Uncollectible Accounts - Miscellaneous	(41,507 93)	
Interest and Dividend Receivable	62,014 92	
ACCOUNTS RECEIVABLE FROM ASSOCIATED COMPANIES		6,101,670 82
E ON US Services/Louisville Gas & Electric Company	6,101,670.82	

KENTUCKY UTILITIES COMPANY
TRIAL BALANCE - GENERAL LEDGER
SEPTEMBER 30, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
FUEL		48,956,337.99
Coal 971,168.32 Tons @ \$45.85; MMBTU 23,585,914.85 @ 188.77¢	44,523,277.62	
Fuel Oil 2,427,733 Gallons @ 181.75¢	4,412,306.49	
Gas Pipeline 3,636.00 MCF @ \$5.71	20,753.88	
PLANT MATERIALS AND OPERATING SUPPLIES		26,521,211.16
Regular Materials and Supplies	26,404,791.38	
Limestone 23,809.36 Tons @ \$4.89	116,419.78	
STORES EXPENSE		6,557,506.46
Stores Expense Undistributed	6,557,506.46	
ALLOWANCE INVENTORY		1,134,464.02
Allowance Inventory	1,134,464.02	
PREPAYMENTS		3,877,386.62
Insurance	451,456.17	
Taxes	1,342,887.52	
Risk Management and Workers Compensation	75,000.00	
Vehicle License	40,720.92	
Other	1,967,322.01	
MISCELLANEOUS CURRENT ASSETS		544,963.83
Derivative Asset - Non-Hedging	528,818.90	
Miscellaneous Current Assets	16,144.93	
UNAMORTIZED DEBT EXPENSE		7,052,374.28
Pollution Control Bonds		
KU Series 11, Variable%, Due 5/01/23	269,439.29	
KU Series 12, Variable%, Due 2/01/32	99,786.34	
KU Series 13, Variable%, Due 2/01/32	69,367.62	
KU Series 14, Variable%, Due 2/01/32	77,222.11	
KU Series 15, Variable%, Due 2/01/32	27,833.40	
KU Series 16, Variable%, Due 10/01/32	1,817,631.04	
KU Series 17, Variable%, Due 10/01/34	1,082,032.59	
KU Series 18, Variable%, Due 06/01/35	489,547.30	
KU Series 19, Variable%, Due 06/01/35	497,544.04	
KU Series 20, Variable%, Due 06/01/36	593,164.05	
KU Series 21, Variable%, Due 06/01/36	533,648.89	
KU Series 22, Variable%, Due 10/01/34	930,216.76	
KU Variable%, Due 03/01/37	239,403.44	
KU Variable%, Due 02/01/26	325,537.41	
UNAMORTIZED LOSS ON BONDS		10,282,800.95
Reacquired Debt	10,282,800.95	
ACCUMULATED DEFERRED INCOME TAXES		49,793,664.13
Federal	41,843,229.19	
State	7,950,434.94	
DEFERRED REGULATORY ASSET		116,914,952.93
Asset Retirement Obligations	23,576,950.57	
FERC Jurisdictional Pension Expense	2,385,524.65	
FASB 109 - Deferred Taxes	6,034,542.00	
Pension & Postretirement Benefits	63,435,153.11	
Ice Storm Expenses	1,385,289.00	
MISO Exit Fee	20,097,493.60	
OTHER DEFERRED DEBITS	88,371,551.13	88,371,551.13
Total Assets and Other Debits	3,409,545,450.29	3,409,545,450.29

KENTUCKY UTILITIES COMPANY
TRIAL BALANCE - GENERAL LEDGER
SEPTEMBER 30, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
COMMON EQUITY		1,378,207,122 28
Common Stock	308,139,977 56	
Common Stock Expense	(321,288 87)	
Paid-In Capital	70,000,000 00	
Retained Earnings	980,854,356 59	
Unappropriated Undistributed Subsidiary Earnings	19,534,077 00	
BONDS		332,753,140 00
Pollution Control Bonds		
KU Series 11, Variable%, Due 05/01/23	12,900,000 00	
KU Series 12, Variable%, Due 2/01/32	20,930,000 00	
KU Series 13, Variable%, Due 2/01/32	2,400,000 00	
KU Series 14, Variable%, Due 2/01/32	2,400,000 00	
KU Series 15. Variable%, Due 2/01/32	7,400,000 00	
KU Series 16, Variable%, Due 10/01/32	96,000,000 00	
KU Series 17, Variable%, Due 10/01/34	50,000,000 00	
KU Series 18, Variable%, Due 06/01/35	13,266,950 00	
KU Series 19, Variable%, Due 06/01/35	13,266,950 00	
KU Series 20, Variable%, Due 06/01/36	16,693,620 00	
KU Series 21, Variable%, Due 06/01/36	16,693,620 00	
KU Series 22, Variable%, Due 10/01/34	54,000,000 00	
KU Variable%, Due 03/01/37	8,927,000 00	
KU Variable%, Due 02/01/26	17,875,000 00	
LT NOTES PAYABLE TO ASSOCIATED COMPANIES	761,000,000 00	761,000,000 00
ST NOTES PAYABLE TO ASSOCIATED COMPANIES		105,303,054 00
Money Pool Payable	105,303,054 00	
ACCOUNTS PAYABLE		165,428,468 75
Regular	158,944,188 89	
Salaries and Wages Accrued	2,681,779 64	
Employee Withholdings Payable	20,425 33	
Tax Collections - Payable	3,782,074 89	
ACCOUNTS PAYABLE TO ASSOCIATED COMPANIES		29,100,254 30
E ON US Services/Louisville Gas & Electric Company	29,100,254 30	
CUSTOMERS' DEPOSITS	19,132,528 90	19,132,528 90
TAXES ACCRUED	12,202,694 51	12,202,694 51
INTEREST ACCRUED		11,818,539 15
Interest on Long-Term Debt		
KU Series 11, Variable%, Due 05/01/23	47,586 68	
KU Series 12, Variable%, Due 2/01/32	44,916 37	
KU Series 13, Variable%, Due 2/01/32	5,150 46	
KU Series 14, Variable%, Due 2/01/32	5,150 46	
KU Series 15, Variable%, Due 2/01/32	15,880 60	
KU Series 16, Variable%, Due 10/01/32	51,333 35	
KU Series 17, Variable%, Due 10/01/34	148,055 56	
KU Series 18, Variable%, Due 06/01/35	6,043 84	
KU Series 19, Variable%, Due 06/01/35	3,163 43	
KU Series 20, Variable%, Due 06/01/36	23,371 08	
KU Series 21, Variable%, Due 06/01/36	23,371 03	
KU Series 22, Variable%, Due 10/01/34	18,675 00	
KU Variable%, Due 03/01/37	4,463 50	
KU Variable%, Due 02/01/26	8,937 49	
Other		
Customer Deposits	479,721 78	
Fidelia	10,932,718 52	

KENTUCKY UTILITIES COMPANY
TRIAL BALANCE - GENERAL LEDGER
SEPTEMBER 30, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
MISCELLANEOUS CURRENT AND ACCRUED LIABILITIES		11,468,261.47
Customer Overpayments	1,306,697.87	
UK Emission Research Grant	250,000.00	
Vacation Pay Accrued	4,930,617.28	
Derivative Liabilities - Non-Hedging	306,839.62	
Escheated Deposits	523.64	
Franchise Fee Payable	4,653,057.90	
Other	20,525.16	
ACCUMULATED DEFERRED INCOME TAXES		334,877,315.27
Federal	288,820,385.17	
State	46,056,930.10	
INVESTMENT TAX CREDIT		41,546,938.32
Job Development Credit	580,291.32	
Advance Coal Credit	40,966,647.00	
REGULATORY LIABILITIES		36,702,479.89
Asset Retirement Obligations	2,107,813.27	
Deferred Taxes - FAS 109	29,126,991.50	
Spare Parts	1,208,906.12	
MISO Schedule 10 Charges	4,258,769.00	
CUSTOMERS' ADVANCES FOR CONSTRUCTION		1,832,678.97
Line Extensions	1,827,438.11	
Outdoor Lighting Deposits	4,470.00	
Other	770.86	
ASSET RETIREMENT OBLIGATIONS	29,849,792.08	29,849,792.08
OTHER DEFERRED CREDITS	18,566,468.70	18,566,468.70
MISCELLANEOUS LONG-TERM LIABILITIES		4,351,189.06
Workers' Compensation	3,865,885.06	
Uncertain Tax Positions	485,304.00	
ACCUMULATED PROVISION FOR BENEFITS		115,404,524.64
Pension Payable	36,482,933.00	
Postretirement Benefits - FAS 106	72,651,719.64	
Postretirement Benefit Payable	6,269,872.00	
Total Liabilities and Other Credits	3,409,545,450.29	3,409,545,450.29

KENTUCKY UTILITIES COMPANY
STATEMENT OF CASH FLOWS
SEPTEMBER 30, 2007

	Year to Date	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	129,661,646 06	109,056,311 32
Items not requiring cash currently:		
Depreciation	84,973,159.66	81,942,524.04
Amortization	4,171,154 53	3,778,886 20
Deferred income taxes - net	935,834 58	5,864,096.78
Investment tax credits deferred - net	28,523,163.00	(811,404 00)
Other	43,034,452 11	(280,506 92)
Change in receivables	(1,173,396.88)	35,340,085.12
Change in inventory	14,524,391.37	(5,154,605 80)
Change in allowance inventory	536,073 81	(1,162,536.65)
Change in payables and accrued expenses	(75,248,091.61)	23,735,643.22
Change in other regulatory assets	(1,898,109 99)	(17,952,282 22)
Change in other regulatory liabilities	763,106 41	(3,385,391 67)
Change in other deferred debits	(23,892,376.54)	(23,794,813 11)
Change in other deferred credits	11,283,326 74	10,866,230.22
Other	(2,126,043.45)	(6,277,979.50)
Less: Allowance for other funds used during construction	(2,738,722.13)	(295,899 58)
Less: Undistributed earnings of subsidiary company	(3,285,790 00)	(1,265,180 80)
Net cash provided (used) by operating activities	208,043,777 67	210,203,176 65
CASH FLOWS FROM INVESTING ACTIVITIES		
Gross additions to utility plant - construction expenditures	(511,401,730 74)	(235,987,668.93)
Less: Allowance for other funds used during construction	2,738,722.13	295,899.58
Change in other long-term debt	(433,540.00)	(1,392,310.00)
Change in long-term investments	(99,536 40)	(65,005.77)
Change in restricted cash	(16,753,544.36)	6,385,049.10
Net cash provided (used) by investing activities	(525,949,629.37)	(230,764,036.02)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	357,049,982.59	66,062,690 47
Net increase in short-term debt	8,260,000.00	-
Payments for retirement of long-term debt	(107,000,000.00)	(36,000,000 00)
Net decrease in short-term debt	-	(10,702,946 00)
Contributed capital	55,000,000.00	-
Net cash provided (used) by financing activities	313,309,982.59	19,359,744 47
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,595,869 11)	(1,201,114 90)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	5,313,043.20	6,611,645 74
CASH AND CASH EQUIVALENTS AT END OF PERIOD	717,174.09	5,410,530.84

KENTUCKY UTILITIES COMPANY
ANALYSIS OF INTEREST CHARGES
SEPTEMBER 30, 2007

	CURRENT MONTH		YEAR TO DATE		YEAR ENDED CURRENT MONTH	
	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR
Interest On Long-Term Debt						
First Mortgage Bonds						
Series P 7.92%	-	349,800.00	1,574,100.00	3,148,200.00	2,623,500.00	4,197,600.00
Series R 7.55%	-	-	-	-	-	-
Series S 5.99%	-	-	-	89,850.00	-	628,950.00
Loan Agreement - Poll. Control Bonds						
Series 10 (VARIABLE%)	-	165,683.83	981,941.93	1,415,732.06	1,494,157.83	1,821,575.34
Series 11 (VARIABLE%)	-	38,622.24	-	338,601.03	119,390.22	432,896.45
Series 12 (VARIABLE%)	64,527.48	63,134.09	589,153.73	546,955.41	783,040.07	703,546.22
Series 13 (VARIABLE%)	7,399.23	7,239.45	67,557.03	62,718.24	89,789.58	80,674.19
Series 14 (VARIABLE%)	7,399.23	7,239.43	67,557.03	62,718.22	89,789.58	80,674.17
Series 15 (VARIABLE%)	22,814.30	22,321.65	208,300.87	193,381.26	276,851.23	248,745.42
Series 16 (VARIABLE%)	308,000.00	281,266.67	2,645,666.66	2,453,053.32	3,619,079.99	3,232,573.27
Series 17 (VARIABLE%)	169,055.56	146,041.67	1,413,298.63	1,295,080.52	1,868,576.41	1,646,722.19
Series 18 (VARIABLE%)	44,757.53	38,560.75	372,409.94	342,443.33	492,995.45	440,555.61
Series 19 (VARIABLE%)	37,411.69	39,165.15	366,351.33	343,509.37	484,390.31	392,922.12
Series 20 (VARIABLE%)	55,506.29	50,359.09	476,046.41	124,061.42	631,786.29	124,061.42
Series 21 (VARIABLE%)	55,339.35	-	475,510.78	-	518,404.11	-
Series 22 (VARIABLE%)	181,095.00	-	1,232,940.00	-	1,232,940.00	-
PCB CC (VARIABLE%)	31,504.87	-	124,841.60	-	124,841.60	-
PCB TC (VARIABLE%)	63,083.85	-	249,768.37	-	249,768.37	-
Interest Rate Swaps	-	(15,237.30)	(86,856.15)	(315,133.21)	(119,345.95)	(546,788.77)
Marked to Market	-	(63,070.00)	(328,589.00)	(817,107.00)	(439,134.00)	(736,724.00)
Fidelia	3,191,227.76	1,806,600.00	23,677,743.80	14,736,066.66	29,617,752.13	18,872,137.51
Hardin Promissory Note	44,612.50	-	(329,776.75)	-	(329,776.75)	-
Total	4,283,734.64	2,937,726.72	33,777,966.21	24,020,130.63	43,428,796.47	31,620,121.14
Amortization of Debt Expense - Net						
Amortization of Debt Expense	23,018.66	21,229.00	264,391.49	182,065.20	330,156.49	248,017.96
Amort. of Loss on Reacquired Debt	36,378.00	53,751.00	409,431.90	527,951.87	570,684.90	727,825.17
Total	59,396.66	74,980.00	673,823.39	710,017.07	900,841.39	975,843.13
Other Interest Charges						
Customers' Deposits	77,753.98	(7,607.01)	829,211.87	741,319.27	1,086,821.09	980,527.73
Other Tax Deficiencies	-	-	456.08	-	456.08	871,229.00
Interest on Debt to Associated Companies	780,620.77	182,575.36	5,481,340.09	2,453,333.84	5,971,095.68	2,920,072.07
AFUDC Borrowed Funds	(93,132.51)	(23,209.07)	(610,617.07)	(120,258.34)	(753,110.23)	(124,170.33)
Other Interest Expense	-	105,090.38	301.29	109,390.38	301.29	188,939.95
Total	765,242.24	256,849.66	5,700,692.26	3,183,785.15	6,305,563.91	4,836,598.42
Total Interest	5,108,373.54	3,269,556.38	40,152,481.86	27,913,932.85	50,635,201.77	37,432,562.69

KENTUCKY UTILITIES COMPANY
ANALYSIS OF TAXES CHARGED
SEPTEMBER 30, 2007

Kind of Taxes	Current Month This Year	Current Month Last Year	Year To Date This Year	Year To Date Last Year
Taxes Charged to Accounts 408.1 and 409.1				
Property Taxes	590,515.51	939,795.00	8,319,154.58	8,547,876.37
Unemployment	6,591.53	10,394.95	180,783.20	132,674.99
Federal Old Age and Survivors Insurance	307,605.32	450,231.16	4,111,557.70	4,053,821.90
Public Service Commission Fee	149,209.73	138,724.63	1,279,976.90	1,119,347.30
Federal Income	(6,989,927.67)	3,786,100.29	26,245,742.29	41,303,148.81
State Income	572,588.51	313,019.79	10,010,903.46	8,020,541.28
Miscellaneous	1,852.37	1,737.74	(62,919.79)	42,796.47
Total Charged to Operating Expense	(5,361,564.70)	5,640,003.56	50,085,198.34	63,220,207.12
Taxes Charged to Other Accounts	(1,598,240.56)	(263,850.31)	(980,643.91)	4,160,546.48
Taxes Accrued on Intercompany Accounts	(183,162.06)	(145,446.22)	(1,793,618.41)	(1,633,814.55)
Total Taxes Charged	(7,142,967.32)	5,230,707.03	47,310,936.02	65,746,939.05

ANALYSIS OF TAXES ACCRUED - ACCOUNT 236

Kind of Taxes	Taxes Accrued At Beginning Of Year	Accruals To Date This Year	Payments To Date This Year	Taxes Accrued At End Of Month
Property Taxes	11,128,630.22	8,446,429.42	10,700,108.31	8,874,951.33
Unemployment	31,909.04	62,659.01	92,725.32	1,842.73
Federal Old Age and Survivors	436,199.68	3,654,234.17	3,823,773.73	266,660.12
Federal Income	(11,303,186.47)	23,715,140.40	14,320,346.20	(1,908,392.27)
State Income	4,945,219.18	9,410,526.42	9,606,980.00	4,748,765.60
Kentucky Sales and Use Tax	244,273.64	1,920,234.93	1,945,641.57	218,867.00
Miscellaneous	0.00	101,711.67	101,711.67	0.00
Totals	5,483,045.29	47,310,936.02	40,591,286.80	12,202,694.51

KENTUCKY UTILITIES COMPANY
SUMMARY OF UTILITY PLANT
SEPTEMBER 30, 2007

	NET BALANCE FIRST OF YEAR	ADDITIONS	RETIREMENTS	TRANSFER/ ADJUSTMENT	NET ADDITIONS	BALANCE TO DATE
UTILITY PLANT						
Plant In Service						
Intangibles	25,650,657.82	2,170,108.42	-	-	2,170,108.42	27,820,766.24
Steam Production	1,528,205,107.62	150,631,948.60	(12,212,744.72)	(271.13)	138,418,932.75	1,666,624,040.37
Hydro Production	9,946,337.38	1,072,820.18	(45,062.32)	-	1,027,757.86	10,974,095.24
Other Production	490,394,644.70	9,179,227.47	(2,007,146.80)	-	7,172,080.67	497,566,725.37
Transmission	506,489,863.16	8,957,234.83	(500,717.87)	(65,223.94)	8,391,293.02	514,881,156.18
Distribution	1,013,864,108.52	10,619,366.79	(3,004,141.70)	(16,962.03)	7,598,263.06	1,021,462,371.58
General	82,323,413.89	2,387,289.50	(2,878,693.90)	(233,879.71)	(725,284.11)	81,598,129.78
Transportation	23,860,353.39	78,801.10	(4,934,986.29)	(48,370.31)	*(4,904,555.50)*	*18,955,797.89*
Total Electric Plant in Service	3,680,734,486.48	185,096,796.89	(25,583,493.60)	(364,707.12)	159,148,596.17	3,839,883,082.65
Plant Purchased or Sold	-					-
Total Plant	3,680,734,486.48	185,096,796.89	(25,583,493.60)	(364,707.12)	159,148,596.17	3,839,883,082.65
Construction Work In Progress	487,243,640.21	387,425,772.09	-	-	387,425,772.09	874,669,412.30
Total Utility Plant at Original Cost	4,167,978,126.69	572,522,568.98	(25,583,493.60)	(364,707.12)	546,574,368.26	4,714,552,494.95

RESERVE FOR DEPRECIATION OF UTILITY	NET BALANCE FIRST OF YEAR	ACCRUAL	RETIREMENTS	TRANSFER/ ADJUSTMENT	RWIP TRANSFERS OUT	COST OF REMOVAL	SALVAGE	OTHER CREDITS	BALANCE TO DATE
Life Reserves									
Steam Production	*(835,316,309.29)*	*(29,692,084.37)*	*12,212,744.72*	-	-	-	-	(635,366.63)	(853,431,015.57)
Hydro Production	(7,418,715.60)	(96,341.48)	45,062.32	-	-	-	-	-	(7,469,994.76)
Other Production	(100,459,175.61)	(12,788,543.46)	2,007,146.80	-	-	-	-	-	(111,240,572.27)
Transmission	(193,145,219.41)	(6,826,517.64)	500,717.87	-	-	-	-	(1,328,634.66)	(200,799,653.84)
Distribution	(339,507,651.05)	(16,830,468.10)	3,004,141.70	6,549.60	-	-	-	(704,340.52)	(354,031,768.37)
General	(29,777,581.81)	(5,489,734.79)	2,878,693.90	(6,549.60)	-		-	-	(32,395,172.30)
Transportation	(23,717,823.29)	(42,269.53)	4,934,986.29	-	-		-	-	(18,825,106.53)
Total Life Reserve For Depreciation Of Utility Plant In Service	(1,529,342,476.06)	(71,765,959.37)	25,583,493.60	-	-	-	-	(2,668,341.81)	(1,578,193,283.64)
Salvage Reserves					-				
Steam Production	(62,263,334.97)	(4,101,853.98)		-	-	1,744,045.41	-	-	(64,621,143.54)
Hydro Production	(748,788.82)	(29,572.17)		-	-	47,822.50	-	-	(730,538.49)
Other Production	(1,319,813.89)	-		-	-	237,931.71	-	-	(1,081,882.18)
Transmission	(110,346,842.22)	(4,623,067.53)		-	-	621,336.33	(28,512.76)	-	(114,377,086.18)
Distribution	*(131,526,999.25)*	*(6,570,334.40)*	-		-	*2,310,150.03*	*(313,661.98)*	-	(136,100,845.60)
General	164,993.50	19,005.52	-		-	52,920.78	(3,000.00)	-	233,919.80
Total Salvage Reserve For Depreciation Of Utility Plant In Service	(306,040,785.65)	(15,305,822.56)	-	-	-	5,014,206.76	(345,174.74)	-	(316,677,576.19)
Total Reserves									
Steam Production	(897,579,644.26)	(33,793,938.35)	12,212,744.72	-	-	1,744,045.41	-	(635,366.63)	(918,052,159.11)
Hydro Production	*(8,167,504.42)*	*(125,913.65)*	*45,062.32*	-	-	47,822.50	-	-	(8,200,533.25)
Other Production	(101,778,989.50)	(12,788,543.46)	2,007,146.80	-	-	237,931.71	-	-	(112,322,454.45)
Transmission	(303,492,061.63)	(11,449,585.17)	500,717.87	-	-	621,336.33	(28,512.76)	(1,328,634.66)	(315,176,740.02)
Distribution	(471,034,650.30)	(23,400,802.50)	3,004,141.70	6,549.60	-	2,310,150.03	(313,661.98)	(704,340.52)	(490,132,613.97)
General	(29,612,588.31)	(5,470,729.27)	2,878,693.90	(6,549.60)	-	52,920.78	(3,000.00)	-	(32,161,252.50)
Transportation	(23,717,823.29)	(42,269.53)	4,934,986.29	-	-	-	-	-	(18,825,106.53)
Total Life Reserve For Depreciation Of Utility Plant In Service	(1,835,383,261.70)	(87,071,781.93)	25,583,493.60	-	-	5,014,206.76	(345,174.74)	(2,668,341.81)	(1,894,870,859.83)
Retirement of Work in Progress	(35,953.69)	-	-	2,719,729.37	(2,000,690.21)	7,136,078.33	(583,097.84)	(1,561,681.15)	5,674,384.81
YTD Activity	(1,835,419,215.39)	(87,071,781.93)	25,583,493.60	2,719,729.37	(2,000,690.21)	12,150,285.09	(928,272.58)	(4,230,022.96)	(1,889,196,475.01)
Intangibles	(14,592,939.75)	(4,171,154.53)	-	-	-	-	-	-	(18,764,094.28)
Leaseholds	-	-	-	-	-	-	-	-	-
Amortization - Utility Plant In Service	(1,850,012,155.14)	(91,242,936.46)	25,583,493.60	2,719,729.37	(2,000,690.21)	12,150,285.09	(928,272.58)	(4,230,022.96)	(1,907,960,569.29)
Utility Plant at Original Cost Less Reserve For Depreciation and Amortization	2,639,057,291.20								2,806,591,925.66

KU Monthly Report to KPSC – August 31, 2007

KENTUCKY UTILITIES COMPANY

Financial Reports

August 31, 2007

Prepared by Regulatory Accounting and Reporting

KENTUCKY UTILITIES COMPANY
COMPARATIVE STATEMENT OF INCOME
AUGUST 31, 2007

	CURRENT MONTH			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	134,319,458.17	133,046,710.85	1,272,747.32	0.96
Total Operating Revenues	134,319,458.17	133,046,710.85	1,272,747.32	0.96
Operating Expenses				
Fuel	57,018,856.10	52,040,285.16	4,978,570.94	9.57
Power Purchased	16,670,514.35	21,935,786.01	(5,265,271.66)	(24.00)
Other Operation Expenses	13,906,472.93	15,239,406.49	(1,332,933.56)	(8.75)
Maintenance	5,608,375.96	5,892,400.71	(284,024.75)	(4.82)
Depreciation	10,120,283.48	9,116,104.75	1,004,178.73	11.02
Amortization Expense	472,409.49	498,338.45	(25,928.96)	(5.20)
Regulatory Credits	(179,631.83)	(170,393.84)	(9,237.99)	5.42
Taxes				
Federal Income	(2,111,172.00)	-	(2,111,172.00)	(100.00)
State Income	(423,014.00)	-	(423,014.00)	(100.00)
Deferred Federal Income - Net	2,145,839.00	-	2,145,839.00	100.00
Deferred State Income - Net	504,601.00	-	504,601.00	100.00
Federal Income - Estimated	7,660,474.01	7,448,986.33	211,487.68	2.84
State Income - Estimated	1,473,168.08	1,671,246.94	(198,078.86)	(11.85)
Property and Other	1,690,590.36	1,500,681.62	189,908.74	12.65
Investment Tax Credit	(658,353.00)	-	(658,353.00)	(100.00)
Loss (Gain) from Disposition of Allowances	-	-	-	-
Accretion Expense	155,089.06	145,634.44	9,454.62	6.49
Total Operating Expenses	114,054,502.99	115,318,477.06	(1,263,974.07)	(1.10)
Net Operating Income	20,264,955.18	17,728,233.79	2,536,721.39	14.31
Other Income Less Deductions				
Other Income Less Deductions	4,018,003.77	4,405,986.95	(387,983.18)	(8.81)
AFUDC - Equity	293,595.12	30,893.05	262,702.07	850.36
Total Other Income Less Deductions	4,311,598.89	4,436,880.00	(125,281.11)	(2.82)
Income Before Interest Charges	24,576,554.07	22,165,113.79	2,411,440.28	10.88
Interest on Long Term Debt	3,982,849.56	2,962,301.57	1,020,547.99	34.45
Amortization of Debt Expense - Net	66,971.23	74,599.20	(7,627.97)	(10.23)
Other Interest Expenses	1,024,623.46	349,224.73	675,398.73	193.40
AFUDC - Borrowed Funds	(84,441.29)	(21,124.61)	(63,316.68)	299.73
Total Interest Charges	4,990,002.96	3,365,000.89	1,625,002.07	48.29
Net Inc Before Cumulative Effect of Acctg Chg	19,586,551.11	18,800,112.90	786,438.21	4.18
Cumulative Effect of Accounting Chg Net of Tax	-	-	-	-
Net Income	19,586,551.11	18,800,112.90	786,438.21	4.18
Preferred Dividend Requirements	-	-	-	-
Earnings Available for Common	19,586,551.11	18,800,112.90	786,438.21	4.18

KENTUCKY UTILITIES COMPANY
COMPARATIVE STATEMENT OF INCOME
AUGUST 31, 2007

	YEAR TO DATE			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	860,278,276.75	822,108,104.88	38,170,171.87	4.64
Total Operating Revenues	860,278,276.75	822,108,104.88	38,170,171.87	4.64
Operating Expenses				
Fuel	314,889,046.30	294,614,338.96	20,274,707.34	6.88
Power Purchased	117,829,586.45	128,619,437.82	(10,789,851.37)	(8.39)
Other Operation Expenses	100,836,094.95	112,857,888.57	(12,021,793.62)	(10.65)
Maintenance	50,022,005.25	48,880,105.41	1,141,899.84	2.34
Depreciation	75,174,975.17	73,061,777.91	2,113,197.26	2.89
Amortization Expense	3,760,439.54	3,338,562.88	421,876.66	12.64
Regulatory Credits	(1,382,254.13)	(1,362,697.33)	(19,556.80)	1.44
Taxes				
Federal Income	19,099,773.68	21,883,124.53	(2,783,350.85)	(12.72)
State Income	6,719,873.36	4,199,910.34	2,519,963.02	60.00
Deferred Federal Income - Net	(4,462,397.28)	1,915,483.85	(6,377,881.13)	(332.96)
Deferred State Income - Net	(318,949.08)	979,944.71	(1,298,893.79)	(132.55)
Federal Income - Estimated	14,135,896.28	15,633,923.99	(1,498,027.71)	(9.58)
State Income - Estimated	2,718,441.59	3,507,611.15	(789,169.56)	(22.50)
Property and Other	12,772,778.13	12,355,633.55	417,144.58	3.38
Investment Tax Credit	19,091,647.00	-	19,091,647.00	100.00
Loss (Gain) from Disposition of Allowances	(706,851.51)	(1,283,929.13)	577,077.62	(44.95)
Accretion Expense	1,241,006.48	1,165,075.55	75,930.93	6.52
Total Operating Expenses	731,421,112.18	720,366,192.76	11,054,919.42	1.53
Net Operating Income	128,857,164.57	101,741,912.12	27,115,252.45	26.65
Other Income Less Deductions				
Other Income Less Deductions	19,636,954.54	17,782,984.50	1,853,970.04	10.43
AFUDC - Equity	1,804,350.58	141,701.65	1,662,648.93	1,173.34
Total Other Income Less Deductions	21,441,305.12	17,924,686.15	3,516,618.97	19.62
Income Before Interest Charges	150,298,469.69	119,666,598.27	30,631,871.42	25.60
Interest on Long Term Debt	29,494,231.57	21,082,403.91	8,411,827.66	39.90
Amortization of Debt Expense - Net	614,426.73	635,037.07	(20,610.34)	(3.25)
Other Interest Expenses	5,452,934.58	3,023,984.76	2,428,949.82	80.32
AFUDC - Borrowed Funds	(517,484.56)	(97,049.27)	(420,435.29)	433.22
Total Interest Charges	35,044,108.32	24,644,376.47	10,399,731.85	42.20
Net Inc Before Cumulative Effect of Acctg Chg	115,254,361.37	95,022,221.80	20,232,139.57	21.29
Cumulative Effect of Accounting Chg Net of Tax	-	-	-	-
Net Income	115,254,361.37	95,022,221.80	20,232,139.57	21.29
Preferred Dividend Requirements	-	-	-	-
Earnings Available for Common	115,254,361.37	95,022,221.80	20,232,139.57	21.29

KENTUCKY UTILITIES COMPANY
COMPARATIVE STATEMENT OF INCOME
AUGUST 31, 2007

	YEAR ENDED CURRENT MONTH			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	1,248,189,456.44	1,240,952,223.72	7,237,232.72	0.58
Total Operating Revenues	1,248,189,456.44	1,240,952,223.72	7,237,232.72	0.58
Operating Expenses				
Fuel	443,267,852.31	426,721,309.73	16,546,542.58	3.88
Power Purchased	171,655,203.42	209,854,083.89	(38,198,880.47)	(18.20)
Other Operation Expenses	152,879,133.50	199,232,456.72	(46,353,323.22)	(23.27)
Maintenance	74,019,145.90	67,536,449.87	6,482,696.03	9.60
Depreciation	112,048,951.89	109,566,231.18	2,482,720.71	2.27
Amortization Expense	5,494,490.56	4,936,235.62	558,254.94	11.31
Regulatory Credits	(2,063,831.20)	(7,417,984.34)	5,354,153.14	(72.18)
Taxes				
Federal Income	45,913,174.16	49,245,050.14	(3,331,875.98)	(6.77)
State Income	13,895,534.99	8,672,357.16	5,223,177.83	60.23
Deferred Federal Income - Net	(6,582,251.47)	199,364.47	(6,781,615.94)	(3,401.62)
Deferred State Income - Net	(423,828.36)	363,257.44	(787,085.80)	(216.67)
Federal Income - Estimated	(1,498,027.71)	3,046,533.28	(4,544,560.99)	(149.17)
State Income - Estimated	(789,169.56)	190,492.28	(979,661.84)	(514.28)
Property and Other	19,020,212.37	17,912,424.60	1,107,787.77	6.18
Investment Tax Credit	31,091,647.00	-	31,091,647.00	100.00
Loss (Gain) from Disposition of Allowances	(706,851.51)	(1,283,929.13)	577,077.62	(44.95)
Accretion Expense	1,823,545.92	1,627,791.55	195,754.37	12.03
Total Operating Expenses	1,059,044,932.21	1,090,402,124.46	(31,357,192.25)	(2.88)
Net Operating Income	189,144,524.23	150,550,099.26	38,594,424.97	25.64
Other Income Less Deductions				
Other Income Less Deductions	29,658,090.15	15,388,993.52	14,269,096.63	92.72
AFUDC - Equity	2,046,693.00	163,725.26	1,882,967.74	1,150.08
Total Other Income Less Deductions	31,704,783.15	15,552,718.78	16,152,064.37	103.85
Income Before Interest Charges	220,849,307.38	166,102,818.04	54,746,489.34	32.96
Interest on Long Term Debt	42,082,788.55	30,938,957.22	11,143,831.33	36.02
Amortization of Debt Expense - Net	916,424.73	988,755.55	(72,330.82)	(7.32)
Other Interest Expenses	6,480,358.12	4,826,992.14	1,653,365.98	34.25
AFUDC - Borrowed Funds	(683,186.79)	(101,780.42)	(581,406.37)	571.24
Total Interest Charges	48,796,384.61	36,652,924.49	12,143,460.12	33.13
Net Inc Before Cumulative Effect of Acctg Chg	172,052,922.77	129,449,893.55	42,603,029.22	32.91
Cumulative Effect of Accounting Chg Net of Tax	-	3,337,340.49	(3,337,340.49)	(100.00)
Net Income	172,052,922.77	126,112,553.06	45,940,369.71	36.43
Preferred Dividend Requirements	-	332,134.85	(332,134.85)	(100.00)
Earnings Available for Common	172,052,922.77	125,780,418.21	46,272,504.56	36.79

KENTUCKY UTILITIES COMPANY
ANALYSIS OF RETAINED EARNINGS
AUGUST 31, 2007

Retained Earnings and Undistributed Earnings	Current Month		Year to Date		Year Ended Current Month	
	Total Retained Earnings	Undistributed Subsidiary Earnings	Total Retained Earnings	Undistributed Subsidiary Earnings	Total Retained Earnings	Undistributed Subsidiary Earnings
Balance Beginning of Period................	944,668,487.19	21,726,110.60	854,131,027.53	16,248,287.00	801,164,559.33	12,416,193.80
Net Income To Date...........................	19,586,551.11		115,254,361.37		172,052,922.77	
FIN 48 Adjustment.............................	-		347,473.00		347,473.00	
Adjust for Equity in Subsidiary Earnings for Year -EE Inc....................................	(946,970.40)	946,970.40	(17,124,794.00)	17,124,794.00	(27,831,887.20)	27,831,887.20
Dividends Rec'd Current Year -EE Inc....................................	-	-	10,700,000.00	(10,700,000.00)	17,575,000.00	(17,575,000.00)
Balance End of Period..........................	963,308,067.90	22,673,081.00	963,308,067.90	22,673,081.00	963,308,067.90	22,673,081.00

Combined Retained Earnings	12 MONTHS 08/31/07	12 MONTHS 8/31/2006
Retained Earnings Beginning of Period.....	813,580,753.13	698,913,724.07
Add Net Income..................................	172,052,922.77	126,112,553.06
FIN 48 Adjustment............................	347,473.00	-
Subtotal..	985,981,148.90	825,026,277.13
Deduct		
Dividends on Preferred Stock...............	-	332,134.85
Dividends on Common Stock................	-	10,000,000.00
Preferred Stock Redemption Exp	-	1,113,389.15
Other..	-	-
Retained Earnings End of Period............	985,981,148.90	813,580,753.13

KENTUCKY UTILITIES COMPANY
COMPARATIVE BALANCE SHEETS AS OF AUGUST 31, 2007 AND 2006

ASSETS AND OTHER DEBITS	THIS YEAR	LAST YEAR
Utility Plant		
Utility Plant at Original Cost	4,634,145,776.61	4,012,411,006.05
Less Reserves for Depreciation & Amortization	1,899,064,878.92	1,837,764,968.79
Total	2,735,080,897.69	2,174,646,037.26
Investments - At Cost		
Ohio Valley Electric Corporation	250,000.00	250,000.00
Nonutility Property-Less Reserve	968,889.01	895,483.14
Investments in Subsidiary Companies	23,968,881.00	13,711,993.80
Special Funds	5,787,423.35	5,493,443.46
Other	411,140.00	426,140.00
Total	31,386,333.36	20,777,060.40
Current and Accrued Assets		
Cash	4,487,382.56	4,372,901.97
Special Deposits	41,132,805.96	25,278,961.88
Temporary Cash Investments	17,215.23	2,036.35
Accounts Receivable-Less Reserve	147,220,591.35	134,562,854.63
Notes Receivable from Assoc. Companies	-	-
Accounts Receivable from Assoc Companies	23,771,795.41	19,788,136.61
Materials & Supplies-At Average Cost		
Fuel	60,806,232.25	65,392,991.47
Plant Materials & Operating Supplies	26,573,377.52	25,942,980.80
Stores Expense	6,358,651.43	6,099,233.61
Allowance Inventory	1,370,645.49	2,896,908.74
Prepayments	2,411,692.75	2,568,256.61
Miscellaneous Current & Accrued Assets	1,546,704.02	2,357,557.05
Total	315,697,093.97	289,262,819.72
Deferred Debits and Other		
Unamortized Debt Expense	7,024,832.48	5,290,862.33
Unamortized Loss on Bonds	10,319,178.95	10,542,196.03
Accumulated Deferred Income Taxes	49,901,014.44	53,093,812.32
Deferred Regulatory Assets	116,438,351.65	31,293,101.00
Other Deferred Debits	88,274,105.05	92,833,973.12
Total	271,957,482.57	193,053,944.80
Total Assets and Other Debits	3,354,121,807.59	2,677,739,862.18

LIABILITIES AND OTHER CREDITS	THIS YEAR	LAST YEAR
Capitalization		
Common Stock	308,139,977.56	308,139,977.56
Common Stock Expense	(321,288.87)	(321,288.87)
Paid-In Capital	15,000,000.00	15,000,000.00
Other Comprehensive Income	-	(19,336,790.74)
Retained Earnings	963,308,067.90	801,164,559.33
Unappropriated Undistributed Subsidiary Earnings	22,673,081.00	12,416,193.80
Total Common Equity	1,308,799,837.59	1,117,062,651.08
Preferred Stock	-	-
Pollution Control Bonds	332,753,140.00	289,257,520.00
Other Long-Term Debt	-	-
LT Notes Payable to Associated Companies	661,000,000.00	433,000,000.00
Long-Term Debt Marked to Market	-	714,280.00
Total Long-Term Debt	993,753,140.00	722,971,800.00
Total Capitalization	2,302,552,977.59	1,840,034,451.08
Current and Accrued Liabilities		
Long-Term Debt Due in 1 Year	-	53,000,000.00
ST Notes Payable to Associated Companies	256,044,054.00	-
Notes Payable	-	-
Notes Payable to Associated Companies	-	62,711,254.00
Accounts Payable	163,248,452.51	91,005,297.43
Accounts Payable to Associated Companies	13,741,771.53	59,517,534.05
Customer Deposits	19,004,388.79	17,980,775.94
Taxes Accrued	13,226,390.86	24,980,615.44
Interest Accrued	8,826,549.62	6,638,027.53
Dividends Declared	-	-
Misc. Current & Accrued Liabilities	10,907,062.86	10,187,981.98
Total	484,998,670.17	326,021,486.37
Deferred Credits and Other		
Accumulated Deferred Income Taxes	332,973,738.25	330,266,506.20
Investment Tax Credit	31,721,214.32	1,384,399.32
Regulatory Liabilities	37,075,992.28	31,108,191.23
Customer Advances for Construction	1,852,749.11	1,452,830.05
Asset Retirement Obligations	29,694,703.02	27,963,758.23
Other Deferred Credits	12,554,051.05	21,355,944.39
Misc. Long-Term Liabilities	4,050,364.92	31,942,186.76
Accum Provision for Post-Retirement Benefits	116,647,346.88	66,210,108.55
Total	566,570,159.83	511,683,924.73
Total Liabilities and Other Credits	3,354,121,807.59	2,677,739,862.18

KENTUCKY UTILITIES COMPANY
STATEMENT OF CAPITALIZATION AND SHORT-TERM DEBT
AUGUST 31, 2007

	AUTHORIZED	ISSUED & OUTSTANDING		PERCENT OF TOTAL	
	SHARES	SHARES	AMOUNT	CAPITAL & S/T DEBT	CAPITAL
Common Equity					
Common Stock - Without Par..................................	80,000,000	37,817,878	308,139,977.56		
Common Stock Expense...			(321,288.87)		
Paid-In Capital..			15,000,000.00		
Other Comprehensive Income...........................			-		
Retained Earnings...			963,308,067.90		
Unappropriated Undistributed Subsidiary Earnings...			22,673,081.00		
Total Common Equity..			1,308,799,837.59	51.15	56.84
Long-Term Debt					
PCB 11 DUE 05/01/23 Variable%........................			12,900,000.00		
PCB 12 DUE 02/01/32 Variable%........................			20,930,000.00		
PCB 13 DUE 02/01/32 Variable%........................			2,400,000.00		
PCB 14 DUE 02/01/32 Variable%........................			2,400,000.00		
PCB 15 DUE 02/01/32 Variable%........................			7,400,000.00		
PCB 16 DUE 10/01/32 Variable%........................			96,000,000.00		
PCB 17 DUE 10/01/34 Variable%........................			50,000,000.00		
PCB 18 DUE 06/01/35 Variable%........................			13,266,950.00		
PCB 19 DUE 06/01/35 Variable%........................			13,266,950.00		
PCB 20 DUE 06/01/36 Variable%........................			16,693,620.00		
PCB 21 DUE 06/01/36 Variable%........................			16,693,620.00		
PCB 22 DUE 10/01/34 Variable%........................			54,000,000.00		
PCB CC DUE 02/01/26 Variable%........................			17,875,000.00		
PCB TC DUE 03/01/37 Variable%........................			8,927,000.00		
Total Long-Term Debt....................................			332,753,140.00	13.01	14.45
LT Notes Payable to Associated Companies................			661,000,000.00	25.83	28.71
Total Capitalization..			2,302,552,977.59	89.99	100.00
Long-Term Debt Due in 1 Year..................................			0.00	0.00	
ST Notes Payable to Associated Companies................			256,044,054.00	10.01	
Total Capitalization and Short-Term Debt............			2,558,597,031.59	100.00	

KENTUCKY UTILITIES COMPANY
TRIAL BALANCE - GENERAL LEDGER
AUGUST 31, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
UTILITY PLANT		
At Original Cost	4,634,145,776 61	4,634,145,776 61
Reserves for Depreciation and Amortization		(1,899,064,878 92)
Depreciation	(1,880,711,499 63)	
Amortization of Plant	(18,353,379 29)	
INVESTMENTS - AT COST		31,386,333.36
Nonutility Property	1,025,914 06	
Nonutility Property Reserve	(57,025 05)	
Investments in Subsidiary Companies	23,968,881 00	
Ohio Valley Electric Corporation	250,000 00	
Other	411,140 00	
OMU-Interest on Reserve, New	1,217,420 93	
OMU-R&I on Maintenance Reserve	600,000 00	
OMU-R&I on Additions and Replacements	120,000.00	
OMU-R&I on Operations	538,067 36	
OMU-R&I Interest on Purchase Power	181,937 79	
OMU-Purchase Power, Coal Reserve	3,129,997 27	
CASH		4,487,382 56
Cash Accounts	3,414,875 14	
Bank of America	1,072,507 42	
SPECIAL DEPOSITS		41,132,805.96
Restricted Cash	41,112,790 87	
MAN Margin Call	20,015 09	
TEMPORARY CASH INVESTMENTS		17,215 23
Temporary Cash Investments	17,215 23	
ACCOUNTS RECEIVABLE - LESS RESERVE		147,220,591 35
Working Funds	42,330 00	
Customers-Active	84,352,315.39	
Wholesale Sales	2,962,864 26	
Transmission Receivable	550,102 57	
Unbilled Revenues	50,944,000 00	
PC Purchase Program	88,857 06	
Damage Claims	121,952 22	
Insurance Claims	(105 69)	
IMEA	4,485,671 21	
IMPA	4,766,950 91	
Miscellaneous	603,958 86	
Uncollectible Accounts - Charged Off	2,149,316 36	
Uncollectible Accounts - Recovery	(599,666 51)	
Uncollectible Accounts - Reserve	(739,679 00)	
Uncollectible Accounts - Accrual	(1,549,649 85)	
Uncollectible Accounts - LEM Reserve	(990,912 70)	
Uncollectible Accounts - Miscellaneous	(29,655 00)	
Interest and Dividend Receivable	61,941 26	
ACCOUNTS RECEIVABLE FROM ASSOCIATED COMPANIES		23,771,795 41
E ON US Services/Louisville Gas & Electric Company	23,771,795 41	

KENTUCKY UTILITIES COMPANY
TRIAL BALANCE - GENERAL LEDGER
AUGUST 31, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
FUEL		60,806,232 25
Coal 1,095,763 05 Tons @ $51 54; MMBTU 26,507,787 38 @ 213 04¢	56,471,924 16	
Fuel Oil 2,396,272 Gallons @ 179 80¢	4,308,587 33	
Gas Pipeline 3,495 70 MCF @ $7 36	25,720 76	
PLANT MATERIALS AND OPERATING SUPPLIES		26,573,377 52
Regular Materials and Supplies	26,475,808 41	
Limestone 13,773 90 Tons @ $7 08	97,569 11	
STORES EXPENSE		6,358,651 43
Stores Expense Undistributed	6,358,651 43	
ALLOWANCE INVENTORY		1,370,645 49
Allowance Inventory	1,370,645 49	
PREPAYMENTS		2,411,692 75
Insurance	786,613 96	
Taxes	1,492,097 25	
Risk Management and Workers Compensation	75,000 00	
Vehicle License	47,507 74	
Other	10,473 80	
MISCELLANEOUS CURRENT ASSETS		1,546,704 02
Derivative Asset - Non-Hedging	1,530,559 09	
Miscellaneous Current Assets	16,144 93	
UNAMORTIZED DEBT EXPENSE		7,024,832 48
Pollution Control Bonds		
KU Series 11, Variable%, Due 5/01/23	270,880 29	
KU Series 12, Variable%, Due 2/01/32	100,128 34	
KU Series 13, Variable%, Due 2/01/32	69,605 62	
KU Series 14, Variable%, Due 2/01/32	77,487 11	
KU Series 15, Variable%, Due 2/01/32	27,928 40	
KU Series 16, Variable%, Due 10/01/32	1,823,690 04	
KU Series 17, Variable%, Due 10/01/34	1,085,371.59	
KU Series 18, Variable%, Due 06/01/35	491,022 30	
KU Series 19, Variable%, Due 06/01/35	499,043 04	
KU Series 20, Variable%, Due 06/01/36	594,888 05	
KU Series 21, Variable%, Due 06/01/36	535,195 74	
KU Series 22, Variable%, Due 10/01/34	927,202 45	
KU Variable%, Due 03/01/37	217,730 69	
KU Variable%, Due 02/01/26	304,658 82	
UNAMORTIZED LOSS ON BONDS		10,319,178 95
Reacquired Debt	10,319,178 95	
ACCUMULATED DEFERRED INCOME TAXES		49,901,014 44
Federal	41,910,875 42	
State	7,990,139 02	
DEFERRED REGULATORY ASSET		116,438,351.65
Asset Retirement Obligations	23,397,318.74	
FERC Jurisdictional Pension Expense	2,349,527 20	
FASB 109 - Deferred Taxes	5,707,603 00	
Pension & Postretirement Benefits	63,435,153 11	
Ice Storm Expenses	1,451,256 00	
MISO Exit Fee	20,097,493 60	
OTHER DEFERRED DEBITS	88,274,105 05	88,274,105 05
Total Assets and Other Debits	3,354,121,807.59	3,354,121,807.59

KENTUCKY UTILITIES COMPANY
TRIAL BALANCE - GENERAL LEDGER
AUGUST 31, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
COMMON EQUITY		1,308,799,837 59
Common Stock	308,139,977 56	
Common Stock Expense	(321,288 87)	
Paid-In Capital	15,000,000 00	
Retained Earnings	963,308,067 90	
Unappropriated Undistributed Subsidiary Earnings	22,673,081 00	
BONDS		332,753,140 00
Pollution Control Bonds		
KU Series 11, Variable%, Due 05/01/23	12,900,000 00	
KU Series 12, Variable%, Due 2/01/32	20,930,000 00	
KU Series 13, Variable%, Due 2/01/32	2.400,000 00	
KU Series 14, Variable%, Due 2/01/32	2,400,000 00	
KU Series 15, Variable%, Due 2/01/32	7,400,000 00	
KU Series 16, Variable%, Due 10/01/32	96,000,000 00	
KU Series 17, Variable%, Due 10/01/34	50,000,000 00	
KU Series 18, Variable%, Due 06/01/35	13,266,950 00	
KU Series 19, Variable%, Due 06/01/35	13.266.950 00	
KU Series 20, Variable%, Due 06/01/36	16,693,620 00	
KU Series 21, Variable%, Due 06/01/36	16,693,620 00	
KU Series 22, Variable%, Due 10/01/34	54,000,000 00	
KU Variable%, Due 03/01/37	8,927,000 00	
KU Variable%, Due 02/01/26	17,875,000 00	
LT NOTES PAYABLE TO ASSOCIATED COMPANIES	661,000,000 00	661,000,000 00
ST NOTES PAYABLE TO ASSOCIATED COMPANIES		256,044,054 00
Money Pool Payable	256,044,054 00	
ACCOUNTS PAYABLE		163,248,452 51
Regular	157,290,568 16	
Salaries and Wages Accrued	2,553,295 80	
Employee Withholdings Payable	28,516 65	
Tax Collections - Payable	3,376,071 90	
ACCOUNTS PAYABLE TO ASSOCIATED COMPANIES		13,741,771 53
E ON US Services/Louisville Gas & Electric Company	13,741,771 53	
CUSTOMERS' DEPOSITS	19,004,388 79	19,004,388.79
TAXES ACCRUED	13,226,390 86	13,226,390 86
INTEREST ACCRUED		8,826,549 62
Interest on Long-Term Debt		
KU Series 11, Variable%, Due 05/01/23	2,974 18	
KU Series 12, Variable%, Due 2/01/32	204,827 31	
KU Series 13, Variable%, Due 2/01/32	23,487 12	
KU Series 14, Variable%, Due 2/01/32	23,487 12	
KU Series 15, Variable%, Due 2/01/32	72,418 63	
KU Series 16, Variable%, Due 10/01/32	102,666 68	
KU Series 17, Variable%, Due 10/01/34	162,750 00	
KU Series 18, Variable%, Due 06/01/35	2,948 22	
KU Series 19, Variable%, Due 06/01/35	2,948 21	
KU Series 20, Variable%, Due 06/01/36	30,349 94	
KU Series 21, Variable%, Due 06/01/36	30,192 23	
KU Series 22, Variable%, Due 10/01/34	6,000 00	
KU Variable%, Due 03/01/37	2,033 36	
KU Variable%, Due 02/01/26	4,071 53	
Other		
Customer Deposits	413,904.33	
Fidelia	7,741,490 76	

KENTUCKY UTILITIES COMPANY
TRIAL BALANCE - GENERAL LEDGER
AUGUST 31, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
MISCELLANEOUS CURRENT AND ACCRUED LIABILITIES		10,907,062 86
Customer Overpayments	1,312,837 13	
UK Emission Research Grant	500,000 00	
Vacation Pay Accrued	5,110,974 64	
Derivative Liabilities - Non-Hedging	785,982 24	
Escheated Deposits	523 64	
Franchise Fee Payable	3,080,914 01	
Other	115,831 20	
ACCUMULATED DEFERRED INCOME TAXES		332,973,738 25
Federal	287,173,153 03	
State	45,800,585 22	
INVESTMENT TAX CREDIT		31,721,214 32
Job Development Credit	629,567 32	
Advance Coal Credit	31,091,647 00	
REGULATORY LIABILITIES		37,075,992 28
Asset Retirement Obligations	2,086,797 25	
Deferred Taxes - FAS 109	29,872,349 50	
Spare Parts	1,185,674 53	
MISO Schedule 10 Charges	3,931,171 00	
CUSTOMERS' ADVANCES FOR CONSTRUCTION		1,852,749 11
Line Extensions	1,848,279 16	
Outdoor Lighting Deposits	4,470 00	
Other	(0 05)	
ASSET RETIREMENT OBLIGATIONS	29,694,703 02	29,694,703 02
OTHER DEFERRED CREDITS	12,554,051 05	12,554,051 05
MISCELLANEOUS LONG-TERM LIABILITIES		4,050,364 92
Workers' Compensation	3,565,060 92	
Uncertain Tax Positions	485,304 00	
ACCUMULATED PROVISION FOR BENEFITS		116,647,346 88
Pension Payable	36,482,933 00	
Postretirement Benefits - FAS 106	73,894,541 88	
Postretirement Benefit Payable	6,269,872 00	
Total Liabilities and Other Credits	3,354,121,807.59	3,354,121,807.59

KENTUCKY UTILITIES COMPANY
STATEMENT OF CASH FLOWS
AUGUST 31, 2007

	Year to Date	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	115,254,361.37	95,022,221.80
Items not requiring cash currently:		
Depreciation	75,174,975.17	73,061,777.91
Amortization	3,760,439.54	3,338,562.88
Deferred income taxes - net	(1,075,092.75)	3,326,657.31
Investment tax credits deferred - net	18,697,439.00	(721,248.00)
Other	45,478,671.85	(289,072.11)
Change in receivables	2,223,414.79	12,709,999.27
Change in inventory	2,821,185.78	(11,050,273.72)
Change in allowance inventory	299,892.34	(1,437,221.83)
Change in payables and accrued expenses	(64,768,327.41)	19,346,703.94
Change in other regulatory assets	(1,421,508.71)	2,021,643.74
Change in other regulatory liabilities	1,136,618.80	(516,497.86)
Change in other deferred debits	(27,322,229.63)	(33,561,003.86)
Change in other deferred credits	5,270,909.09	5,870,308.09
Other	879,864.80	982,012.39
Less: Allowance for other funds used during construction	(2,321,835.14)	(238,750.92)
Less: Undistributed earnings of subsidiary company	(6,424,794.00)	1,926,320.20
Net cash provided (used) by operating activities	167,663,984.89	169,792,139.23
CASH FLOWS FROM INVESTING ACTIVITIES		
Gross additions to utility plant - construction expenditures	(461,068,991.02)	(190,628,029.61)
Less: Allowance for other funds used during construction	2,321,835.14	238,750.92
Change in other long-term debt	(433,540.00)	(1,326,220.00)
Change in long-term investments	(67,455.42)	119,504.22
Change in restricted cash	(18,325,822.05)	(3,680,728.26)
Net cash provided (used) by investing activities	(477,573,973.35)	(195,276,722.73)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	257,100,543.05	66,202,040.74
Net increase in short-term debt	159,001,000.00	-
Payments for retirement of long-term debt	(107,000,000.00)	(36,000,000.00)
Net decrease in short-term debt		(6,953,746.00)
Net cash provided (used) by financing activities	309,101,543.05	23,248,294.74
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(808,445.41)	(2,236,288.76)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	5,313,043.20	6,611,645.74
CASH AND CASH EQUIVALENTS AT END OF PERIOD	4,504,597.79	4,375,356.98

KENTUCKY UTILITIES COMPANY
ANALYSIS OF INTEREST CHARGES
AUGUST 31, 2007

	CURRENT MONTH		YEAR TO DATE		YEAR ENDED CURRENT MONTH	
	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR
Interest On Long-Term Debt						
First Mortgage Bonds						
Series P 7.92%	-	349,800.00	1,574,100.00	2,798,400.00	2,973,300.00	4,197,600.00
Series R 7.55%	-	-	-	-	-	-
Series S 5.99%	-	-	-	89,850.00	-	808,650.00
Loan Agreement - Poll. Control Bonds						
Series 10 (VARIABLE%)	-	166,364.38	981,941.93	1,250,048.23	1,659,841.66	1,774,735.89
Series 11 (VARIABLE%)	-	41,029.17	-	299,978.79	158,012.46	422,331.71
Series 12 (VARIABLE%)	67,549.43	65,295.87	524,626.25	483,821.32	781,646.68	687,237.99
Series 13 (VARIABLE%)	7,745.75	7,487.34	60,157.80	55,478.79	89,629.80	78,804.16
Series 14 (VARIABLE%)	7,745.75	7,487.34	60,157.80	55,478.79	89,629.78	78,804.16
Series 15 (VARIABLE%)	23,882.74	23,085.97	185,486.57	171,059.61	276,358.58	242,979.49
Series 16 (VARIABLE%)	305,666.67	301,866.67	2,337,666.66	2,171,786.65	3,592,346.66	3,152,853.27
Series 17 (VARIABLE%)	162,750.00	154,270.83	1,244,243.07	1,149,038.85	1,845,562.52	1,602,763.80
Series 18 (VARIABLE%)	42,258.92	40,255.24	327,652.41	303,882.58	486,798.67	429,439.02
Series 19 (VARIABLE%)	42,380.53	41,065.26	328,939.64	304,344.22	486,143.77	353,756.97
Series 20 (VARIABLE%)	55,019.39	53,113.53	420,540.12	73,702.33	626,639.09	73,702.33
Series 21 (VARIABLE%)	54,855.24	-	420,171.43	-	463,064.76	-
Series 22 (VARIABLE%)	173,385.00	-	1,051,845.00	-	1,051,845.00	-
PCB CC (VARIABLE%)	29,330.15	-	93,336.73	-	93,336.73	-
PCB TC (VARIABLE%)	58,034.17	-	186,684.52	-	186,684.52	-
Interest Rate Swaps	-	(10,990.03)	(86,856.15)	(299,895.91)	(134,583.25)	(602,869.09)
Marked to Market	-	(84,430.00)	(328,589.00)	(754,037.00)	(502,204.00)	(778,345.00)
Fidelia	2,909,783.32	1,806,600.00	20,486,516.04	12,929,466.66	28,233,124.37	18,416,512.52
Hardin Promissory Note	42,462.50	-	(374,389.25)	-	(374,389.25)	-
Total	3,982,849.56	2,962,301.57	29,494,231.57	21,082,403.91	42,082,788.55	30,938,957.22
Amortization of Debt Expense - Net						
Amortization of Debt Expense	30,593.23	20,848.20	241,372.83	160,836.20	328,366.83	248,054.38
Amort. of Loss on Reacquired Debt	36,378.00	53,751.00	373,053.90	474,200.87	588,057.90	740,701.17
Total	66,971.23	74,599.20	614,426.73	635,037.07	916,424.73	988,755.55
Other Interest Charges						
Customers' Deposits	97,832.25	111,835.98	751,457.89	748,926.28	1,001,460.10	1,067,440.65
Other Tax Deficiencies	-	-	456.08	-	456.08	871,229.00
Interest on Debt to Associated Companies	926,791.21	237,488.75	4,700,719.32	2,270,758.48	5,373,050.27	2,803,972.92
AFUDC Borrowed Funds	(84,441.29)	(21,124.61)	(517,484.56)	(97,049.27)	(683,186.79)	(101,780.42)
Other Interest Expense	-	(100.00)	301.29	4,300.00	105,391.67	84,349.57
Total	940,182.17	328,100.12	4,935,450.02	2,926,935.49	5,797,171.33	4,725,211.72
Total Interest	4,990,002.96	3,365,000.89	35,044,108.32	24,644,376.47	48,796,384.61	36,652,924.49

KENTUCKY UTILITIES COMPANY
ANALYSIS OF TAXES CHARGED
AUGUST 31, 2007

Kind of Taxes	Current Month This Year	Current Month Last Year	Year To Date This Year	Year To Date Last Year
Taxes Charged to Accounts 408.1 and 409.1				
Property Taxes	1,067,735.01	939,795.00	7,728,639.07	7,608,081.37
Unemployment	(8,901.63)	(2,715.17)	174,191.67	122,280.04
Federal Old Age and Survivors Insurance	480,589.39	414,554.10	3,803,952.38	3,603,590.74
Public Service Commission Fee	149,209.73	138,724.63	1,130,767.17	980,622.67
Federal Income	5,549,302.01	7,448,986.33	33,235,669.96	37,517,048.52
State Income	1,050,154.08	1,671,246.94	9,438,314.95	7,707,521.49
Miscellaneous	1,957.86	10,323.06	(64,772.16)	41,058.73
Total Charged to Operating Expense	8,290,046.45	10,620,914.89	55,446,763.04	57,580,203.56
Taxes Charged to Other Accounts	(1,425,239.24)	1,563,013.86	617,596.65	4,424,396.79
Taxes Accrued on Intercompany Accounts	(203,357.99)	(170,615.73)	(1,610,456.35)	(1,488,368.33)
Total Taxes Charged	6,661,449.22	12,013,313.02	54,453,903.34	60,516,232.02

ANALYSIS OF TAXES ACCRUED - ACCOUNT 236

Kind of Taxes	Taxes Accrued At Beginning Of Year	Accruals To Date This Year	Payments To Date This Year	Taxes Accrued At End Of Month
Property Taxes	11,128,630.22	7,841,735.97	10,697,773.81	8,272,592.38
Unemployment	31,909.04	61,888.69	92,725.32	1,072.41
Federal Old Age and Survivors	436,199.68	3,406,036.21	3,455,012.38	387,223.51
Federal Income	(11,303,186.47)	32,157,186.50	23,445,486.20	(2,591,486.17)
State Income	4,945,219.18	9,184,584.34	7,293,776.00	6,836,027.52
Kentucky Sales and Use Tax	244,273.64	1,701,367.96	1,624,680.39	320,961.21
Miscellaneous	0.00	101,103.67	101,103.67	0.00
Totals	5,483,045.29	54,453,903.34	46,710,557.77	13,226,390.86

KENTUCKY UTILITIES COMPANY
SUMMARY OF UTILITY PLANT
AUGUST 31, 2007

	NET BALANCE FIRST OF YEAR	ADDITIONS	RETIREMENTS	TRANSFER/ ADJUSTMENT	NET ADDITIONS	BALANCE TO DATE
UTILITY PLANT						
Plant In Service						
Intangibles	25,650,657.82	2,170,108.42	-	-	2,170,108.42	27,820,766.24
Steam Production	1,528,205,107.62	148,820,964.21	(11,539,454.68)	(271.13)	137,281,238.40	1,665,486,346.02
Hydro Production	9,946,337.38	1,037,111.32	(43,039.32)	-	994,072.00	10,940,409.38
Other Production	490,394,644.70	9,058,797.15	(1,913,775.80)	-	7,145,021.35	497,539,666.05
Transmission	506,489,863.16	8,957,234.83	(451,701.45)	(65,223.94)	8,440,309.44	514,930,172.60
Distribution	1,013,864,108.52	10,433,298.91	(2,935,248.87)	(16,962.03)	7,481,088.01	1,021,345,196.53
General	82,323,413.89	2,334,726.94	(2,862,546.56)	(233,879.71)	(761,699.33)	81,561,714.56
Transportation	23,860,353.39	78,801.10	(4,934,986.29)	(48,370.31)	(4,904,555.50)	18,955,797.89
Total Electric Plant In Service	3,680,734,486.48	182,891,042.88	(24,680,752.97)	(364,707.12)	157,845,582.79	3,838,580,069.27
Plant Purchased or Sold	-					-
Total Plant	3,680,734,486.48	182,891,042.88	(24,680,752.97)	(364,707.12)	157,845,582.79	3,838,580,069.27
Construction Work In Progress	487,243,640.21	308,322,067.13	-	-	308,322,067.13	795,565,707.34
Total Utility Plant at Original Cost	4,167,978,126.69	491,213,110.01	(24,680,752.97)	(364,707.12)	466,167,649.92	4,634,145,776.61

RESERVE FOR DEPRECIATION OF UTILITY	NET BALANCE FIRST OF YEAR	ACCRUAL	RETIREMENTS	TRANSFER/ ADJUSTMENT	RWIP TRANSFERS OUT	COST OF REMOVAL	SALVAGE	OTHER CREDITS	BALANCE TO DATE
Life Reserves									
Steam Production	(835,316,309.29)	(25,971,510.27)	11,539,454.68	-	-	-	-	(601,119.71)	(850,349,484.59)
Hydro Production	(7,418,715.60)	(85,157.47)	43,039.32	-	-	-	-	-	(7,460,833.75)
Other Production	(100,459,175.61)	(11,378,771.30)	1,913,775.80	-	-	-	-	-	(109,924,171.11)
Transmission	(193,145,219.41)	(6,078,788.80)	451,701.45	-	-	-	-	(1,328,634.66)	(200,100,941.42)
Distribution	(339,507,651.05)	(15,055,534.08)	2,935,248.87	6,549.60	-	-	-	(704,340.52)	(352,325,727.18)
General	(29,777,581.81)	(5,078,727.18)	2,862,546.56	(6,549.60)	-		-	-	(32,000,312.03)
Transportation	(23,717,823.29)	(37,954.94)	4,934,986.29	-	-		-	-	(18,820,791.94)
Total Life Reserve For Depreciation Of Utility Plant in Service	(1,529,342,476.06)	(63,686,444.04)	24,680,752.97	-	-	-	-	(2,634,094.89)	(1,570,982,262.02)
Salvage Reserves									
Steam Production	(62,263,334.97)	(3,590,679.38)		-	-	1,588,867.17	-	-	(64,265,147.18)
Hydro Production	(748,788.82)	(26,072.48)		-	-	47,822.50	-	-	(727,038.80)
Other Production	(1,319,813.89)	-		-	-	214,788.23	-	-	(1,105,025.66)
Transmission	(110,346,842.22)	(4,099,019.40)		-	-	621,336.33	(28,512.76)	-	(113,853,038.05)
Distribution	(131,526,999.25)	(5,838,464.57)	-		-	2,303,413.31	(313,661.98)	-	(135,375,712.49)
General	164,993.50	16,893.10	-		-	52,920.78	(3,000.00)	-	231,807.38
Total Salvage Reserve For Depreciation Of Utility Plant In Service	(306,040,785.65)	(13,537,342.73)	-	-	-	4,829,148.32	(345,174.74)	-	(315,094,154.80)
Total Reserves									
Steam Production	(897,579,644.26)	(29,562,189.65)	11,539,454.68	-	-	1,588,867.17	-	(601,119.71)	(914,614,631.77)
Hydro Production	(8,167,504.42)	(111,229.95)	43,039.32	-	-	47,822.50	-	-	(8,187,872.55)
Other Production	(101,778,989.50)	(11,378,771.30)	1,913,775.80	-	-	214,788.23	-	-	(111,029,196.77)
Transmission	(303,492,061.63)	(10,177,808.20)	451,701.45	-	-	621,336.33	(28,512.76)	(1,328,634.66)	(313,953,979.47)
Distribution	(471,034,650.30)	(20,893,998.65)	2,935,248.87	6,549.60	-	2,192,076.86	(313,661.98)	(593,004.07)	(487,701,439.67)
General	(29,612,588.31)	(5,061,834.08)	2,862,546.56	(6,549.60)	-	52,920.78	(3,000.00)	-	(31,768,504.65)
Transportation	(23,717,823.29)	(37,954.94)	4,934,986.29	-	-	-	-	-	(18,820,791.94)
Total Life Reserve For Depreciation Of Utility Plant In Service	(1,835,383,261.70)	(77,223,786.77)	24,680,752.97	-	-	4,717,811.87	(345,174.74)	(2,522,758.44)	(1,886,076,416.82)
Retirement of Work in Progress	(35,953.69)	-	-	2,719,729.37	(1,849,878.69)	6,613,792.26	(536,945.36)	(1,545,826.69)	5,364,917.20
YTD Activity	(1,835,419,215.39)	(77,223,786.77)	24,680,752.97	2,719,729.37	(1,849,878.69)	11,331,604.13	(882,120.10)	(4,068,585.13)	(1,880,711,499.61)
Intangibles	(14,592,939.75)	(3,760,439.54)	-	-	-	-	-	-	(18,353,379.29)
Leaseholds	-	-	-	-	-	-	-	-	-
Amortization - Utility Plant In Service	(1,850,012,155.14)	(80,984,226.31)	24,680,752.97	2,719,729.37	(1,849,878.69)	11,331,604.13	(882,120.10)	(4,068,585.13)	(1,899,064,878.90)
Utility Plant at Original Cost Less Reserve For Depreciation and Amortization	2,639,057,291.20								2,735,080,897.71

KU Monthly Report to KPSC – July 31, 2007

KENTUCKY UTILITIES COMPANY

Financial Reports

July 31, 2007

Prepared by Regulatory Accounting and Reporting

KENTUCKY UTILITIES COMPANY
COMPARATIVE STATEMENT OF INCOME
JULY 31, 2007

	CURRENT MONTH			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	108,206,292.10	120,160,530.97	(11,954,238.87)	(9.95)
Total Operating Revenues	108,206,292.10	120,160,530.97	(11,954,238.87)	(9.95)
Operating Expenses				
Fuel	41,382,706.70	48,221,873.84	(6,839,167.14)	(14.18)
Power Purchased	11,619,283.87	16,268,501.27	(4,649,217.40)	(28.58)
Other Operation Expenses	11,711,036.84	9,365,479.33	2,345,557.51	25.04
Maintenance	6,454,208.69	5,902,452.91	551,755.78	9.35
Depreciation	9,955,818.98	9,288,111.53	667,707.45	7.19
Amortization Expense	479,574.88	414,815.39	64,759.49	15.61
Regulatory Credits	(179,631.83)	(170,393.84)	(9,237.99)	5.42
Taxes				
Federal Income	-	-	-	-
State Income	-	-	-	-
Deferred Federal Income - Net	-	-	-	-
Deferred State Income - Net	-	-	-	-
Federal Income - Estimated	6,475,422.27	8,184,937.66	(1,709,515.39)	(20.89)
State Income - Estimated	1,245,273.51	1,836,364.21	(591,090.70)	(32.19)
Property and Other	1,730,789.15	1,571,316.91	159,472.24	10.15
Investment Tax Credit	-	-	-	-
Loss (Gain) from Disposition of Allowances	-	-	-	-
Accretion Expense	155,089.06	145,634.44	9,454.62	6.49
Total Operating Expenses	91,029,572.12	101,029,093.65	(9,999,521.53)	(9.90)
Net Operating Income	17,176,719.98	19,131,437.32	(1,954,717.34)	(10.22)
Other Income Less Deductions				
Other Income Less Deductions	2,814,155.65	219,792.30	2,594,363.35	1,180.37
AFUDC - Equity	256,245.06	24,633.74	231,611.32	940.22
Total Other Income Less Deductions	3,070,400.71	244,426.04	2,825,974.67	1,156.17
Income Before Interest Charges	20,247,120.69	19,375,863.36	871,257.33	4.50
Interest on Long Term Debt	3,978,491.76	2,949,981.93	1,028,509.83	34.87
Amortization of Debt Expense - Net	59,084.63	74,545.00	(15,460.37)	(20.74)
Other Interest Expenses	814,973.52	301,486.43	513,487.09	170.32
AFUDC - Borrowed Funds	(73,688.34)	(16,844.56)	(56,843.78)	337.46
Total Interest Charges	4,778,861.57	3,309,168.80	1,469,692.77	44.41
Net Inc Before Cumulative Effect of Acctg Chg	15,468,259.12	16,066,694.56	(598,435.44)	(3.72)
Cumulative Effect of Accounting Chg Net of Tax	-	-	-	-
Net Income	15,468,259.12	16,066,694.56	(598,435.44)	(3.72)
Preferred Dividend Requirements	-	-	-	-
Earnings Available for Common	15,468,259.12	16,066,694.56	(598,435.44)	(3.72)

KENTUCKY UTILITIES COMPANY
COMPARATIVE STATEMENT OF INCOME
JULY 31, 2007

	YEAR TO DATE			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	725,958,818.58	689,061,394.03	36,897,424.55	5.35
Total Operating Revenues	725,958,818.58	689,061,394.03	36,897,424.55	5.35
Operating Expenses				
Fuel	257,870,190.20	242,574,053.80	15,296,136.40	6.31
Power Purchased	101,159,072.10	106,683,651.81	(5,524,579.71)	(5.18)
Other Operation Expenses	86,929,622.02	97,618,482.08	(10,688,860.06)	(10.95)
Maintenance	44,413,629.29	42,987,704.70	1,425,924.59	3.32
Depreciation	65,054,691.69	63,945,673.16	1,109,018.53	1.73
Amortization Expense	3,288,030.05	2,840,224.43	447,805.62	15.77
Regulatory Credits	(1,202,622.30)	(1,192,303.49)	(10,318.81)	0.87
Taxes				
Federal Income	21,210,945.68	21,883,124.53	(672,178.85)	(3.07)
State Income	7,142,887.36	4,199,910.34	2,942,977.02	70.07
Deferred Federal Income - Net	(6,608,236.28)	1,915,483.85	(8,523,720.13)	(444.99)
Deferred State Income - Net	(823,550.08)	979,944.71	(1,803,494.79)	(184.04)
Federal Income - Estimated	6,475,422.27	8,184,937.66	(1,709,515.39)	(20.89)
State Income - Estimated	1,245,273.51	1,836,364.21	(591,090.70)	(32.19)
Property and Other	11,082,187.77	10,854,951.93	227,235.84	2.09
Investment Tax Credit	19,750,000.00	-	19,750,000.00	100.00
Loss (Gain) from Disposition of Allowances	(706,851.51)	(1,283,929.13)	577,077.62	(44.95)
Accretion Expense	1,085,917.42	1,019,441.11	66,476.31	6.52
Total Operating Expenses	617,366,609.19	605,047,715.70	12,318,893.49	2.04
Net Operating Income	108,592,209.39	84,013,678.33	24,578,531.06	29.26
Other Income Less Deductions				
Other Income Less Deductions	15,618,950.77	13,376,997.55	2,241,953.22	16.76
AFUDC - Equity	1,510,755.46	110,808.60	1,399,946.86	1,263.39
Total Other Income Less Deductions	17,129,706.23	13,487,806.15	3,641,900.08	27.00
Income Before Interest Charges	125,721,915.62	97,501,484.48	28,220,431.14	28.94
Interest on Long Term Debt	25,511,382.01	18,120,102.34	7,391,279.67	40.79
Amortization of Debt Expense - Net	547,455.50	560,437.87	(12,982.37)	(2.32)
Other Interest Expenses	4,428,311.12	2,674,760.03	1,753,551.09	65.56
AFUDC - Borrowed Funds	(433,043.27)	(75,924.66)	(357,118.61)	470.36
Total Interest Charges	30,054,105.36	21,279,375.58	8,774,729.78	41.24
Net Inc Before Cumulative Effect of Acctg Chg	95,667,810.26	76,222,108.90	19,445,701.36	25.51
Cumulative Effect of Accounting Chg Net of Tax	-	-	-	-
Net Income	95,667,810.26	76,222,108.90	19,445,701.36	25.51
Preferred Dividend Requirements	-	-	-	-
Earnings Available for Common	95,667,810.26	76,222,108.90	19,445,701.36	25.51

KENTUCKY UTILITIES COMPANY
COMPARATIVE STATEMENT OF INCOME
JULY 31, 2007

	YEAR ENDED CURRENT MONTH			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	1,246,916,709.12	1,236,813,981.89	10,102,727.23	0.82
Total Operating Revenues	1,246,916,709.12	1,236,813,981.89	10,102,727.23	0.82
Operating Expenses				
Fuel	438,289,281.37	416,249,584.05	22,039,697.32	5.29
Power Purchased	176,920,475.08	212,916,328.99	(35,995,853.91)	(16.91)
Other Operation Expenses	154,212,067.06	205,695,764.13	(51,483,697.07)	(25.03)
Maintenance	74,303,170.65	68,560,401.26	5,742,769.39	8.38
Depreciation	111,044,773.16	109,595,101.87	1,449,671.29	1.32
Amortization Expense	5,520,419.52	4,937,173.76	583,245.76	11.81
Regulatory Credits	(2,054,593.21)	(7,381,205.13)	5,326,611.92	(72.16)
Taxes				
Federal Income	48,024,346.16	49,245,050.14	(1,220,703.98)	(2.48)
State Income	14,318,548.99	8,672,357.16	5,646,191.83	65.11
Deferred Federal Income - Net	(8,728,090.47)	199,364.47	(8,927,454.94)	(4,477.96)
Deferred State Income - Net	(928,429.36)	363,257.44	(1,291,686.80)	(355.58)
Federal Income - Estimated	(1,709,515.39)	2,098,169.07	(3,807,684.46)	(181.48)
State Income - Estimated	(591,090.70)	224,326.55	(815,417.25)	(363.50)
Property and Other	18,830,303.63	17,175,997.15	1,654,306.48	9.63
Investment Tax Credit	31,750,000.00	-	31,750,000.00	100.00
Loss (Gain) from Disposition of Allowances	(706,851.51)	(1,283,929.13)	577,077.62	(44.95)
Accretion Expense	1,814,091.30	1,597,836.11	216,255.19	13.53
Total Operating Expenses	1,060,308,906.28	1,088,865,577.89	(28,556,671.61)	(2.62)
Net Operating Income	186,607,802.84	147,948,404.00	38,659,398.84	26.13
Other Income Less Deductions				
Other Income Less Deductions	30,046,073.33	11,603,268.30	18,442,805.03	158.94
AFUDC - Equity	1,783,990.93	135,670.82	1,648,320.11	1,214.94
Total Other Income Less Deductions	31,830,064.26	11,738,939.12	20,091,125.14	171.15
Income Before Interest Charges	218,437,867.10	159,687,343.12	58,750,523.98	36.79
Interest on Long Term Debt	41,062,240.56	30,165,987.42	10,896,253.14	36.12
Amortization of Debt Expense - Net	924,052.70	1,001,744.98	(77,692.28)	(7.76)
Other Interest Expenses	5,804,959.39	4,589,048.14	1,215,911.25	26.50
AFUDC - Borrowed Funds	(619,870.11)	(81,052.65)	(538,817.46)	664.77
Total Interest Charges	47,171,382.54	35,675,727.89	11,495,654.65	32.22
Net Inc Before Cumulative Effect of Acctg Chg	171,266,484.56	124,011,615.23	47,254,869.33	38.11
Cumulative Effect of Accounting Chg Net of Tax	-	3,337,340.49	(3,337,340.49)	(100.00)
Net Income	171,266,484.56	120,674,274.74	50,592,209.82	41.92
Preferred Dividend Requirements	-	520,134.85	(520,134.85)	(100.00)
Earnings Available for Common	171,266,484.56	120,154,139.89	51,112,344.67	42.54

KENTUCKY UTILITIES COMPANY
ANALYSIS OF RETAINED EARNINGS
JULY 31, 2007

Retained Earnings and Undistributed Earnings	Current Month Total Retained Earnings	Current Month Undistributed Subsidiary Earnings	Year to Date Total Retained Earnings	Year to Date Undistributed Subsidiary Earnings	Year Ended Current Month Total Retained Earnings	Year Ended Current Month Undistributed Subsidiary Earnings
Balance Beginning of Period................	932,642,917.67	18,283,421.00	854,131,027.53	16,248,287.00	778,875,913.43	15,904,726.80
Net Income To Date..........................	15,468,259.12		95,667,810.26		171,266,484.56	
FIN 48 Adjustment............................	-		347,473.00		347,473.00	
Adjust for Equity in Subsidiary Earnings for Year -EE Inc..................................	(3,442,689.60)	3,442,689.60	(16,177,823.60)	16,177,823.60	(30,271,383.80)	30,271,383.80
Dividends Rec'd Current Year -EE Inc..................................	-	-	10,700,000.00	(10,700,000.00)	24,450,000.00	(24,450,000.00)
Balance End of Period.......................	944,668,487.19	21,726,110.60	944,668,487.19	21,726,110.60	944,668,487.19	21,726,110.60

Combined Retained Earnings	12 MONTHS 07/31/07	12 MONTHS 7/31/2006
Retained Earnings Beginning of Period.....	794,780,640.23	685,739,889.49
Add Net Income..............................	171,266,484.56	120,674,274.74
FIN 48 Adjustment............................	347,473.00	-
Subtotal..	966,394,597.79	806,414,164.23
Deduct		
Dividends on Preferred Stock............	-	520,134.85
Dividends on Common Stock............	-	10,000,000.00
Preferred Stock Redemption Exp	-	1,113,389.15
Other..	-	-
Retained Earnings End of Period............	966,394,597.79	794,780,640.23

KENTUCKY UTILITIES COMPANY
COMPARATIVE BALANCE SHEETS AS OF JULY 31, 2007 AND 2006

ASSETS AND OTHER DEBITS	THIS YEAR	LAST YEAR
Utility Plant		
Utility Plant at Original Cost	4,561,524,977.12	3,983,962,719.49
Less Reserves for Depreciation & Amortization	1,891,246,115.75	1,828,745,080.75
Total	2,670,278,861.37	2,155,217,638.74
Investments - At Cost		
Ohio Valley Electric Corporation	250,000.00	250,000.00
Nonutility Property-Less Reserve	968,923.21	895,517.34
Investments in Subsidiary Companies	23,021,910.60	17,200,526.80
Special Funds	5,990,080.45	5,945,293.92
Other	426,140.00	426,140.00
Total	30,657,054.26	24,717,478.06
Current and Accrued Assets		
Cash	1,029,701.83	7,197,558.94
Special Deposits	43,068,564.99	25,170,124.38
Temporary Cash Investments	17,141.86	2,027.67
Accounts Receivable-Less Reserve	140,486,269.20	120,255,008.24
Notes Receivable from Assoc. Companies	-	-
Accounts Receivable from Assoc Companies	89,555,666.02	20,696,009.79
Materials & Supplies-At Average Cost		
Fuel	63,592,591.12	68,439,931.50
Plant Materials & Operating Supplies	26,003,660.24	25,816,999.89
Stores Expense	6,294,405.55	6,172,971.19
Allowance Inventory	1,687,876.03	3,286,493.48
Prepayments	3,158,105.55	3,235,973.95
Miscellaneous Current & Accrued Assets	418,183.17	514,883.26
Total	375,312,165.56	280,787,982.29
Deferred Debits and Other		
Unamortized Debt Expense	7,005,201.67	5,295,936.74
Unamortized Loss on Bonds	10,355,556.95	10,595,947.03
Accumulated Deferred Income Taxes	45,493,023.44	53,093,812.32
Deferred Regulatory Assets	116,289,577.62	31,143,813.92
Other Deferred Debits	72,796,516.20	84,115,998.17
Total	251,939,875.88	184,245,508.18
Total Assets and Other Debits	3,328,187,957.07	2,644,968,607.27

LIABILITIES AND OTHER CREDITS	THIS YEAR	LAST YEAR
Capitalization		
Common Stock	308,139,977.56	308,139,977.56
Common Stock Expense	(321,288.87)	(321,288.87)
Paid-In Capital	15,000,000.00	15,000,000.00
Other Comprehensive Income	-	(19,336,790.74)
Retained Earnings	944,668,487.19	778,875,913.43
Unappropriated Undistributed Subsidiary Earnings	21,726,110.60	15,904,726.80
Total Common Equity	1,289,213,286.48	1,098,262,538.18
Preferred Stock	-	-
Pollution Control Bonds	332,753,140.00	289,257,520.00
Other Long-Term Debt	-	-
LT Notes Payable to Associated Companies	661,000,000.00	433,000,000.00
Long-Term Debt Marked to Market	-	751,540.00
Total Long-Term Debt	993,753,140.00	723,009,060.00
Total Capitalization	2,282,966,426.48	1,821,271,598.18
Current and Accrued Liabilities		
Long-Term Debt Due in 1 Year	-	53,000,000.00
ST Notes Payable to Associated Companies	191,360,054.00	-
Notes Payable	-	-
Notes Payable to Associated Companies	-	76,299,254.00
Accounts Payable	163,198,038.45	85,890,607.48
Accounts Payable to Associated Companies	99,851,780.52	45,108,956.29
Customer Deposits	18,933,806.92	17,982,944.35
Taxes Accrued	(9,617,653.93)	13,484,853.47
Interest Accrued	9,342,255.91	6,683,324.75
Dividends Declared	-	-
Misc. Current & Accrued Liabilities	12,515,363.48	12,649,698.95
Total	485,583,645.35	311,099,639.29
Deferred Credits and Other		
Accumulated Deferred Income Taxes	325,903,612.25	330,266,506.20
Investment Tax Credit	32,428,843.32	1,474,555.32
Regulatory Liabilities	36,727,383.26	31,087,175.21
Customer Advances for Construction	1,928,276.63	1,423,238.48
Asset Retirement Obligations	29,567,123.96	27,818,123.79
Other Deferred Credits	12,123,711.18	21,245,435.64
Misc. Long-Term Liabilities	47,046,090.92	31,942,186.76
Accum Provision for Post-Retirement Benefits	73,912,843.72	67,340,148.40
Total	559,637,885.24	512,597,369.80
Total Liabilities and Other Credits	3,328,187,957.07	2,644,968,607.27

KENTUCKY UTILITIES COMPANY
STATEMENT OF CAPITALIZATION AND SHORT-TERM DEBT
JULY 31, 2007

	AUTHORIZED	ISSUED & OUTSTANDING		PERCENT OF TOTAL	
	SHARES	SHARES	AMOUNT	CAPITAL & S/T DEBT	CAPITAL
Common Equity					
Common Stock - Without Par	80,000,000	37,817,878	308,139,977.56		
Common Stock Expense			(321,288.87)		
Paid-In Capital			15,000,000.00		
Other Comprehensive Income			-		
Retained Earnings			944,668,487.19		
Unappropriated Undistributed Subsidiary Earnings			21,726,110.60		
Total Common Equity			1,289,213,286.48	52.10	56.47
Long-Term Debt					
PCB 11 DUE 05/01/23 Variable%			12,900,000.00		
PCB 12 DUE 02/01/32 Variable%			20,930,000.00		
PCB 13 DUE 02/01/32 Variable%			2,400,000.00		
PCB 14 DUE 02/01/32 Variable%			2,400,000.00		
PCB 15 DUE 02/01/32 Variable%			7,400,000.00		
PCB 16 DUE 10/01/32 Variable%			96,000,000.00		
PCB 17 DUE 10/01/34 Variable%			50,000,000.00		
PCB 18 DUE 06/01/35 Variable%			13,266,950.00		
PCB 19 DUE 06/01/35 Variable%			13,266,950.00		
PCB 20 DUE 06/01/36 Variable%			16,693,620.00		
PCB 21 DUE 06/01/36 Variable%			16,693,620.00		
PCB 22 DUE 10/01/34 Variable%			54,000,000.00		
PCB CC DUE 02/01/26 Variable%			17,875,000.00		
PCB TC DUE 03/01/37 Variable%			8,927,000.00		
Total Long-Term Debt			332,753,140.00	13.45	14.58
LT Notes Payable to Associated Companies			661,000,000.00	26.72	28.95
Total Capitalization			2,282,966,426.48	92.27	100.00
Long-Term Debt Due in 1 Year			0.00	0.00	
ST Notes Payable to Associated Companies			191,360,054.00	7.73	
Total Capitalization and Short-Term Debt			2,474,326,480.48	100.00	

KENTUCKY UTILITIES COMPANY
TRIAL BALANCE - GENERAL LEDGER
JULY 31, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
UTILITY PLANT		
At Original Cost	4,561,524,977 12	4,561,524,977 12
Reserves for Depreciation and Amortization		(1,891,246,115 75)
Depreciation	(1,873,365,145 95)	
Amortization of Plant	(17,880,969 80)	
INVESTMENTS - AT COST		30,657,054 26
Nonutility Property	1,025,914 06	
Nonutility Property Reserve	(56,990 85)	
Investments in Subsidiary Companies	23,021,910 60	
Ohio Valley Electric Corporation	250,000 00	
Other	426,140 00	
OMU-Interest on Reserve, New	1,206,974 75	
OMU-R&I on Maintenance Reserve	600,000 00	
OMU-R&I on Additions and Replacements	120,000 00	
OMU-R&I on Operations	538,067 36	
OMU-R&I Interest on Purchase Power	395,041 07	
OMU-Purchase Power, Coal Reserve	3,129,997 27	
CASH		1,029,701 83
Cash Accounts	1,029,701 83	
SPECIAL DEPOSITS		43,068,564 99
Restricted Cash	42,094,378 34	
MAN Margin Call	974,186 65	
TEMPORARY CASH INVESTMENTS		17,141 86
Temporary Cash Investments	17,141 86	
ACCOUNTS RECEIVABLE - LESS RESERVE		140,486,269 20
Working Funds	46,730 00	
Customers-Active	79,854,053 48	
Wholesale Sales	3,058,736 65	
Transmission Receivable	474,876 38	
Unbilled Revenues	41,974,000 00	
PC Purchase Program	87,849 37	
Officers and Employees	304 78	
Damage Claims	166,676 51	
Tax Refunds	27,114 00	
Insurance Claims	(105 69)	
IMEA	7,461,792 96	
IMPA	7,929,694 17	
Miscellaneous	1,030,631 65	
Uncollectible Accounts - Charged Off	1,805,570 97	
Uncollectible Accounts - Recovery	(524,312 28)	
Uncollectible Accounts - Reserve	(674,826 00)	
Uncollectible Accounts - Accrual	(1,281,258 69)	
Uncollectible Accounts - LEM Reserve	(990,912 70)	
Uncollectible Accounts - Miscellaneous	(29,655 00)	
Interest and Dividend Receivable	69,308 64	
ACCOUNTS RECEIVABLE FROM ASSOCIATED COMPANIES		89,555,666 02
E ON US Services/Louisville Gas & Electric Company	89,555,666 02	

KENTUCKY UTILITIES COMPANY
TRIAL BALANCE - GENERAL LEDGER
JULY 31, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
FUEL		63,592,591 12
Coal 1,156,526 98 Tons @ $51 58; MMBTU 27,918,690 79 @ 213 68¢	59,657,404 03	
Fuel Oil 2,240,000 Gallons @ 174 10¢	3,899,750 10	
Gas Pipeline 3,695 40 MCF @ $9 59	35,436 99	
PLANT MATERIALS AND OPERATING SUPPLIES		26,003,660 24
Regular Materials and Supplies	25,929,810 56	
Limestone 10,266 41 Tons @ $7 19	73,849 68	
STORES EXPENSE		6,294,405 55
Stores Expense Undistributed	6,294,405 55	
ALLOWANCE INVENTORY		1,687,876 03
Allowance Inventory	1,687,876 03	
PREPAYMENTS		3,158,105 55
Insurance	1,121,771 75	
Taxes	1,641,306 98	
Risk Management and Workers Compensation	75,000.00	
Vehicle License	54,294 56	
Other	265,732 26	
MISCELLANEOUS CURRENT ASSETS		418,183 17
Derivative Asset - Non-Hedging	402,038 24	
Miscellaneous Current Assets	16,144 93	
UNAMORTIZED DEBT EXPENSE		7,005,201.67
Pollution Control Bonds		
KU Series 11, Variable%, Due 5/01/23	272,321 29	
KU Series 12, Variable%, Due 2/01/32	100,470 34	
KU Series 13, Variable%, Due 2/01/32	69,843.62	
KU Series 14, Variable%, Due 2/01/32	77,752 11	
KU Series 15, Variable%, Due 2/01/32	28,023 40	
KU Series 16, Variable%, Due 10/01/32	1,829,749 04	
KU Series 17, Variable%, Due 10/01/34	1,088,710 59	
KU Series 18, Variable%, Due 06/01/35	492,497 30	
KU Series 19, Variable%, Due 06/01/35	500,542 04	
KU Series 20, Variable%, Due 06/01/36	596,612 05	
KU Series 21, Variable%, Due 06/01/36	536,742 59	
KU Series 22, Variable%, Due 10/01/34	919,499.47	
KU Variable%, Due 03/01/37	202,082 28	
KU Variable%, Due 02/01/26	290,355 55	
UNAMORTIZED LOSS ON BONDS		10,355,556 95
Reacquired Debt	10,355,556.95	
ACCUMULATED DEFERRED INCOME TAXES		45,493,023 44
Federal	38,251,031 42	
State	7,241,992 02	
DEFERRED REGULATORY ASSET		116,289,577 62
Asset Retirement Obligations	23,217,686 91	
FASB 109 - Deferred Taxes	5,707,603 00	
Pension & Postretirement Benefits	65,749,571.11	
Ice Storm Expenses	1,517,223 00	
MISO Exit Fee	20,097,493 60	
OTHER DEFERRED DEBITS	72,796,516.20	72,796,516.20
Total Assets and Other Debits	3,328,187,957.07	3,328,187,957.07

KENTUCKY UTILITIES COMPANY
TRIAL BALANCE - GENERAL LEDGER
JULY 31, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
COMMON EQUITY		1,289,213,286.48
Common Stock	308,139,977.56	
Common Stock Expense	(321,288.87)	
Paid-In Capital	15,000,000.00	
Retained Earnings	944,668,487.19	
Unappropriated Undistributed Subsidiary Earnings	21,726,110.60	
BONDS		332,753,140.00
Pollution Control Bonds		
KU Series 11, Variable%, Due 05/01/23	12,900,000.00	
KU Series 12, Variable%, Due 2/01/32	20,930,000.00	
KU Series 13, Variable%, Due 2/01/32	2,400,000.00	
KU Series 14, Variable%, Due 2/01/32	2,400,000.00	
KU Series 15, Variable%, Due 2/01/32	7,400,000.00	
KU Series 16, Variable%, Due 10/01/32	96,000,000.00	
KU Series 17, Variable%, Due 10/01/34	50,000,000.00	
KU Series 18, Variable%, Due 06/01/35	13,266,950.00	
KU Series 19, Variable%, Due 06/01/35	13,266,950.00	
KU Series 20, Variable%, Due 06/01/36	16,693,620.00	
KU Series 21, Variable%, Due 06/01/36	16,693,620.00	
KU Series 22, Variable%, Due 10/01/34	54,000,000.00	
KU Variable%, Due 03/01/37	8,927,000.00	
KU Variable%, Due 02/01/26	17,875,000.00	
LT NOTES PAYABLE TO ASSOCIATED COMPANIES	661,000,000.00	661,000,000.00
ST NOTES PAYABLE TO ASSOCIATED COMPANIES		191,360,054.00
Money Pool Payable	191,360,054.00	
ACCOUNTS PAYABLE		163,198,038.45
Regular	158,099,980.68	
Salaries and Wages Accrued	1,661,588.35	
Employee Withholdings Payable	28,658.95	
Tax Collections - Payable	3,407,810.47	
ACCOUNTS PAYABLE TO ASSOCIATED COMPANIES		99,851,780.52
E.ON US Services/Louisville Gas & Electric Company	99,851,780.52	
CUSTOMERS' DEPOSITS	18,933,806.92	18,933,806.92
TAXES ACCRUED	(9,617,653.93)	(9,617,653.93)
INTEREST ACCRUED		9,342,255.91
Interest on Long-Term Debt		
KU Series 11, Variable%, Due 05/01/23	8,170.01	
KU Series 12, Variable%, Due 2/01/32	137,277.88	
KU Series 13, Variable%, Due 2/01/32	15,741.37	
KU Series 14, Variable%, Due 2/01/32	15,741.37	
KU Series 15, Variable%, Due 2/01/32	48,535.89	
KU Series 16, Variable%, Due 10/01/32	135,333.34	
KU Series 17, Variable%, Due 10/01/34	187,152.78	
KU Series 18, Variable%, Due 06/01/35	8,181.29	
KU Series 19, Variable%, Due 06/01/35	8,291.85	
KU Series 20, Variable%, Due 06/01/36	37,004.20	
KU Series 21, Variable%, Due 06/01/36	36,994.41	
KU Series 22, Variable%, Due 10/01/34	27,600.00	
KU Variable%, Due 03/01/37	5,579.36	
KU Variable%, Due 02/01/26	11,171.87	
Other		
Customer Deposits	328,672.85	
Fidelia	8,330,807.44	

KENTUCKY UTILITIES COMPANY
TRIAL BALANCE - GENERAL LEDGER
JULY 31, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
MISCELLANEOUS CURRENT AND ACCRUED LIABILITIES		12,515,363.48
Customer Overpayments	1,436,150.32	
UK Emission Research Grant	250,000.00	
Vacation Pay Accrued	5,110,974.64	
Derivative Liabilities - Non-Hedging	409,262.96	
Franchise Fee Payable	5,112,043.54	
Other	196,932.02	
ACCUMULATED DEFERRED INCOME TAXES		325,903,612.25
Federal	281,357,579.03	
State	44,546,033.22	
INVESTMENT TAX CREDIT		32,428,843.32
Job Development Credit	678,843.32	
Advance Coal Credit	31,750,000.00	
REGULATORY LIABILITIES		36,727,383.26
Asset Retirement Obligations	2,065,781.23	
Deferred Taxes - FAS 109	29,872,349.50	
Spare Parts	1,185,674.53	
MISO Schedule 10 Charges	3,603,578.00	
CUSTOMERS' ADVANCES FOR CONSTRUCTION		1,928,276.63
Line Extensions	1,922,637.63	
Outdoor Lighting Deposits	4,470.00	
Other	1,169.00	
ASSET RETIREMENT OBLIGATIONS	29,567,123.96	29,567,123.96
OTHER DEFERRED CREDITS	12,123,711.18	12,123,711.18
MISCELLANEOUS LONG-TERM LIABILITIES		47,046,090.92
Pension Payable	36,482,933.00	
Workers' Compensation	3,565,060.92	
Post Employment Benefits	6,269,872.00	
Uncertain Tax Positions	728,225.00	
ACCUMULATED PROVISION FOR BENEFITS		73,912,843.72
Postretirement Benefits	73,912,843.72	
Total Liabilities and Other Credits	3,328,187,957.07	3,328,187,957.07

KENTUCKY UTILITIES COMPANY
STATEMENT OF CASH FLOWS
JULY 31, 2007

	Year to Date 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	95,667,810.26	76,222,108.90
Items not requiring cash currently:		
Depreciation	65,054,691.69	63,945,673.16
Amortization	3,288,030.05	2,840,224.43
Deferred income taxes - net	(3,737,227.75)	3,326,657.31
Investment tax credits deferred - net	19,405,068.00	(631,092.00)
Other	1,761,134.10	(179,102.47)
Change in receivables	(56,826,133.67)	26,109,972.48
Change in inventory	668,790.07	(14,044,970.42)
Change in allowance inventory	(17,338.20)	(1,826,806.57)
Change in payables and accrued expenses	43,496,373.77	(9,163,143.14)
Change in other regulatory assets	(1,272,734.68)	2,170,930.82
Change in other regulatory liabilities	788,009.78	(537,513.88)
Change in other deferred debits	(9,924,821.01)	(21,967,318.20)
Change in other deferred credits	4,840,569.22	5,759,799.34
Other	818,477.42	(169,348.35)
Less: Allowance for other funds used during construction	(1,943,798.73)	(186,733.26)
Less: Undistributed earnings of subsidiary company	(5,477,823.60)	(1,562,212.80)
Net cash provided (used) by operating activities	156,589,076.72	130,107,125.35
CASH FLOWS FROM INVESTING ACTIVITIES		
Gross additions to utility plant - construction expenditures	(386,278,835.15)	(161,364,327.21)
Less: Allowance for other funds used during construction	1,943,798.73	186,733.26
Change in other long-term debt	(433,540.00)	(1,288,960.00)
Change in long-term investments	(285,146.72)	(332,380.44)
Change in restricted cash	(20,261,581.08)	(3,571,892.42)
Net cash provided (used) by investing activities	(405,315,304.22)	(166,370,826.81)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	257,143,027.99	66,217,805.33
Net increase in short-term debt	94,317,000.00	6,634,254.00
Payments for retirement of long-term debt	(107,000,000.00)	(36,000,000.00)
Net decrease in short-term debt	-	-
Net cash provided (used) by financing activities	244,460,027.99	36,852,059.33
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,266,199.51)	588,357.87
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	5,313,043.20	6,611,645.74
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,046,843.69	7,200,003.61

KENTUCKY UTILITIES COMPANY
ANALYSIS OF INTEREST CHARGES
JULY 31, 2007

	CURRENT MONTH		YEAR TO DATE		YEAR ENDED CURRENT MONTH	
	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR
Interest On Long-Term Debt						
First Mortgage Bonds						
Series P 7.92%	-	349,800.00	1,574,100.00	2,448,600.00	3,323,100.00	4,197,600.00
Series R 7.55%	-	-	-	-	-	-
Series S 5.99%	-	-	-	89,850.00	-	988,350.00
Loan Agreement - Poll. Control Bonds						
Series 10 (VARIABLE%)	-	169,086.58	981,941.93	1,083,683.85	1,826,206.04	1,724,123.84
Series 11 (VARIABLE%)	-	41,853.33	-	258,949.62	199,041.63	408,034.21
Series 12 (VARIABLE%)	67,549.43	65,416.28	457,076.82	418,525.45	779,393.12	669,048.96
Series 13 (VARIABLE%)	7,745.75	7,501.15	52,412.05	47,991.45	89,371.39	76,718.47
Series 14 (VARIABLE%)	7,745.75	7,501.15	52,412.05	47,991.45	89,371.37	76,718.47
Series 15 (VARIABLE%)	23,882.74	23,128.55	161,603.83	147,973.64	275,561.81	236,548.59
Series 16 (VARIABLE%)	300,800.00	305,866.67	2,031,999.99	1,869,919.98	3,588,546.66	3,053,773.27
Series 17 (VARIABLE%)	165,763.89	157,250.00	1,081,493.07	994,768.02	1,837,083.35	1,552,937.41
Series 18 (VARIABLE%)	42,398.96	41,827.01	285,393.49	263,627.34	484,794.99	414,733.71
Series 19 (VARIABLE%)	43,043.88	42,910.85	286,559.11	263,278.96	484,828.50	312,691.71
Series 20 (VARIABLE%)	54,486.12	20,588.80	365,520.73	20,588.80	624,733.23	20,588.80
Series 21 (VARIABLE%)	54,476.38	-	365,316.19	-	408,209.52	-
Series 22 (VARIABLE%)	172,695.00	-	878,460.00	-	878,460.00	-
PCB CC (VARIABLE%)	28,454.81	-	64,006.58	-	64,006.58	-
PCB TC (VARIABLE%)	57,095.73	-	128,650.35	-	128,650.35	-
Interest Rate Swaps	-	(19,374.44)	(86,856.15)	(288,905.88)	(145,573.28)	(683,711.55)
Marked to Market	-	*(69,974.00)*	*(328,589.00)*	*(669,607.00)*	*(586,634.00)*	*(843,056.00)*
Fidelia	2,909,783.32	1,806,600.00	17,576,732.72	11,122,866.66	27,129,941.05	17,960,887.53
Hardin Promissory Note	42,570.00	-	(416,851.75)	-	(416,851.75)	-
Total	3,978,491.76	2,949,981.93	25,511,382.01	18,120,102.34	41,062,240.56	30,165,987.42
Amortization of Debt Expense - Net						
Amortization of Debt Expense	22,706.63	20,794.00	210,779.60	139,988.00	318,621.80	248,171.81
Amort. of Loss on Reacquired Debt	36,378.00	53,751.00	336,675.90	420,449.87	605,430.90	753,573.17
Total	59,084.63	74,545.00	547,455.50	560,437.87	924,052.70	1,001,744.98
Other Interest Charges						
Customers' Deposits	90,252.73	111,082.09	653,625.64	637,090.30	1,015,463.83	1,032,546.55
Other Tax Deficiencies	-	-	456.08	-	456.08	871,229.00
Interest on Debt to Associated Companies	724,720.79	190,004.34	3,773,928.11	2,033,269.73	4,683,747.81	2,600,323.02
AFUDC Borrowed Funds	(73,688.34)	(16,844.56)	(433,043.27)	(75,924.66)	(619,870.11)	(81,052.65)
Other Interest Expense	-	400.00	301.29	4,400.00	105,291.67	84,949.57
Total	741,285.18	284,641.87	3,995,267.85	2,598,835.37	5,185,089.28	4,507,995.49
Total Interest	4,778,861.57	3,309,168.80	30,054,105.36	21,279,375.58	47,171,382.54	35,675,727.89

KENTUCKY UTILITIES COMPANY
ANALYSIS OF TAXES CHARGED
JULY 31, 2007

Kind of Taxes	Current Month This Year	Current Month Last Year	Year To Date This Year	Year To Date Last Year
Taxes Charged to Accounts 408.1 and 409.1				
Property Taxes	1,067,735.01	939,795.00	6,660,904.06	6,668,286.37
Unemployment	14,422.68	14,225.52	183,093.30	124,995.21
Federal Old Age and Survivors Insurance	484,126.20	472,039.33	3,323,362.99	3,189,036.64
Public Service Commission Fee	149,209.73	138,724.63	981,557.44	841,898.04
Federal Income	6,475,422.27	8,184,937.66	27,686,367.95	30,068,062.19
State Income	1,245,273.51	1,836,364.21	8,388,160.87	6,036,274.55
Miscellaneous	15,295.53	6,532.43	(66,730.02)	30,735.67
Total Charged to Operating Expense	9,451,484.93	11,592,618.78	47,156,716.59	46,959,288.67
Taxes Charged to Other Accounts	1,593,062.31	998,764.34	2,042,835.89	2,861,382.93
Taxes Accrued on Intercompany Accounts	(183,106.24)	(167,588.28)	(1,407,098.36)	(1,317,752.60)
Total Taxes Charged	10,861,441.00	12,423,794.84	47,792,454.12	48,502,919.00

ANALYSIS OF TAXES ACCRUED - ACCOUNT 236

Kind of Taxes	Taxes Accrued At Beginning Of Year	Accruals To Date This Year	Payments To Date This Year	Taxes Accrued At End Of Month
Property Taxes	11,128,630.22	6,762,668.97	10,695,324.13	7,195,975.06
Unemployment	31,909.04	75,924.98	92,725.32	15,108.70
Federal Old Age and Survivors	436,199.68	2,972,288.37	3,078,378.96	330,109.09
Federal Income	(11,303,186.47)	28,009,345.58	40,234,636.20	(23,528,477.09)
State Income	4,945,219.18	8,492,555.77	7,293,776.00	6,143,998.95
Kentucky Sales and Use Tax	244,273.64	1,380,406.78	1,399,049.06	225,631.36
Miscellaneous	0.00	99,263.67	99,263.67	0.00
Totals	5,483,045.29	47,792,454.12	62,893,153.34	(9,617,653.93)

KENTUCKY UTILITIES COMPANY
SUMMARY OF UTILITY PLANT
JULY 31, 2007

UTILITY PLANT	NET BALANCE FIRST OF YEAR	ADDITIONS	RETIREMENTS	TRANSFER/ ADJUSTMENT	NET ADDITIONS	BALANCE TO DATE
Plant In Service						
Intangibles	25,650,657.82	2,014,002.41	-	-	2,014,002.41	27,664,660.23
Steam Production	1,528,205,107.62	147,827,254.83	(11,325,210.13)	(271.13)	136,501,773.57	1,664,706,881.19
Hydro Production	9,946,337.38	1,037,111.32	(43,039.32)	-	994,072.00	10,940,409.38
Other Production	490,394,644.70	8,787,333.80	(1,716,962.80)	-	7,070,371.00	497,465,015.70
Transmission	506,489,863.16	3,646,287.54	(302,172.82)	(65,223.94)	3,278,890.78	509,768,753.94
Distribution	1,013,864,108.52	5,717,274.45	(1,326,478.67)	(16,962.03)	4,373,833.75	1,018,237,942.27
General	82,323,413.89	1,905,487.19	(2,862,546.56)	(233,879.71)	(1,190,939.08)	81,132,474.81
Transportation	23,860,353.39	78,801.10	(4,934,986.29)	(48,370.31)	(4,904,555.50)	18,955,797.89
Total Electric Plant In Service	3,680,734,486.48	171,013,552.64	(22,511,396.59)	(364,707.12)	148,137,448.93	3,828,871,935.41
Plant Purchased or Sold	-					-
Total Plant	3,680,734,486.48	171,013,552.64	(22,511,396.59)	(364,707.12)	148,137,448.93	3,828,871,935.41
Construction Work In Progress	487,243,640.21	245,409,401.50	-	-	245,409,401.50	732,653,041.71
Total Utility Plant at Original Cost	4,167,978,126.69	416,422,954.14	(22,511,396.59)	(364,707.12)	393,546,850.43	4,561,524,977.12

RESERVE FOR DEPRECIATION OF UTILITY	NET BALANCE FIRST OF YEAR	ACCRUAL	RETIREMENTS	TRANSFER/ ADJUSTMENT	RWIP TRANSFERS OUT	COST OF REMOVAL	SALVAGE	OTHER CREDITS	BALANCE TO DATE
Life Reserves									
Steam Production	(835,316,309.29)	(22,240,608.25)	11,325,210.13	-	-	-	-	(601,119.71)	(846,832,827.12)
Hydro Production	(7,418,715.60)	(74,308.86)	43,039.32	-	-	-	-	-	(7,449,985.14)
Other Production	(100,459,175.61)	(9,964,777.27)	1,716,962.80	-	-	-	-	-	(108,706,990.08)
Transmission	(193,145,219.41)	(5,251,686.17)	302,172.82	-	-	-	-	(394,550.48)	(198,489,283.24)
Distribution	(339,507,651.05)	(13,075,768.87)	1,326,478.67	6,549.60	-	-	-	(451,053.71)	(351,701,445.36)
General	(29,777,581.81)	(4,638,525.51)	2,862,546.56	(6,549.60)	-		-	-	(31,560,110.36)
Transportation	(23,717,823.29)	(33,640.40)	4,934,986.29	-	-		-	-	(18,816,477.40)
Total Life Reserve For Depreciation Of Utility Plant In Service	(1,529,342,476.06)	(55,279,315.33)	22,511,396.59	-	-	-	-	(1,446,723.90)	(1,563,557,118.70)
Salvage Reserves					-				
Steam Production	(62,263,334.97)	(3,079,904.75)		-	-	1,543,472.81	-	-	(63,799,766.91)
Hydro Production	(748,788.82)	(22,578.40)		-	-	47,822.50	-	-	(723,544.72)
Other Production	(1,319,813.89)	-		-	-	210,284.87	-	-	(1,109,529.02)
Transmission	(110,346,842.22)	(3,579,648.29)		-	-	169,765.33	(15,485.88)		(113,772,211.06)
Distribution	(131,526,999.25)	(5,107,018.67)	-		-	957,064.69	(76,784.80)	-	(135,753,738.03)
General	164,993.50	14,772.73	-		-	46,920.78	(3,000.00)	-	223,687.01
Total Salvage Reserve For Depreciation Of Utility Plant In Service	(306,040,785.65)	(11,774,377.38)	-	-	-	2,975,330.98	(95,270.68)	-	(314,935,102.73)
Total Reserves									
Steam Production	(897,579,644.26)	(25,320,513.00)	11,325,210.13	-	-	1,543,472.81	-	(601,119.71)	(910,632,594.03)
Hydro Production	(8,167,504.42)	(96,887.26)	43,039.32	-	-	47,822.50	-	-	(8,173,529.86)
Other Production	(101,778,989.50)	(9,964,777.27)	1,716,962.80	-	-	210,284.87	-	-	(109,816,519.10)
Transmission	(303,492,061.63)	(8,831,334.46)	302,172.82	-	-	169,765.33	(15,485.88)	(394,550.48)	(312,261,494.30)
Distribution	(471,034,650.30)	(18,182,787.54)	1,326,478.67	6,549.60	-	957,064.69	(76,784.80)	(451,053.71)	(487,455,183.39)
General	(29,612,588.31)	(4,623,752.78)	2,862,546.56	(6,549.60)	-	46,920.78	(3,000.00)	-	(31,336,423.35)
Transportation	(23,717,823.29)	(33,640.40)	4,934,986.29	-	-	-	-	-	(18,816,477.40)
Total Life Reserve For Depreciation Of Utility Plant In Service	(1,835,383,261.70)	(67,053,692.71)	22,511,396.59	-	-	2,975,330.98	(95,270.68)	(1,446,723.90)	(1,878,492,221.43)
Retirement of Work in Progress	(35,953.69)	-	-	2,719,729.37	(1,433,336.40)	5,907,603.33	(471,218.22)	(1,559,748.92)	5,127,075.47
YTD Activity	(1,835,419,215.39)	(67,053,692.71)	22,511,396.59	2,719,729.37	(1,433,336.40)	8,882,934.31	(566,488.90)	(3,006,472.82)	(1,873,365,145.95)
Intangibles	(14,592,939.75)	(3,288,030.05)	-	-	-	-	-	-	(17,880,969.80)
Leaseholds	-	-	-	-	-	-	-	-	-
Amortization - Utility Plant In Service	(1,850,012,155.14)	(70,341,722.76)	22,511,396.59	2,719,729.37	(1,433,336.40)	8,882,934.31	(566,488.90)	(3,006,472.82)	(1,891,246,115.75)
Utility Plant at Original Cost Less Reserve For Depreciation and Amortization	2,639,057,291.20								2,670,278,861.37

KU Monthly Report to KPSC – June 30, 2007

KENTUCKY UTILITIES COMPANY

Financial Reports

June 30, 2007

Prepared by Regulatory Accounting and Reporting

KENTUCKY UTILITIES COMPANY
COMPARATIVE STATEMENT OF INCOME
JUNE 30, 2007

	CURRENT MONTH			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	101,904,588.93	103,917,993.36	(2,013,404.43)	(1.94)
Total Operating Revenues	101,904,588.93	103,917,993.36	(2,013,404.43)	(1.94)
Operating Expenses				
Fuel	40,277,348.41	39,492,734.03	784,614.38	1.99
Power Purchased	14,002,909.52	15,085,601.31	(1,082,691.79)	(7.18)
Other Operation Expenses	13,769,692.96	15,635,929.63	(1,866,236.67)	(11.94)
Maintenance	7,455,116.83	7,253,329.30	201,787.53	2.78
Depreciation	9,526,307.05	9,235,172.52	291,134.53	3.15
Amortization Expense	485,183.99	398,521.04	86,662.95	21.75
Regulatory Credits	(179,631.83)	(170,393.84)	(9,237.99)	5.42
Taxes				
Federal Income	9,349,790.01	9,499,715.29	(149,925.28)	(1.58)
State Income	3,339,252.56	1,443,694.45	1,895,558.11	131.30
Deferred Federal Income - Net	(4,136,142.14)	130,361.49	(4,266,503.63)	(3,272.83)
Deferred State Income - Net	(547,854.04)	655,096.18	(1,202,950.22)	(183.63)
Federal Income - Estimated	(10,936,608.84)	(6,453,556.75)	(4,483,052.09)	69.47
State Income - Estimated	(2,282,558.57)	(1,447,913.37)	(834,645.20)	57.64
Property and Other	1,642,817.35	1,424,921.04	217,896.31	15.29
Investment Tax Credit	9,875,000.00	-	9,875,000.00	100.00
Loss (Gain) from Disposition of Allowances	-	-	-	-
Accretion Expense	155,089.06	145,634.44	9,454.62	6.49
Total Operating Expenses	91,795,712.32	92,328,846.76	(533,134.44)	(0.58)
Net Operating Income	10,108,876.61	11,589,146.60	(1,480,269.99)	(12.77)
Other Income Less Deductions				
Other Income Less Deductions	3,691,910.85	3,178,281.64	513,629.21	16.16
AFUDC - Equity	206,063.95	21,878.21	184,185.74	841.87
Total Other Income Less Deductions	3,897,974.80	3,200,159.85	697,814.95	21.81
Income Before Interest Charges	14,006,851.41	14,789,306.45	(782,455.04)	(5.29)
Interest on Long Term Debt	3,687,010.31	2,620,346.40	1,066,663.91	40.71
Amortization of Debt Expense - Net	63,683.09	73,714.00	(10,030.91)	(13.61)
Other Interest Expenses	990,544.66	452,078.75	538,465.91	119.11
AFUDC - Borrowed Funds	(59,065.01)	(14,962.87)	(44,102.14)	294.74
Total Interest Charges	4,682,173.05	3,131,176.28	1,550,996.77	49.53
Net Inc Before Cumulative Effect of Acctg Chg	9,324,678.36	11,658,130.17	(2,333,451.81)	(20.02)
Cumulative Effect of Accounting Chg Net of Tax	-	-	-	-
Net Income	9,324,678.36	11,658,130.17	(2,333,451.81)	(20.02)
Preferred Dividend Requirements	-	-	-	-
Earnings Available for Common	9,324,678.36	11,658,130.17	(2,333,451.81)	(20.02)

KENTUCKY UTILITIES COMPANY
COMPARATIVE STATEMENT OF INCOME
JUNE 30, 2007

	YEAR TO DATE			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	617,752,526.48	568,900,863.06	48,851,663.42	8.59
Total Operating Revenues	*617,752,526.48*	*568,900,863.06*	48,851,663.42	8.59
Operating Expenses				
Fuel	216,487,483.50	194,352,179.96	22,135,303.54	11.39
Power Purchased	89,539,788.23	90,415,150.54	(875,362.31)	(0.97)
Other Operation Expenses	75,218,585.18	88,253,002.75	(13,034,417.57)	(14.77)
Maintenance	37,959,420.60	37,085,251.79	874,168.81	2.36
Depreciation	55,098,872.71	54,657,561.63	441,311.08	0.81
Amortization Expense	2,808,455.17	2,425,409.04	383,046.13	15.79
Regulatory Credits	*(1,022,990.47)*	*(1,021,909.65)*	*(1,080.82)*	*0.11*
Taxes				
Federal Income	21,210,945.68	21,883,124.53	(672,178.85)	(3.07)
State Income	7,142,887.36	4,199,910.34	2,942,977.02	70.07
Deferred Federal Income - Net	(6,608,236.28)	1,915,483.85	(8,523,720.13)	(444.99)
Deferred State Income - Net	(823,550.08)	979,944.71	(1,803,494.79)	(184.04)
Federal Income - Estimated	-	-	-	-
State Income - Estimated	-	-	-	-
Property and Other	9,351,398.62	9,283,635.02	67,763.60	0.73
Investment Tax Credit	*19,750,000.00*	-	*19,750,000.00*	*100.00*
Loss (Gain) from Disposition of Allowances	(706,851.51)	(1,283,929.13)	577,077.62	(44.95)
Accretion Expense	930,828.36	873,806.67	57,021.69	6.53
Total Operating Expenses	526,337,037.07	504,018,622.05	22,318,415.02	4.43
Net Operating Income	91,415,489.41	64,882,241.01	26,533,248.40	40.89
Other Income Less Deductions				
Other Income Less Deductions	12,804,795.12	13,157,205.25	(352,410.13)	(2.68)
AFUDC - Equity	1,254,510.40	86,174.86	1,168,335.54	1,355.77
Total Other Income Less Deductions	14,059,305.52	13,243,380.11	815,925.41	6.16
Income Before Interest Charges	105,474,794.93	78,125,621.12	27,349,173.81	35.01
Interest on Long Term Debt	21,532,890.25	15,170,120.41	6,362,769.84	41.94
Amortization of Debt Expense - Net	488,370.87	485,892.87	2,478.00	0.51
Other Interest Expenses	3,613,337.60	2,373,273.60	1,240,064.00	52.25
AFUDC - Borrowed Funds	(359,354.93)	(59,080.10)	(300,274.83)	508.25
Total Interest Charges	25,275,243.79	17,970,206.78	7,305,037.01	40.65
Net Inc Before Cumulative Effect of Acctg Chg	80,199,551.14	60,155,414.34	20,044,136.80	33.32
Cumulative Effect of Accounting Chg Net of Tax	-	-	-	-
Net Income	80,199,551.14	60,155,414.34	20,044,136.80	33.32
Preferred Dividend Requirements	-	-	-	-
Earnings Available for Common	80,199,551.14	60,155,414.34	20,044,136.80	33.32

KENTUCKY UTILITIES COMPANY
COMPARATIVE STATEMENT OF INCOME
JUNE 30, 2007

	YEAR ENDED CURRENT MONTH			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	1,258,870,947.99	1,223,978,902.41	34,892,045.58	2.85
Total Operating Revenues	1,258,870,947.99	1,223,978,902.41	34,892,045.58	2.85
Operating Expenses				
Fuel	445,128,448.51	406,483,537.00	38,644,911.51	9.51
Power Purchased	181,569,692.48	213,051,729.96	(31,482,037.48)	(14.78)
Other Operation Expenses	151,866,509.55	209,520,441.33	(57,653,931.78)	(27.52)
Maintenance	73,751,414.87	69,177,388.55	4,574,026.32	6.61
Depreciation	110,377,065.71	109,232,503.21	1,144,562.50	1.05
Amortization Expense	5,455,660.03	4,914,045.16	541,614.87	11.02
Regulatory Credits	(2,045,355.22)	(7,344,425.92)	5,299,070.70	(72.15)
Taxes				
Federal Income	48,024,346.16	49,245,050.14	(1,220,703.98)	(2.48)
State Income	14,318,548.99	8,672,357.16	5,646,191.83	65.11
Deferred Federal Income - Net	(8,728,090.47)	199,364.47	(8,927,454.94)	(4,477.96)
Deferred State Income - Net	(928,429.36)	363,257.44	(1,291,686.80)	(355.58)
Federal Income - Estimated	-	-	-	-
State Income - Estimated	-	-	-	-
Property and Other	18,670,831.39	16,967,504.65	1,703,326.74	10.04
Investment Tax Credit	*31,750,000.00*	-	*31,750,000.00*	*100.00*
Loss (Gain) from Disposition of Allowances	(706,851.51)	(1,283,929.13)	577,077.62	(44.95)
Accretion Expense	1,804,636.68	1,567,880.67	236,756.01	15.10
Total Operating Expenses	1,070,308,427.81	1,080,766,704.69	(10,458,276.88)	(0.97)
Net Operating Income	188,562,520.18	143,212,197.72	45,350,322.46	31.67
Other Income Less Deductions				
Other Income Less Deductions	*27,451,709.98*	*11,790,608.25*	*15,661,101.73*	*132.83*
AFUDC - Equity	1,552,379.61	114,964.01	1,437,415.60	1,250.32
Total Other Income Less Deductions	29,004,089.59	11,905,572.26	17,098,517.33	143.62
Income Before Interest Charges	217,566,609.77	155,117,769.98	62,448,839.79	40.26
Interest on Long Term Debt	40,033,730.73	29,349,442.32	10,684,288.41	36.40
Amortization of Debt Expense - Net	939,513.07	1,014,486.61	(74,973.54)	(7.39)
Other Interest Expenses	5,291,472.30	4,471,566.45	819,905.85	18.34
AFUDC - Borrowed Funds	(563,026.33)	(65,051.90)	(497,974.43)	765.50
Total Interest Charges	45,701,689.77	34,770,443.48	10,931,246.29	31.44
Net Inc Before Cumulative Effect of Acctg Chg	171,864,920.00	120,347,326.50	51,517,593.50	42.81
Cumulative Effect of Accounting Chg Net of Tax	-	3,337,340.49	(3,337,340.49)	(100.00)
Net Income	171,864,920.00	117,009,986.01	54,854,933.99	46.88
Preferred Dividend Requirements	-	708,136.38	(708,136.38)	(100.00)
Earnings Available for Common	171,864,920.00	116,301,849.63	55,563,070.37	47.77

KENTUCKY UTILITIES COMPANY
ANALYSIS OF RETAINED EARNINGS
JUNE 30, 2007

Retained Earnings and Undistributed Earnings	Current Month Total Retained Earnings	Current Month Undistributed Subsidiary Earnings	Year to Date Total Retained Earnings	Year to Date Undistributed Subsidiary Earnings	Year Ended Current Month Total Retained Earnings	Year Ended Current Month Undistributed Subsidiary Earnings
Balance Beginning of Period................	920,745,076.31	20,856,584.00	854,131,027.53	16,248,287.00	765,338,872.87	13,375,072.80
Net Income To Date..........................	9,324,678.36		80,199,551.14		171,864,920.00	
FIN 48 Adjustment............................	-		347,473.00		347,473.00	
Adjust for Equity in Subsidiary Earnings for Year						
-EE Inc....................................	(2,776,837.00)	2,776,837.00	(12,735,134.00)	12,735,134.00	(29,358,348.20)	29,358,348.20
Dividends Rec'd Current Year						
-EE Inc....................................	5,350,000.00	(5,350,000.00)	10,700,000.00	(10,700,000.00)	24,450,000.00	(24,450,000.00)
Balance End of Period......................	932,642,917.67	18,283,421.00	932,642,917.67	18,283,421.00	932,642,917.67	18,283,421.00

Combined Retained Earnings	12 MONTHS 06/30/07	12 MONTHS 6/30/2006
Retained Earnings Beginning of Period.....	778,713,945.67	673,525,485.19
Add Net Income..................................	171,864,920.00	117,009,986.01
FIN 48 Adjustment............................	347,473.00	-
Subtotal..	950,926,338.67	790,535,471.20
Deduct		
Dividends on Preferred Stock.............	-	708,136.38
Dividends on Common Stock..............	-	10,000,000.00
Preferred Stock Redemption Exp	-	1,113,389.15
Other...	-	-
Retained Earnings End of Period...........	950,926,338.67	778,713,945.67

KENTUCKY UTILITIES COMPANY
COMPARATIVE BALANCE SHEETS AS OF JUNE 30, 2007 AND 2006

ASSETS AND OTHER DEBITS	THIS YEAR	LAST YEAR
Utility Plant		
Utility Plant at Original Cost	4,488,335,391.96	3,943,496,149.06
Less Reserves for Depreciation & Amortization	1,881,922,139.48	1,819,290,960.95
Total	2,606,413,252.48	2,124,205,188.11
Investments - At Cost		
Ohio Valley Electric Corporation	250,000.00	250,000.00
Nonutility Property-Less Reserve	968,957.41	895,551.54
Investments in Subsidiary Companies	19,579,221.00	14,670,872.80
Special Funds	5,954,355.79	5,816,776.72
Other	426,140.00	426,140.00
Total	27,178,674.20	22,059,341.06
Current and Accrued Assets		
Cash	5,707,042.51	4,741,305.17
Special Deposits	45,848,214.79	10,093,483.27
Temporary Cash Investments	17,068.39	14.45
Accounts Receivable-Less Reserve	133,383,177.18	112,484,116.30
Notes Receivable from Assoc. Companies	-	-
Accounts Receivable from Assoc Companies	32,153,045.10	17,530,114.39
Materials & Supplies-At Average Cost		
Fuel	67,016,275.94	75,262,144.36
Plant Materials & Operating Supplies	25,920,005.56	25,629,994.41
Stores Expense	6,260,839.26	6,106,462.86
Allowance Inventory	1,952,658.12	3,649,115.74
Prepayments	2,125,248.50	2,416,827.43
Miscellaneous Current & Accrued Assets	205,875.23	1,935,936.75
Total	320,589,450.58	259,849,515.13
Deferred Debits and Other		
Unamortized Debt Expense	6,927,638.90	5,019,922.70
Unamortized Loss on Bonds	10,391,934.95	10,649,698.03
Accumulated Deferred Income Taxes	51,030,685.44	53,093,812.32
Deferred Regulatory Assets	116,145,739.63	31,012,683.27
Other Deferred Debits	75,727,832.84	77,775,447.58
Total	260,223,831.76	177,551,563.90
Total Assets and Other Debits	3,214,405,209.02	2,583,665,608.20

LIABILITIES AND OTHER CREDITS	THIS YEAR	LAST YEAR
Capitalization		
Common Stock	308,139,977.56	308,139,977.56
Common Stock Expense	(321,288.87)	(321,288.87)
Paid-In Capital	15,000,000.00	15,000,000.00
Other Comprehensive Income	-	(19,336,790.74)
Retained Earnings	932,642,917.67	765,338,872.87
Unappropriated Undistributed Subsidiary Earnings	18,283,421.00	13,375,072.80
Total Common Equity	1,273,745,027.36	1,082,195,843.62
Preferred Stock	-	-
Pollution Control Bonds	332,753,140.00	272,563,900.00
Other Long-Term Debt	-	-
LT Notes Payable to Associated Companies	661,000,000.00	433,000,000.00
Long-Term Debt Marked to Market	-	764,260.00
Total Long-Term Debt	993,753,140.00	706,328,160.00
Total Capitalization	2,267,498,167.36	1,788,524,003.62
Current and Accrued Liabilities		
Long-Term Debt Due in 1 Year	-	53,000,000.00
ST Notes Payable to Associated Companies	140,309,054.00	-
Notes Payable	-	-
Notes Payable to Associated Companies	-	52,131,000.00
Accounts Payable	125,307,451.07	80,717,512.43
Accounts Payable to Associated Companies	97,587,487.67	59,255,796.32
Customer Deposits	19,017,426.07	18,224,278.93
Taxes Accrued	(19,762,102.47)	1,575,865.55
Interest Accrued	8,378,789.23	6,336,739.87
Dividends Declared	-	-
Misc. Current & Accrued Liabilities	11,015,174.62	11,948,935.25
Total	381,853,280.19	283,190,128.35
Deferred Credits and Other		
Accumulated Deferred Income Taxes	331,441,274.25	330,266,506.20
Investment Tax Credit	32,478,119.32	1,564,711.32
Regulatory Liabilities	36,378,769.24	31,066,159.19
Customer Advances for Construction	1,948,325.07	1,465,965.56
Asset Retirement Obligations	29,412,034.90	27,672,489.35
Other Deferred Credits	12,417,735.11	20,633,309.45
Misc. Long-Term Liabilities	47,046,090.92	31,942,186.76
Accum Provision for Post-Retirement Benefits	73,931,412.66	67,340,148.40
Total	565,053,761.47	511,951,476.23
Total Liabilities and Other Credits	3,214,405,209.02	2,583,665,608.20

KENTUCKY UTILITIES COMPANY
STATEMENT OF CAPITALIZATION AND SHORT-TERM DEBT
JUNE 30, 2007

	AUTHORIZED	ISSUED & OUTSTANDING		PERCENT OF TOTAL	
	SHARES	SHARES	AMOUNT	CAPITAL & S/T DEBT	CAPITAL
Common Equity					
Common Stock - Without Par	80,000,000	37,817,878	308,139,977.56		
Common Stock Expense			(321,288.87)		
Paid-In Capital			15,000,000.00		
Other Comprehensive Income			-		
Retained Earnings			932,642,917.67		
Unappropriated Undistributed Subsidiary Earnings			18,283,421.00		
Total Common Equity			1,273,745,027.36	52.90	56.17
Long-Term Debt					
PCB 11 DUE 05/01/23 Variable%			12,900,000.00		
PCB 12 DUE 02/01/32 Variable%			20,930,000.00		
PCB 13 DUE 02/01/32 Variable%			2,400,000.00		
PCB 14 DUE 02/01/32 Variable%			2,400,000.00		
PCB 15 DUE 02/01/32 Variable%			7,400,000.00		
PCB 16 DUE 10/01/32 Variable%			96,000,000.00		
PCB 17 DUE 10/01/34 Variable%			50,000,000.00		
PCB 18 DUE 06/01/35 Variable%			13,266,950.00		
PCB 19 DUE 06/01/35 Variable%			13,266,950.00		
PCB 20 DUE 06/01/36 Variable%			16,693,620.00		
PCB 21 DUE 06/01/36 Variable%			16,693,620.00		
PCB 22 DUE 10/01/34 Variable%			54,000,000.00		
PCB CC DUE 02/01/26 Variable%			17,875,000.00		
PCB TC DUE 03/01/37 Variable%			8,927,000.00		
Total Long-Term Debt			332,753,140.00	13.82	14.68
LT Notes Payable to Associated Companies			661,000,000.00	27.45	29.15
Total Capitalization			2,267,498,167.36	94.17	100.00
Long-Term Debt Due in 1 Year			0.00	0.00	
ST Notes Payable to Associated Companies			140,309,054.00	5.83	
Total Capitalization and Short-Term Debt			2,407,807,221.36	100.00	

KENTUCKY UTILITIES COMPANY
TRIAL BALANCE - GENERAL LEDGER
JUNE 30, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
UTILITY PLANT		
At Original Cost	4,488,335,391.96	4,488,335,391.96
Reserves for Depreciation and Amortization		(1,881,922,139.48)
Depreciation	(1,864,520,744.56)	
Amortization of Plant	(17,401,394.92)	
INVESTMENTS - AT COST		27,178,674.20
Nonutility Property	1,025,914.06	
Nonutility Property Reserve	(56,956.65)	
Investments in Subsidiary Companies	19,579,221.00	
Ohio Valley Electric Corporation	250,000.00	
Other	426,140.00	
OMU-Interest on Reserve, New	1,195,750.09	
OMU-R&I on Maintenance Reserve	600,000.00	
OMU-R&I on Additions and Replacements	120,000.00	
OMU-R&I on Operations	538,067.36	
OMU-R&I Interest on Purchase Power	370,541.07	
OMU-Purchase Power, Coal Reserve	3,129,997.27	
CASH		5,707,042.51
Cash Accounts	5,707,042.51	
SPECIAL DEPOSITS		45,848,214.79
Restricted Cash	45,094,519.06	
MAN Margin Call	753,695.73	
TEMPORARY CASH INVESTMENTS		17,068.39
Temporary Cash Investments	17,068.39	
ACCOUNTS RECEIVABLE - LESS RESERVE		133,383,177.18
Working Funds	46,730.00	
Customers-Active	79,121,098.90	
Wholesale Sales	3,206,924.78	
Transmission Receivable	480,124.83	
Unbilled Revenues	41,314,000.00	
PC Purchase Program	93,858.23	
Officers and Employees	1,628.89	
Damage Claims	265,743.84	
Tax Refunds	27,114.00	
IMEA	4,363,636.12	
IMPA	4,637,263.47	
Miscellaneous	1,402,237.75	
Uncollectible Accounts - Charged Off	1,413,742.08	
Uncollectible Accounts - Recovery	(464,926.60)	
Uncollectible Accounts - Reserve	(622,888.00)	
Uncollectible Accounts - Accrual	(948,815.48)	
Uncollectible Accounts - LEM Reserve	(982,712.54)	
Uncollectible Accounts - Miscellaneous	(29,655.00)	
Interest and Dividend Receivable	58,071.91	
ACCOUNTS RECEIVABLE FROM ASSOCIATED COMPANIES		32,153,045.10
E ON US Services/Louisville Gas & Electric Company	32,153,045.10	

KENTUCKY UTILITIES COMPANY
TRIAL BALANCE - GENERAL LEDGER
JUNE 30, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
FUEL		67,016,275.94
Coal 1,230,534.12 Tons @ $50.82; MMBTU 29,706,859.41 @ 210.49¢	62,529,986.83	
Fuel Oil 2,368,307 Gallons @ 174.35¢	4,129,117.62	
Gas Pipeline 45,534.90 MCF @ $7.84	357,171.49	
PLANT MATERIALS AND OPERATING SUPPLIES		25,920,005.56
Regular Materials and Supplies	25,762,470.87	
Limestone 22,024.72 Tons @ $7.15	157,534.69	
STORES EXPENSE		6,260,839.26
Stores Expense Undistributed	6,260,839.26	
ALLOWANCE INVENTORY		1,952,658.12
Allowance Inventory	1,952,658.12	
PREPAYMENTS		2,125,248.50
Insurance	1,456,929.54	
Risk Management and Workers Compensation	75,000.00	
Vehicle License	61,081.38	
Other	532,237.58	
MISCELLANEOUS CURRENT ASSETS		205,875.23
Derivative Asset - Non-Hedging	194,682.70	
Miscellaneous Current Assets	11,192.53	
UNAMORTIZED DEBT EXPENSE		6,927,638.90
Pollution Control Bonds		
KU Series 11, Variable%, Due 5/01/23	273,762.29	
KU Series 12, Variable%, Due 2/01/32	100,812.34	
KU Series 13, Variable%, Due 2/01/32	70,081.62	
KU Series 14, Variable%, Due 2/01/32	78,017.11	
KU Series 15, Variable%, Due 2/01/32	28,118.40	
KU Series 16, Variable%, Due 10/01/32	1,835,808.04	
KU Series 17, Variable%, Due 10/01/34	1,092,049.59	
KU Series 18, Variable%, Due 06/01/35	493,972.30	
KU Series 19, Variable%, Due 06/01/35	502,041.04	
KU Series 20, Variable%, Due 06/01/36	598,336.05	
KU Series 21, Variable%, Due 06/01/36	529,483.32	
KU Series 22, Variable%, Due 10/01/34	910,873.38	
KU Variable%, Due 03/01/37	160,004.30	
KU Variable%, Due 02/01/26	254,279.12	
UNAMORTIZED LOSS ON BONDS		10,391,934.95
Reacquired Debt	10,391,934.95	
ACCUMULATED DEFERRED INCOME TAXES		51,030,685.44
Federal	38,251,031.42	
State	7,241,992.02	
Netting Out Deferred Tax Assets	5,537,662.00	
DEFERRED REGULATORY ASSET		116,145,739.63
Asset Retirement Obligations	23,038,055.08	
FASB 109 - Deferred Taxes	5,707,603.00	
Pension & Postretirement Benefits	65,719,397.95	
Ice Storm Expenses	1,583,190.00	
MISO Exit Fee	20,097,493.60	
OTHER DEFERRED DEBITS	75,727,832.84	75,727,832.84
Total Assets and Other Debits	3,214,405,209.02	3,214,405,209.02

KENTUCKY UTILITIES COMPANY
TRIAL BALANCE - GENERAL LEDGER
JUNE 30, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
COMMON EQUITY		1,273,745,027.36
Common Stock	308,139,977 56	
Common Stock Expense	(321,288 87)	
Paid-In Capital	15,000,000.00	
Retained Earnings	932,642,917 67	
Unappropriated Undistributed Subsidiary Earnings	18,283,421 00	
BONDS		332,753,140.00
Pollution Control Bonds		
KU Series 11, Variable%, Due 05/01/23	12,900,000 00	
KU Series 12, Variable%, Due 2/01/32	20,930,000 00	
KU Series 13, Variable%, Due 2/01/32	2,400,000 00	
KU Series 14, Variable%, Due 2/01/32	2,400,000 00	
KU Series 15, Variable%, Due 2/01/32	7,400,000 00	
KU Series 16, Variable%, Due 10/01/32	96,000,000 00	
KU Series 17, Variable%, Due 10/01/34	50,000,000 00	
KU Series 18, Variable%, Due 06/01/35	13,266,950 00	
KU Series 19, Variable%, Due 06/01/35	13,266,950 00	
KU Series 20, Variable%, Due 06/01/36	16,693,620.00	
KU Series 21, Variable%, Due 06/01/36	16,693,620 00	
KU Series 22, Variable%, Due 10/01/34	54,000,000 00	
KU Variable%, Due 03/01/37	8,927,000 00	
KU Variable%, Due 02/01/26	17,875,000.00	
LT NOTES PAYABLE TO ASSOCIATED COMPANIES	661,000,000 00	661,000,000.00
ST NOTES PAYABLE TO ASSOCIATED COMPANIES		140,309,054.00
Money Pool Payable	140,309,054 00	
ACCOUNTS PAYABLE		125,307,451.07
Regular	120,044,448.05	
Salaries and Wages Accrued	1,506,650 54	
Employee Withholdings Payable	27,377 88	
Tax Collections - Payable	3,728,974 60	
ACCOUNTS PAYABLE TO ASSOCIATED COMPANIES		97,587,487 67
E ON US Services/Louisville Gas & Electric Company	97,587,487.67	
CUSTOMERS' DEPOSITS	19,017,426 07	19,017,426.07
TAXES ACCRUED	(19,762,102 47)	(19,762,102.47)
INTEREST ACCRUED		8,378,789 23
Interest on Long-Term Debt		
KU Series 11, Variable%, Due 05/01/23	13,760.01	
KU Series 12, Variable%, Due 2/01/32	69,728 45	
KU Series 13, Variable%, Due 2/01/32	7,995 62	
KU Series 14, Variable%, Due 2/01/32	7,995.62	
KU Series 15, Variable%, Due 2/01/32	24,653.15	
KU Series 16, Variable%, Due 10/01/32	175,200.01	
KU Series 17, Variable%, Due 10/01/34	21,388.89	
KU Series 18, Variable%, Due 06/01/35	4,090 64	
KU Series 19, Variable%, Due 06/01/35	4,201 21	
KU Series 20, Variable%, Due 06/01/36	43,704.83	
KU Series 21, Variable%, Due 06/01/36	43,704.78	
KU Series 22, Variable%, Due 10/01/34	11,250.00	
Other		
Customer Deposits	248,841 90	
Fidelia	7,702,274.12	

KENTUCKY UTILITIES COMPANY
TRIAL BALANCE - GENERAL LEDGER
JUNE 30, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
MISCELLANEOUS CURRENT AND ACCRUED LIABILITIES		11,015,174.62
Customer Overpayments	1,328,298 67	
UK Emission Research Grant	250.000 00	
Vacation Pay Accrued	5,110,974 64	
Derivative Liabilities - Non-Hedging	435,194 29	
Franchise Fee Payable	3,683,420 67	
Home Energy Assistance	202,930 98	
Other	4,355 37	
ACCUMULATED DEFERRED INCOME TAXES		331,441,274.25
Federal	281,357,579 03	
State	44,546,033 22	
Netting Out Deferred Tax Liabilities	5,537,662 00	
INVESTMENT TAX CREDIT		32,478,119.32
Job Development Credit	728,119 32	
Advance Coal Credit	31,750,000 00	
REGULATORY LIABILITIES		36,378,769.24
Asset Retirement Obligations	2,044,765 21	
Deferred Taxes - FAS 109	29,872,349 50	
Spare Parts	1,185,674 53	
MISO Schedule 10 Charges	3,275,980 00	
CUSTOMERS' ADVANCES FOR CONSTRUCTION		1,948,325.07
Line Extensions	1,942,982 13	
Outdoor Lighting Deposits	4,470 00	
Other	872 94	
ASSET RETIREMENT OBLIGATIONS	29,412,034.90	29,412,034.90
OTHER DEFERRED CREDITS	12,417,735.11	12,417,735.11
MISCELLANEOUS LONG-TERM LIABILITIES		47,046,090.92
Pension Payable	36,482,933 00	
Workers' Compensation	3,565,060 92	
Post Employment Benefits	6,269,872 00	
Uncertain Tax Positions	728,225.00	
ACCUMULATED PROVISION FOR BENEFITS		73,931,412.66
Postretirement Benefits	73,931,412 66	
Total Liabilities and Other Credits	3,214,405,209.02	3,214,405,209.02

KENTUCKY UTILITIES COMPANY
STATEMENT OF CASH FLOWS
JUNE 30, 2007

	Year to Date	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	80,199,551.14	60,155,414.34
Items not requiring cash currently:		
Depreciation	55,098,872.71	54,657,561.63
Amortization	2,808,455.17	2,425,409.04
Deferred income taxes - net	(3,737,227.75)	3,326,657.31
Investment tax credits deferred - net	19,454,344.00	(540,936.00)
Other	2,548,575.80	370,392.13
Change in receivables	7,679,579.27	37,046,759.82
Change in inventory	(2,637,673.78)	(20,613,669.47)
Change in allowance inventory	(282,120.29)	(2,189,428.83)
Change in payables and accrued expenses	(9,182,991.39)	(12,904,400.08)
Change in other regulatory assets	(1,128,896.69)	2,302,061.47
Change in other regulatory liabilities	439,395.76	(558,529.90)
Change in other deferred debits	(11,616,187.75)	(13,799,601.79)
Change in other deferred credits	5,134,593.15	5,147,673.15
Other	534,980.20	(3,117,503.56)
Less: Allowance for other funds used during construction	(1,613,865.33)	(145,254.96)
Less: Undistributed earnings of subsidiary company	(2,035,134.00)	967,441.20
Net cash provided (used) by operating activities	141,664,250.22	112,530,045.50
CASH FLOWS FROM INVESTING ACTIVITIES		
Gross additions to utility plant - construction expenditures	(312,652,118.10)	(120,856,814.20)
Less: Allowance for other funds used during construction	1,613,865.33	145,254.96
Change in other long-term debt	(433,540.00)	(1,276,240.00)
Change in long-term investments	(249,456.26)	(203,897.44)
Change in restricted cash	(23,041,230.88)	11,504,747.07
Net cash provided (used) by investing activities	(334,762,479.91)	(110,686,949.61)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	257,243,297.39	49,820,993.37
Net increase in short-term debt	43,266,000.00	-
Payments for retirement of long-term debt	(107,000,000.00)	(36,000,000.00)
Net decrease in short-term debt	-	(17,534,000.00)
Net cash provided (used) by financing activities	193,509,297.39	(3,713,006.63)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	411,067.70	(1,869,910.74)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	5,313,043.20	6,611,645.74
CASH AND CASH EQUIVALENTS AT END OF PERIOD	5,724,110.90	4,741,735.00

KENTUCKY UTILITIES COMPANY
ANALYSIS OF INTEREST CHARGES
JUNE 30, 2007

	CURRENT MONTH		YEAR TO DATE		YEAR ENDED CURRENT MONTH	
	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR
Interest On Long-Term Debt						
First Mortgage Bonds						
Series P 7.92%	-	349,800.00	1,574,100.00	2,098,800.00	3,672,900.00	4,197,600.00
Series R 7.55%	-	-	-	-	-	-
Series S 5.99%	-	-	-	89,850.00	-	1,168,050.00
Loan Agreement - Poll. Control Bonds						
Series 10 (VARIABLE%)	-	173,317.81	981,941.93	914,597.27	1,995,292.62	1,662,016.44
Series 11 (VARIABLE%)	-	38,700.03	-	217,096.29	240,894.96	394,077.13
Series 12 (VARIABLE%)	2,677.89	63,306.08	389,527.39	353,109.17	777,259.97	653,262.58
Series 13 (VARIABLE%)	307.06	7,259.18	44,666.30	40,490.30	89,126.79	74,908.28
Series 14 (VARIABLE%)	307.06	7,259.18	44,666.30	40,490.30	89,126.77	74,908.28
Series 15 (VARIABLE%)	946.80	22,382.46	137,721.09	124,845.09	274,807.62	230,967.16
Series 16 (VARIABLE%)	291,680.00	274,399.97	1,731,199.99	1,564,053.31	3,593,613.33	2,959,613.27
Series 17 (VARIABLE%)	156,805.56	148,416.63	915,729.18	837,518.02	1,828,569.46	1,504,574.91
Series 18 (VARIABLE%)	41,411.31	39,722.72	242,994.53	221,800.33	484,223.04	392,991.39
Series 19 (VARIABLE%)	41,831.43	39,701.35	243,515.23	220,368.11	484,695.47	269,780.86
Series 20 (VARIABLE%)	52,515.35	-	311,034.61	-	590,835.91	-
Series 21 (VARIABLE%)	52,559.40	-	310,839.81	-	353,733.14	-
Series 22 (VARIABLE%)	168,225.00	-	705,765.00	-	705,765.00	-
PCB CC (VARIABLE%)	28,003.50	-	35,551.77	-	35,551.77	-
PCB TC (VARIABLE%)	56,410.52	-	71,554.62	-	71,554.62	-
Interest Rate Swaps	-	(30,033.33)	(86,856.15)	(269,531.44)	(164,947.72)	(770,510.79)
Marked to Market	-	(127,069.00)	(328,589.00)	(599,633.00)	(656,608.00)	(922,025.00)
Fidelia	2,751,977.76	1,613,183.32	14,666,949.40	9,316,266.66	26,026,757.73	17,459,227.81
Hardin Promissory Note	41,351.67	-	(459,421.75)	-	(459,421.75)	-
Total	3,687,010.31	2,620,346.40	21,532,890.25	15,170,120.41	40,033,730.73	29,349,442.32
Amortization of Debt Expense - Net						
Amortization of Debt Expense	27,305.09	19,963.00	188,072.97	119,194.00	316,709.17	248,038.44
Amort. of Loss on Reacquired Debt	36,378.00	53,751.00	300,297.90	366,698.87	622,803.90	766,448.17
Total	63,683.09	73,714.00	488,370.87	485,892.87	939,513.07	1,014,486.61
Other Interest Charges						
Customers' Deposits	88,836.12	100,101.72	563,372.91	526,008.21	1,036,293.19	996,220.75
Other Tax Deficiencies	-	-	456.08	-	456.08	871,229.00
Interest on Debt to Associated Companies	901,703.95	351,277.03	3,049,207.32	1,843,265.39	4,149,031.36	2,519,067.13
AFUDC Borrowed Funds	(59,065.01)	(14,962.87)	(359,354.93)	(59,080.10)	(563,026.33)	(65,051.90)
Other Interest Expense	4.59	700.00	301.29	4,000.00	105,691.67	85,049.57
Total	931,479.65	437,115.88	3,253,982.67	2,314,193.50	4,728,445.97	4,406,514.55
Total Interest	4,682,173.05	3,131,176.28	25,275,243.79	17,970,206.78	45,701,689.77	34,770,443.48

KENTUCKY UTILITIES COMPANY
ANALYSIS OF TAXES CHARGED
JUNE 30, 2007

Kind of Taxes	Current Month This Year	Current Month Last Year	Year To Date This Year	Year To Date Last Year
Taxes Charged to Accounts 408.1 and 409.1				
Property Taxes	1,015,660.05	984,655.68	5,593,169.05	5,728,491.37
Unemployment	60,026.62	20,855.02	168,670.62	110,769.69
Federal Old Age and Survivors Insurance	534,559.25	300,564.22	2,839,236.79	2,716,997.31
Public Service Commission Fee	138,724.61	117,195.56	832,347.71	703,173.41
Federal Income	(1,586,818.83)	3,046,158.54	21,210,945.68	21,883,124.53
State Income	1,056,693.99	(4,218.92)	7,142,887.36	4,199,910.34
Miscellaneous	(106,153.18)	1,650.56	(82,025.55)	24,203.24
Total Charged to Operating Expense	1,112,692.51	4,466,860.66	37,705,231.66	35,366,669.89
Taxes Charged to Other Accounts	(825,755.59)	(1,119,324.72)	449,773.58	1,862,618.59
Taxes Accrued on Intercompany Accounts	(203,841.48)	(200,173.82)	(1,223,992.12)	(1,150,164.32)
Total Taxes Charged	83,095.44	3,147,362.12	36,931,013.12	36,079,124.16

ANALYSIS OF TAXES ACCRUED - ACCOUNT 236

Kind of Taxes	Taxes Accrued At Beginning Of Year	Accruals To Date This Year	Payments To Date This Year	Taxes Accrued At End Of Month
Property Taxes	11,128,630.22	5,683,601.97	10,614,769.30	6,197,462.89
Unemployment	31,909.04	67,664.89	90,897.56	8,676.37
Federal Old Age and Survivors	436,199.68	2,536,559.26	2,714,101.31	258,657.63
Federal Income	(11,303,186.47)	20,370,545.26	40,234,636.20	(31,167,277.41)
State Income	4,945,219.18	7,023,555.70	7,293,776.00	4,674,998.88
Kentucky Sales and Use Tax	244,273.64	1,154,775.45	1,133,669.92	265,379.17
Miscellaneous	0.00	94,310.59	94,310.59	-
Totals	5,483,045.29	36,931,013.12	62,176,160.88	(19,762,102.47)

KENTUCKY UTILITIES COMPANY
SUMMARY OF UTILITY PLANT
JUNE 30, 2007

	NET BALANCE FIRST OF YEAR	ADDITIONS	RETIREMENTS	TRANSFER/ ADJUSTMENT	NET ADDITIONS	BALANCE TO DATE
UTILITY PLANT						
Plant In Service						
Intangibles	25,650,657.82	1,739,100.62	-	-	1,739,100.62	27,389,758.44
Steam Production	1,528,205,107.62	147,359,159.53	(11,282,979.13)	(271.13)	136,075,909.27	1,664,281,016.89
Hydro Production	9,946,337.38	205,248.20	-	-	205,248.20	10,151,585.58
Other Production	490,394,644.70	7,866,179.87	(1,474,227.80)	-	6,391,952.07	496,786,596.77
Transmission	506,489,863.16	3,062,234.73	(294,707.10)	(65,223.94)	2,702,303.69	509,192,166.85
Distribution	1,013,864,108.52	4,798,602.24	(1,224,817.82)	(16,962.03)	3,556,822.39	1,017,420,930.91
General	82,323,413.89	1,515,434.70	(2,862,546.56)	(233,879.71)	(1,580,991.57)	80,742,422.32
Transportation	23,860,353.39	78,801.10	(4,934,986.29)	(48,370.31)	(4,904,555.50)	18,955,797.89
Total Electric Plant In Service	3,680,734,486.48	166,624,760.99	(22,074,264.70)	(364,707.12)	144,185,789.17	3,824,920,275.65
Plant Purchased or Sold	-					-
Total Plant	3,680,734,486.48	166,624,760.99	(22,074,264.70)	(364,707.12)	144,185,789.17	3,824,920,275.65
Construction Work In Progress	487,243,640.21	176,171,476.10	-	-	176,171,476.10	663,415,116.31
Total Utility Plant at Original Cost	4,167,978,126.69	342,796,237.09	(22,074,264.70)	(364,707.12)	320,357,265.27	4,488,335,391.96

RESERVE FOR DEPRECIATION OF UTILITY	NET BALANCE FIRST OF YEAR	ACCRUAL	RETIREMENTS	TRANSFER/ ADJUSTMENT	RWIP TRANSFERS OUT	COST OF REMOVAL	SALVAGE	OTHER CREDITS	BALANCE TO DATE
Life Reserves									
Steam Production	(835,316,309.29)	(18,518,275.64)	11,282,979.13	-	-	-	-	(18,500.00)	(842,570,105.80)
Hydro Production	(7,418,715.60)	(60,551.65)	-	-	-	-	-	-	(7,479,267.25)
Other Production	(100,459,175.61)	(8,524,057.30)	1,474,227.80	-	-	-	-	-	(107,509,005.11)
Transmission	(193,145,219.41)	(4,498,888.24)	294,707.10	-	-	-	-	(394,550.48)	(197,743,951.03)
Distribution	(339,507,651.05)	(11,191,867.70)	1,224,817.82	6,549.60	-	-	-	(451,053.71)	(349,919,205.04)
General	(29,777,581.81)	(4,205,419.79)	2,862,546.56	(6,549.60)	-		-	-	(31,127,004.64)
Transportation	(23,717,823.29)	(29,325.86)	4,934,986.29	-	-		-	-	(18,812,162.86)
Total Life Reserve For Depreciation Of Utility Plant In Service	(1,529,342,476.06)	(47,028,386.18)	22,074,264.70	-	-	-	-	(864,104.19)	(1,555,160,701.73)
Salvage Reserves					-				
Steam Production	(62,263,334.97)	(2,569,480.45)		-	-	1,498,349.86	-	-	(63,334,465.56)
Hydro Production	(748,788.82)	(19,215.79)		-	-	-	-	-	(768,004.61)
Other Production	(1,319,813.89)	-		-	-	110,096.87	-	-	(1,209,717.02)
Transmission	(110,346,842.22)	(3,065,329.67)		-	-	164,098.26	(13,416.64)		(113,261,490.27)
Distribution	(131,526,999.25)	(4,376,192.16)	-		-	749,376.82	(76,784.80)	-	(135,230,599.39)
General	164,993.50	10,541.12	-		-	46,920.78	(3,000.00)	-	219,455.40
Total Salvage Reserve For Depreciation Of Utility Plant In Service	(306,040,785.65)	(10,019,676.95)	-	-	-	2,568,842.59	(93,201.44)	-	(313,584,821.45)
Total Reserves									
Steam Production	(897,579,644.26)	(21,087,756.09)	11,282,979.13	-	-	1,498,349.86	-	(18,500.00)	(905,904,571.36)
Hydro Production	(8,167,504.42)	(79,767.44)	-	-	-	-	-	-	(8,247,271.86)
Other Production	(101,778,989.50)	(8,524,057.30)	1,474,227.80	-	-	110,096.87	-	-	(108,718,722.13)
Transmission	(303,492,061.63)	(7,564,217.91)	294,707.10	-	-	164,098.26	(13,416.64)	(394,550.48)	(311,005,441.30)
Distribution	(471,034,650.30)	(15,568,059.86)	1,224,817.82	6,549.60	-	749,376.82	(76,784.80)	(451,053.71)	(485,149,804.43)
General	(29,612,588.31)	(4,194,878.67)	2,862,546.56	(6,549.60)	-	46,920.78	(3,000.00)	-	(30,907,549.24)
Transportation	(23,717,823.29)	(29,325.86)	4,934,986.29	-	-	-	-	-	(18,812,162.86)
Total Life Reserve For Depreciation Of Utility Plant In Service	(1,835,383,261.70)	(57,048,063.13)	22,074,264.70	-	-	2,568,842.59	(93,201.44)	(864,104.19)	(1,868,745,523.18)
Retirement of Work in Progress	(35,953.69)	-	-	2,719,729.37	(1,611,536.96)	4,556,301.57	(417,417.24)	(986,344.44)	4,224,778.61
YTD Activity	(1,835,419,215.39)	(57,048,063.13)	22,074,264.70	2,719,729.37	(1,611,536.96)	7,125,144.16	(510,618.68)	(1,850,448.63)	(1,864,520,744.56)
Intangibles	(14,592,939.75)	(2,808,455.17)	-	-	-	-	-	-	(17,401,394.92)
Leaseholds	-	-	-	-	-	-	-	-	-
Amortization - Utility Plant In Service	(1,850,012,155.14)	(59,856,518.30)	22,074,264.70	2,719,729.37	(1,611,536.96)	7,125,144.16	(510,618.68)	(1,850,448.63)	(1,881,922,139.48)
Utility Plant at Original Cost Less Reserve For Depreciation and Amortization	2,639,057,291.20								2,606,413,252.48

KU Monthly Report to KPSC – May 31, 2007

KENTUCKY UTILITIES COMPANY

Financial Reports

May 31, 2007

Prepared by Regulatory Accounting and Reporting

KENTUCKY UTILITIES COMPANY
COMPARATIVE STATEMENT OF INCOME
MAY 31, 2007

	CURRENT MONTH			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	101,751,806.08	94,570,292.11	7,181,513.97	7.59
Total Operating Revenues	101,751,806.08	94,570,292.11	7,181,513.97	7.59
Operating Expenses				
Fuel	33,213,270.08	32,408,516.82	804,753.26	2.48
Power Purchased	15,792,776.44	14,215,402.56	1,577,373.88	11.10
Other Operation Expenses	12,831,258.10	13,034,970.92	(203,712.82)	(1.56)
Maintenance	7,195,879.25	7,305,316.74	(109,437.49)	(1.50)
Depreciation	9,223,976.56	9,232,562.47	(8,585.91)	(0.09)
Amortization Expense	479,715.52	420,558.85	59,156.67	14.07
Regulatory Credits	(179,631.83)	(170,484.54)	(9,147.29)	5.37
Taxes				
Federal Income	-	-	-	-
State Income	-	-	-	-
Deferred Federal Income - Net	-	-	-	-
Deferred State Income - Net	-	-	-	-
Federal Income - Estimated	5,340,434.05	4,164,349.67	1,176,084.38	28.24
State Income - Estimated	1,027,006.54	934,309.22	92,697.32	9.92
Property and Other	1,665,385.79	1,677,821.60	(12,435.81)	(0.74)
Investment Tax Credit	-	-	-	-
Loss (Gain) from Disposition of Allowances	-	-	-	-
Accretion Expense	155,089.06	145,634.44	9,454.62	6.49
Total Operating Expenses	86,745,159.56	83,368,958.75	3,376,200.81	4.05
Net Operating Income	15,006,646.52	11,201,333.36	3,805,313.16	33.97
Other Income Less Deductions				
Other Income Less Deductions	2,006,433.45	1,722,073.13	284,360.32	16.51
AFUDC - Equity	268,543.13	18,629.03	249,914.10	1,341.53
Total Other Income Less Deductions	2,274,976.58	1,740,702.16	534,274.42	30.69
Income Before Interest Charges	17,281,623.10	12,942,035.52	4,339,587.58	33.53
Interest on Long Term Debt	3,758,663.56	2,947,661.07	811,002.49	27.51
Amortization of Debt Expense - Net	67,885.88	82,554.87	(14,668.99)	(17.77)
Other Interest Expenses	1,166,325.75	388,659.47	777,666.28	200.09
AFUDC - Borrowed Funds	(77,218.15)	(12,740.77)	(64,477.38)	506.07
Total Interest Charges	4,915,657.04	3,406,134.64	1,509,522.40	44.32
Net Inc Before Cumulative Effect of Acctg Chg	12,365,966.06	9,535,900.88	2,830,065.18	29.68
Cumulative Effect of Accounting Chg Net of Tax	-	-	-	-
Net Income	12,365,966.06	9,535,900.88	2,830,065.18	29.68
Preferred Dividend Requirements	-	-	-	-
Earnings Available for Common	12,365,966.06	9,535,900.88	2,830,065.18	29.68

KENTUCKY UTILITIES COMPANY
COMPARATIVE STATEMENT OF INCOME
MAY 31, 2007

	YEAR TO DATE			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	515,847,937.55	464,982,869.70	50,865,067.85	10.94
Total Operating Revenues	515,847,937.55	464,982,869.70	50,865,067.85	10.94
Operating Expenses				
Fuel	176,210,135.09	154,859,445.93	21,350,689.16	13.79
Power Purchased	75,536,878.71	75,329,549.23	207,329.48	0.28
Other Operation Expenses	61,448,892.22	72,617,073.12	(11,168,180.90)	(15.38)
Maintenance	30,504,303.77	29,831,922.49	672,381.28	2.25
Depreciation	45,572,565.66	45,422,389.11	150,176.55	0.33
Amortization Expense	2,323,271.18	2,026,888.00	296,383.18	14.62
Regulatory Credits	(843,358.64)	(851,515.81)	8,157.17	(0.96)
Taxes				
Federal Income	11,861,155.67	12,383,409.24	(522,253.57)	(4.22)
State Income	3,803,634.80	2,756,215.89	1,047,418.91	38.00
Deferred Federal Income - Net	(2,472,094.14)	1,785,122.36	(4,257,216.50)	(238.48)
Deferred State Income - Net	(275,696.04)	324,848.53	(600,544.57)	(184.87)
Federal Income - Estimated	10,936,608.84	6,453,556.75	4,483,052.09	69.47
State Income - Estimated	2,282,558.57	1,447,913.37	834,645.20	57.64
Property and Other	7,708,581.27	7,858,713.98	(150,132.71)	(1.91)
Investment Tax Credit	9,875,000.00	-	9,875,000.00	100.00
Loss (Gain) from Disposition of Allowances	(706,851.51)	(1,283,929.13)	577,077.62	(44.95)
Accretion Expense	775,739.30	728,172.23	47,567.07	6.53
Total Operating Expenses	434,541,324.75	411,689,775.29	22,851,549.46	5.55
Net Operating Income	81,306,612.80	53,293,094.41	28,013,518.39	52.57
Other Income Less Deductions				
Other Income Less Deductions	9,112,884.27	9,978,923.61	(866,039.34)	(8.68)
AFUDC - Equity	1,048,446.45	64,296.65	984,149.80	1,530.64
Total Other Income Less Deductions	10,161,330.72	10,043,220.26	118,110.46	1.18
Income Before Interest Charges	91,467,943.52	63,336,314.67	28,131,628.85	44.42
Interest on Long Term Debt	17,845,879.94	12,549,774.01	5,296,105.93	42.20
Amortization of Debt Expense - Net	424,687.78	412,178.87	12,508.91	3.03
Other Interest Expenses	2,622,792.94	1,921,194.85	701,598.09	36.52
AFUDC - Borrowed Funds	(300,289.92)	(44,117.23)	(256,172.69)	580.66
Total Interest Charges	20,593,070.74	14,839,030.50	5,754,040.24	38.78
Net Inc Before Cumulative Effect of Acctg Chg	70,874,872.78	48,497,284.17	22,377,588.61	46.14
Cumulative Effect of Accounting Chg Net of Tax	-	-	-	-
Net Income	70,874,872.78	48,497,284.17	22,377,588.61	46.14
Preferred Dividend Requirements	-	-	-	-
Earnings Available for Common	70,874,872.78	48,497,284.17	22,377,588.61	46.14

KENTUCKY UTILITIES COMPANY
COMPARATIVE STATEMENT OF INCOME
MAY 31, 2007

	YEAR ENDED CURRENT MONTH			
	THIS YEAR AMOUNT	LAST YEAR AMOUNT	INCREASE OR DECREASE AMOUNT	%
Electric Operating Revenues	1,260,884,352.42	1,223,962,223.06	36,922,129.36	3.02
Total Operating Revenues	1,260,884,352.42	1,223,962,223.06	36,922,129.36	3.02
Operating Expenses				
Fuel	444,343,834.13	402,343,365.90	42,000,468.23	10.44
Power Purchased	182,652,384.27	219,141,091.51	(36,488,707.24)	(16.65)
Other Operation Expenses	153,732,746.22	209,422,403.39	(55,689,657.17)	(26.59)
Maintenance	73,549,627.34	69,585,514.41	3,964,112.93	5.70
Depreciation	110,085,931.18	108,993,742.26	1,092,188.92	1.00
Amortization Expense	5,368,997.08	5,172,761.07	196,236.01	3.79
Regulatory Credits	(2,036,117.23)	(7,307,646.71)	5,271,529.48	(72.14)
Taxes				
Federal Income	48,174,271.44	49,876,811.12	(1,702,539.68)	(3.41)
State Income	12,422,990.88	9,305,184.64	3,117,806.24	33.51
Deferred Federal Income - Net	(4,461,586.84)	(1,930,149.96)	(2,531,436.88)	131.15
Deferred State Income - Net	274,520.86	(296,228.67)	570,749.53	(192.67)
Federal Income - Estimated	4,483,052.09	1,440,767.28	3,042,284.81	211.16
State Income - Estimated	834,645.20	133,083.35	701,561.85	527.16
Property and Other	18,452,935.08	17,044,241.99	1,408,693.09	8.26
Investment Tax Credit	21,875,000.00	-	21,875,000.00	100.00
Loss (Gain) from Disposition of Allowances	(706,851.51)	(1,283,929.13)	577,077.62	(44.95)
Accretion Expense	1,795,182.06	1,537,925.23	257,256.83	16.73
Total Operating Expenses	1,070,841,562.25	1,083,178,937.68	(12,337,375.43)	(1.14)
Net Operating Income	190,042,790.17	140,783,285.38	49,259,504.79	34.99
Other Income Less Deductions				
Other Income Less Deductions	26,938,080.77	9,234,774.36	17,703,306.41	191.70
AFUDC - Equity	1,368,193.87	96,741.88	1,271,451.99	1,314.27
Total Other Income Less Deductions	28,306,274.64	9,331,516.24	18,974,758.40	203.34
Income Before Interest Charges	218,349,064.81	150,114,801.62	68,234,263.19	45.45
Interest on Long Term Debt	38,967,066.82	26,882,804.20	12,084,262.62	44.95
Amortization of Debt Expense - Net	949,543.98	2,914,991.24	(1,965,447.26)	(67.43)
Other Interest Expenses	4,753,006.39	4,283,528.22	469,478.17	10.96
AFUDC - Borrowed Funds	(518,924.19)	(50,874.60)	(468,049.59)	920.01
Total Interest Charges	44,150,693.00	34,030,449.06	10,120,243.94	29.74
Net Inc Before Cumulative Effect of Acctg Chg	174,198,371.81	116,084,352.56	58,114,019.25	50.06
Cumulative Effect of Accounting Chg Net of Tax	-	3,337,340.49	(3,337,340.49)	(100.00)
Net Income	174,198,371.81	112,747,012.07	61,451,359.74	54.50
Preferred Dividend Requirements	-	896,136.38	(896,136.38)	(100.00)
Earnings Available for Common	174,198,371.81	111,850,875.69	62,347,496.12	55.74

KENTUCKY UTILITIES COMPANY
ANALYSIS OF RETAINED EARNINGS
MAY 31, 2007

Retained Earnings and Undistributed Earnings	Current Month Total Retained Earnings	Current Month Undistributed Subsidiary Earnings	Year to Date Total Retained Earnings	Year to Date Undistributed Subsidiary Earnings	Year Ended Current Month Total Retained Earnings	Year Ended Current Month Undistributed Subsidiary Earnings
Balance Beginning of Period................	910,723,554.25	18,512,140.00	854,131,027.53	16,248,287.00	755,224,434.70	11,831,380.80
Net Income To Date..........................	12,365,966.06		70,874,872.78		174,198,371.81	
FIN 48 Adjustment............................	-		347,473.00		347,473.00	
Adjust for Equity in Subsidiary Earnings for Year						
-EE Inc....................................	(2,344,444.00)	2,344,444.00	(9,958,297.00)	9,958,297.00	(28,125,203.20)	28,125,203.20
Dividends Rec'd Current Year						
-EE Inc....................................	-	-	5,350,000.00	(5,350,000.00)	19,100,000.00	(19,100,000.00)
Balance End of Period........................	920,745,076.31	20,856,584.00	920,745,076.31	20,856,584.00	920,745,076.31	20,856,584.00

Combined Retained Earnings	12 MONTHS 05/31/07	12 MONTHS 5/31/2006
Retained Earnings Beginning of Period.....	767,055,815.50	676,318,328.96
Add Net Income..............................	174,198,371.81	112,747,012.07
FIN 48 Adjustment............................	347,473.00	-
Subtotal....................................	941,601,660.31	789,065,341.03
Deduct		
Dividends on Preferred Stock............	-	896,136.38
Dividends on Common Stock..............	-	20,000,000.00
Preferred Stock Redemption Exp	-	1,113,389.15
Other..	-	-
Retained Earnings End of Period............	941,601,660.31	767,055,815.50

KENTUCKY UTILITIES COMPANY
COMPARATIVE BALANCE SHEETS AS OF MAY 31, 2007 AND 2006

ASSETS AND OTHER DEBITS	THIS YEAR	LAST YEAR
Utility Plant		
Utility Plant at Original Cost	4,426,618,552.21	3,910,762,898.37
Less Reserves for Depreciation & Amortization	1,879,446,292.95	1,814,917,618.16
Total	2,547,172,259.26	2,095,845,280.21
Investments - At Cost		
Ohio Valley Electric Corporation	250,000.00	250,000.00
Nonutility Property-Less Reserve	968,991.61	895,585.74
Investments in Subsidiary Companies	22,152,384.00	13,127,180.80
Special Funds	7,834,873.45	6,013,128.15
Other	426,140.00	426,140.00
Total	31,632,389.06	20,712,034.69
Current and Accrued Assets		
Cash	3,868,034.12	7,291,264.12
Special Deposits	47,190,191.86	11,838,036.34
Temporary Cash Investments	16,997.67	14.45
Accounts Receivable-Less Reserve	122,285,820.10	114,156,452.76
Notes Receivable from Assoc. Companies	-	-
Accounts Receivable from Assoc Companies	13,290,185.68	17,775,266.87
Materials & Supplies-At Average Cost		
Fuel	68,536,308.35	74,027,306.62
Plant Materials & Operating Supplies	25,711,016.87	25,372,017.84
Stores Expense	6,070,638.78	6,122,231.24
Allowance Inventory	2,220,588.42	3,972,260.87
Prepayments	2,828,075.34	2,882,875.31
Miscellaneous Current & Accrued Assets	1,389,419.28	1,669,660.81
Total	293,407,276.47	265,107,387.23
Deferred Debits and Other		
Unamortized Debt Expense	6,915,437.38	5,039,885.70
Unamortized Loss on Bonds	10,428,312.95	10,703,449.03
Accumulated Deferred Income Taxes	45,723,507.74	53,160,003.38
Deferred Regulatory Assets	115,774,512.81	30,875,395.61
Other Deferred Debits	79,863,243.88	70,235,855.52
Total	258,705,014.76	170,014,589.24
Total Assets and Other Debits	3,130,916,939.55	2,551,679,291.37

LIABILITIES AND OTHER CREDITS	THIS YEAR	LAST YEAR
Capitalization		
Common Stock	308,139,977.56	308,139,977.56
Common Stock Expense	(321,288.87)	(321,288.87)
Paid-In Capital	15,000,000.00	15,000,000.00
Other Comprehensive income	-	(19,336,790.74)
Retained Earnings	920,745,076.31	755,224,434.70
Unappropriated Undistributed Subsidiary Earnings	20,856,584.00	11,831,380.80
Total Common Equity	1,264,420,349.00	1,070,537,713.45
Preferred Stock	-	-
Pollution Control Bonds	332,753,140.00	272,563,900.00
Other Long-Term Debt	-	-
LT Notes Payable to Associated Companies	611,000,000.00	383,000,000.00
Long-Term Debt Marked to Market	-	961,950.00
Total Long-Term Debt	943,753,140.00	656,525,850.00
Total Capitalization	2,208,173,489.00	1,727,063,563.45
Current and Accrued Liabilities		
Long-Term Debt Due in 1 Year	-	53,000,000.00
ST Notes Payable to Associated Companies	127,047,054.00	-
Notes Payable	-	-
Notes Payable to Associated Companies	-	102,963,000.00
Accounts Payable	120,107,085.02	77,569,932.58
Accounts Payable to Associated Companies	81,310,734.41	32,032,690.57
Customer Deposits	18,872,010.38	17,904,723.06
Taxes Accrued	6,206,445.61	16,358,200.76
Interest Accrued	9,365,777.80	6,317,468.94
Dividends Declared	-	-
Misc. Current & Accrued Liabilities	11,122,897.34	10,053,710.03
Total	374,032,004.56	316,199,725.94
Deferred Credits and Other		
Accumulated Deferred Income Taxes	328,775,200.23	330,371,901.09
Investment Tax Credit	22,652,395.32	1,654,867.32
Regulatory Liabilities	37,002,907.98	30,708,003.82
Customer Advances for Construction	1,965,662.24	1,486,150.93
Asset Retirement Obligations	29,256,945.84	27,526,854.91
Other Deferred Credits	8,175,756.80	17,367,628.98
Misc. Long-Term Liabilities	46,913,039.58	31,935,747.02
Accum Provision for Post-Retirement Benefits	73,969,538.00	67,364,847.91
Total	548,711,445.99	508,416,001.98
Total Liabilities and Other Credits	3,130,916,939.55	2,551,679,291.37

KENTUCKY UTILITIES COMPANY
STATEMENT OF CAPITALIZATION AND SHORT-TERM DEBT
MAY 31, 2007

	AUTHORIZED SHARES	ISSUED & OUTSTANDING SHARES	ISSUED & OUTSTANDING AMOUNT	PERCENT OF TOTAL CAPITAL & S/T DEBT	PERCENT OF TOTAL CAPITAL
Common Equity					
Common Stock - Without Par	80,000,000	37,817,878	308,139,977.56		
Common Stock Expense			(321,288.87)		
Paid-In Capital			15,000,000.00		
Other Comprehensive Income			-		
Retained Earnings			920,745,076.31		
Unappropriated Undistributed Subsidiary Earnings			20,856,584.00		
Total Common Equity			1,264,420,349.00	54.15	57.26
Long-Term Debt					
PCB 11 DUE 05/01/23 Variable%			12,900,000.00		
PCB 12 DUE 02/01/32 Variable%			20,930,000.00		
PCB 13 DUE 02/01/32 Variable%			2,400,000.00		
PCB 14 DUE 02/01/32 Variable%			2,400,000.00		
PCB 15 DUE 02/01/32 Variable%			7,400,000.00		
PCB 16 DUE 10/01/32 Variable%			96,000,000.00		
PCB 17 DUE 10/01/34 Variable%			50,000,000.00		
PCB 18 DUE 06/01/35 Variable%			13,266,950.00		
PCB 19 DUE 06/01/35 Variable%			13,266,950.00		
PCB 20 DUE 06/01/36 Variable%			16,693,620.00		
PCB 21 DUE 06/01/36 Variable%			16,693,620.00		
PCB 22 DUE 10/01/34 Variable%			54,000,000.00		
PCB CC DUE 02/01/26 Variable%			17,875,000.00		
PCB TC DUE 03/01/37 Variable%			8,927,000.00		
Total Long-Term Debt			332,753,140.00	14.25	15.07
LT Notes Payable to Associated Companies			611,000,000.00	26.16	27.67
Total Capitalization			2,208,173,489.00	94.56	100.00
ST Notes Payable to Associated Companies			127,047,054.00	5.44	
Total Capitalization and Short-Term Debt			2,335,220,543.00	100.00	

KENTUCKY UTILITIES COMPANY
TRIAL BALANCE - GENERAL LEDGER
MAY 31, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
UTILITY PLANT		
At Original Cost	4,426,618,552 21	4,426,618,552.21
Reserves for Depreciation and Amortization		(1,879,446,292 95)
Depreciation	(1,862,530,082 02)	
Amortization of Plant	(16,916,210.93)	
INVESTMENTS - AT COST		31,632,389 06
Nonutility Property	1,025,914 06	
Nonutility Property Reserve	(56,922 45)	
Investments in Subsidiary Companies	22,152,384 00	
Ohio Valley Electric Corporation	250,000.00	
Other	426,140 00	
Special Funds	1,916,242.32	
OMU-Interest on Reserve, New	1,184,525 43	
OMU-R&I on Maintenance Reserve	600,000 00	
OMU-R&I on Additions and Replacements	120,000 00	
OMU-R&I on Operations	538,067.36	
OMU-R&I Interest on Purchase Power	346,041 07	
OMU-Purchase Power, Coal Reserve	3,129,997 27	
CASH		3,868,034 12
Cash Accounts	3,868,034 12	
SPECIAL DEPOSITS		47,190,191 86
Special Deposits	542 90	
Restricted Cash	47,189,648.96	
TEMPORARY CASH INVESTMENTS		16,997 67
Temporary Cash Investments	16,997.67	
ACCOUNTS RECEIVABLE - LESS RESERVE		122,285,820 10
Working Funds	47,030.00	
Customers-Active	68,040,329.72	
Wholesale Sales	5,601,546.00	
Transmission Receivable	593,552.74	
Unbilled Revenues	40,027,000.00	
PC Purchase Program	96,475 78	
Officers and Employees	12.67	
Damage Claims	194,594.58	
Tax Refunds	58,790.54	
Insurance Claims	3,698 78	
IMEA	3,633,245 05	
IMPA	3,861,072 29	
Miscellaneous	1,053,162.31	
Uncollectible Accounts - Charged Off	1,107,103 95	
Uncollectible Accounts - Recovery	(403,530.62)	
Uncollectible Accounts - Reserve	(661,136.00)	
Uncollectible Accounts - Accrual	(703,573.33)	
Uncollectible Accounts - LEM Reserve	(959,692 89)	
Uncollectible Accounts - Miscellaneous	(42,908 00)	
Interest and Dividend Receivable	739,046 53	
ACCOUNTS RECEIVABLE FROM ASSOCIATED COMPANIES		13,290,185 68
E ON US Services/Louisville Gas & Electric Company	13,290,185 68	

KENTUCKY UTILITIES COMPANY
TRIAL BALANCE - GENERAL LEDGER
MAY 31, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
FUEL		68,536,308 35
Coal 1,280,562 06 Tons @ $50 41; MMBTU 30,898,457 24 @ 208 90¢	64,546,910 75	
Fuel Oil 2,299,616 Gallons @ 170 68¢	3,924,917 05	
Gas Pipeline 8,521 MCF @ $7 57	64,480 55	
PLANT MATERIALS AND OPERATING SUPPLIES		25,711,016.87
Regular Materials and Supplies	25,507,331 38	
Limestone 28,279.72 Tons @ $7 20	203,685 49	
STORES EXPENSE		6,070,638 78
Stores Expense Undistributed	6,070,638 78	
ALLOWANCE INVENTORY		2,220,588 42
Allowance Inventory	2,220,588 42	
PREPAYMENTS		2,828,075 34
Insurance	1,785,944 05	
Taxes	138,724 61	
Risk Management and Workers Compensation	75,000 00	
Vehicle License	67,868 20	
Other	760,538 48	
MISCELLANEOUS CURRENT ASSETS		1,389,419 28
Derivative Asset - Non-Hedging	1,378,326 34	
Miscellaneous Current Assets	11,092 94	
UNAMORTIZED DEBT EXPENSE		6,915,437 38
Pollution Control Bonds		
KU Series 11, Variable%, Due 5/01/23	275,203 29	
KU Series 12, Variable%, Due 2/01/32	101,154 34	
KU Series 13, Variable%, Due 2/01/32	70,319 62	
KU Series 14, Variable%, Due 2/01/32	78,282 11	
KU Series 15, Variable%, Due 2/01/32	28,213 40	
KU Series 16, Variable%, Due 10/01/32	1,841,867 04	
KU Series 17, Variable%, Due 10/01/34	1,095,388 59	
KU Series 18, Variable%, Due 06/01/35	495,447 30	
KU Series 19, Variable%, Due 06/01/35	503,540 04	
KU Series 20, Variable%, Due 06/01/36	600,060 05	
KU Series 21, Variable%, Due 06/01/36	531,014 62	
KU Series 22, Variable%, Due 10/01/34	879,073 84	
KU Variable%, Due 03/01/37	160,453 75	
KU Variable%, Due 02/01/26	255,419 39	
UNAMORTIZED LOSS ON BONDS		10,428,312 95
Reacquired Debt	10,428,312 95	
ACCUMULATED DEFERRED INCOME TAXES		45,723,507 74
Federal	38,435,853 64	
State	7,287,654 10	
DEFERRED REGULATORY ASSET		115,774,512 81
Asset Retirement Obligations	22,858,423 25	
FASB 109 - Deferred Taxes	5,468,298 00	
Pension & Postretirement Benefits	65,687,470 93	
Ice Storm Expenses	1,649,157 00	
MISO Exit Fee	20,097,493 60	
Other	13,670 03	
OTHER DEFERRED DEBITS	79,863,243 88	79,863,243 88
Total Assets and Other Debits	3,130,916,939.55	3,130,916,939.55

KENTUCKY UTILITIES COMPANY
TRIAL BALANCE - GENERAL LEDGER
MAY 31, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
COMMON EQUITY		1,264,420,349.00
Common Stock	308,139,977.56	
Common Stock Expense	(321,288.87)	
Paid-In Capital	15,000,000.00	
Retained Earnings	920,745,076.31	
Unappropriated Undistributed Subsidiary Earnings	20,856,584.00	
BONDS		332,753,140.00
Pollution Control Bonds		
KU Series 11, Variable%, Due 05/01/23	12,900,000.00	
KU Series 12, Variable%, Due 2/01/32	20,930,000.00	
KU Series 13, Variable%, Due 2/01/32	2,400,000.00	
KU Series 14, Variable%, Due 2/01/32	2,400,000.00	
KU Series 15, Variable%, Due 2/01/32	7,400,000.00	
KU Series 16, Variable%, Due 10/01/32	96,000,000.00	
KU Series 17, Variable%, Due 10/01/34	50,000,000.00	
KU Series 18, Variable%, Due 06/01/35	13,266,950.00	
KU Series 19, Variable%, Due 06/01/35	13,266,950.00	
KU Series 20, Variable%, Due 06/01/36	16,693,620.00	
KU Series 21, Variable%, Due 06/01/36	16,693,620.00	
KU Series 22, Variable%, Due 10/01/34	54,000,000.00	
KU Variable%, Due 03/01/37	8,927,000.00	
KU Variable%, Due 02/01/26	17,875,000.00	
LT NOTES PAYABLE TO ASSOCIATED COMPANIES	611,000,000.00	611,000,000.00
ST NOTES PAYABLE TO ASSOCIATED COMPANIES		127,047,054.00
Money Pool Payable	127,047,054.00	
ACCOUNTS PAYABLE		120,107,085.02
Regular	113,833,850.54	
Salaries and Wages Accrued	3,342,060.34	
Employee Withholdings Payable	17,234.42	
Tax Collections - Payable	2,913,939.72	
ACCOUNTS PAYABLE TO ASSOCIATED COMPANIES		81,310,734.41
E.ON US Services/Louisville Gas & Electric Company	81,310,734.41	
CUSTOMERS' DEPOSITS	18,872,010.38	18,872,010.38
TAXES ACCRUED	6,206,445.61	6,206,445.61
INTEREST ACCRUED		9,365,777.80
Interest on Long-Term Debt		
KU Series 11, Variable%, Due 05/01/23	20,693.76	
KU Series 12, Variable%, Due 2/01/32	67,050.56	
KU Series 13, Variable%, Due 2/01/32	7,688.56	
KU Series 14, Variable%, Due 2/01/32	7,688.56	
KU Series 15, Variable%, Due 2/01/32	23,706.35	
KU Series 16, Variable%, Due 10/01/32	223,253.34	
KU Series 17, Variable%, Due 10/01/34	46,875.00	
KU Series 18, Variable%, Due 06/01/35	1,400.40	
KU Series 19, Variable%, Due 06/01/35	1,400.41	
KU Series 20, Variable%, Due 06/01/36	52,863.13	
KU Series 21, Variable%, Due 06/01/36	53,127.40	
KU Series 22, Variable%, Due 10/01/34	39,900.00	
KU Variable%, Due 03/01/37	7,548.27	
KU Variable%, Due 02/01/26	15,144.10	
Other		
Customer Deposits	274,445.30	
Fidelia	8,542,796.36	
Other	(19,803.70)	

KENTUCKY UTILITIES COMPANY
TRIAL BALANCE - GENERAL LEDGER
MAY 31, 2007

Account - Subsidiary Account	Balance Subsidiary Account	Balance as Shown On Balance Sheet
MISCELLANEOUS CURRENT AND ACCRUED LIABILITIES		11,122,897 34
Customer Overpayments	1,660,894 32	
UK Emission Research Grant	250,000 00	
Vacation Pay Accrued	5,175,224 51	
Derivative Liabilities - Non-Hedging	1,573,158 73	
Franchise Fee Payable	2,293,255 19	
Other	170,364 59	
ACCUMULATED DEFERRED INCOME TAXES		328,775,200 23
Federal	283,895,618 89	
State	44,879,581 34	
INVESTMENT TAX CREDIT		22,652,395 32
Job Development Credit	777,395 32	
Advance Coal Credit	21,875,000 00	
REGULATORY LIABILITIES		37,002,907 98
Asset Retirement Obligations	2,023,749 19	
Deferred Taxes - FAS 109	30,855,341 50	
Spare Parts	1,175,435 29	
MISO Schedule 10 Charges	2,948,382 00	
CUSTOMERS' ADVANCES FOR CONSTRUCTION		1,965,662 24
Line Extensions	1,961,008 49	
Outdoor Lighting Deposits	4,260 00	
Other	393 75	
ASSET RETIREMENT OBLIGATIONS	29,256,945 84	29,256,945 84
OTHER DEFERRED CREDITS	8,175,756 80	8,175,756 80
MISCELLANEOUS LONG-TERM LIABILITIES		46,913,039 58
Pension Payable	36,482,933 00	
Workers' Compensation	3,432,009 58	
Post Employment Benefits	6,269,872 00	
Uncertain Tax Positions	728,225 00	
ACCUMULATED PROVISION FOR BENEFITS		73,969,538 00
Postretirement Benefits	73,969,538 00	
Total Liabilities and Other Credits	3,130,916,939.55	3,130,916,939.55

KENTUCKY UTILITIES COMPANY
STATEMENT OF CASH FLOWS
MAY 31, 2007

	Year to Date	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	70,874,872.78	48,497,284.17
Items not requiring cash currently:		
Depreciation	45,572,565.66	45,422,389.11
Amortization	2,323,271.18	2,026,888.00
Deferred income taxes - net	(1,096,124.07)	3,365,861.14
Investment tax credits deferred - net	9,628,620.00	(450,780.00)
Other	1,759,340.68	(339,777.16)
Change in receivables	37,639,795.77	35,129,270.88
Change in inventory	(3,758,517.02)	(19,136,623.54)
Change in allowance inventory	(550,050.59)	(2,512,573.96)
Change in payables and accrued expenses	26,268,800.63	(30,733,242.23)
Change in other regulatory assets	(757,669.87)	2,439,349.13
Change in other regulatory liabilities	1,063,534.50	(916,685.27)
Change in other deferred debits	(18,585,480.31)	(9,758,318.04)
Change in other deferred credits	892,614.84	1,881,992.68
Other	3,405,274.69	1,551,970.36
Less: Allowance for other funds used during construction	(1,348,736.37)	(108,413.88)
Less: Undistributed earnings of subsidiary company	(4,608,297.00)	2,511,133.20
Net cash provided (used) by operating activities	168,723,815.50	78,869,724.59
CASH FLOWS FROM INVESTING ACTIVITIES		
Gross additions to utility plant - construction expenditures	(274,835,681.51)	(83,698,444.56)
Less: Allowance for other funds used during construction	1,348,736.37	108,413.88
Change in other long-term debt	(433,540.00)	(1,078,550.00)
Change in long-term investments	(2,130,008.12)	(400,283.07)
Change in restricted cash	(24,382,665.05)	9,760,192.51
Net cash provided (used) by investing activities	(300,433,158.31)	(75,308,671.24)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	207,277,874.30	(179,006.63)
Net increase in short-term debt	30,004,000.00	33,298,000.00
Payments for retirement of long-term debt	(107,000,000.00)	(36,000,000.00)
Net cash provided (used) by financing activities	130,281,874.30	(2,881,006.63)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,427,468.51)	680,046.72
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	5,313,043.20	6,611,645.74
CASH AND CASH EQUIVALENTS AT END OF PERIOD	3,885,574.69	7,291,692.46

KENTUCKY UTILITIES COMPANY
ANALYSIS OF INTEREST CHARGES
MAY 31, 2007

	CURRENT MONTH		YEAR TO DATE		YEAR ENDED CURRENT MONTH	
	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR	THIS YEAR	LAST YEAR
Interest On Long-Term Debt						
First Mortgage Bonds						
Series P 7.92%	-	349,800.00	1,574,100.00	1,749,000.00	4,022,700.00	4,197,600.00
Series R 7.55%	-	-	-	-	-	125,833.38
Series S 5.99%	-	-	-	89,850.00	-	1,347,750.00
Loan Agreement - Poll. Control Bonds						
Series 10 (VARIABLE%)	-	166,586.30	981,941.93	741,279.46	2,168,610.43	1,596,595.07
Series 11 (VARIABLE%)	-	42,211.67	-	178,396.26	279,594.99	385,477.10
Series 12 (VARIABLE%)	129,743.07	63,329.02	386,849.50	289,803.09	837,888.16	639,328.36
Series 13 (VARIABLE%)	14,877.37	7,261.81	44,359.24	33,231.12	96,078.91	73,310.47
Series 14 (VARIABLE%)	14,877.37	7,261.81	44,359.24	33,231.12	96,078.89	73,310.47
Series 15 (VARIABLE%)	45,871.89	22,390.57	136,774.29	102,462.63	296,243.28	226,040.59
Series 16 (VARIABLE%)	297,920.00	281,066.67	1,439,519.99	1,289,653.34	3,576,333.30	2,912,946.63
Series 17 (VARIABLE%)	158,402.78	159,347.22	758,923.62	689,101.39	1,820,180.53	1,468,229.11
Series 18 (VARIABLE%)	43,360.81	41,174.72	201,583.22	182,077.61	482,534.45	353,268.67
Series 19 (VARIABLE%)	43,360.81	41,824.82	201,683.80	180,666.76	482,565.39	230,079.51
Series 20 (VARIABLE%)	54,578.86	-	258,519.26	-	538,320.56	-
Series 21 (VARIABLE%)	54,819.49	-	258,280.41	-	301,173.74	-
Series 22 (VARIABLE%)	175,635.00	-	537,540.00	-	537,540.00	-
PCB CC (VARIABLE%)	7,548.27	-	7,548.27	-	7,548.27	-
PCB TC (VARIABLE%)	15,144.10	-	15,144.10	-	15,144.10	-
Interest Rate Swaps	-	(26,453.54)	(86,856.15)	(239,498.11)	(194,981.05)	(2,742,009.98)
Marked to Market	-	249,010.00	(328,589.00)	(472,564.00)	(783,677.00)	(1,004,683.00)
Fidelia	2,660,616.65	1,542,850.00	11,914,971.64	7,703,083.34	24,887,963.29	16,999,727.82
Hardin Promissory Note	41,907.09	-	(500,773.42)	-	(500,773.42)	-
Total	3,758,663.56	2,947,661.07	17,845,879.94	12,549,774.01	38,967,066.82	26,882,804.20
Amortization of Debt Expense - Net						
Amortization of Debt Expense	22,269.98	19,963.00	160,767.88	99,231.00	309,367.08	248,171.07
Amort. of Loss on Reacquired Debt	45,615.90	62,591.87	263,919.90	312,947.87	640,176.90	2,666,820.17
Total	67,885.88	82,554.87	424,687.78	412,178.87	949,543.98	2,914,991.24
Other Interest Charges						
Customers' Deposits	88,244.46	94,496.93	474,536.79	425,906.49	1,047,558.79	967,430.17
Other Tax Deficiencies	-	-	456.08	-	456.08	871,229.00
Interest on Debt to Associated Companies	1,078,081.29	293,462.54	2,147,503.37	1,491,988.36	3,598,604.44	2,327,919.48
AFUDC Borrowed Funds	(77,218.15)	(12,740.77)	(300,289.92)	(44,117.23)	(518,924.19)	(50,874.60)
Other Interest Expense	-	700.00	296.70	3,300.00	106,387.08	116,949.57
Total	1,089,107.60	375,918.70	2,322,503.02	1,877,077.62	4,234,082.20	4,232,653.62
Total Interest	4,915,657.04	3,406,134.64	20,593,070.74	14,839,030.50	44,150,693.00	34,030,449.06

KENTUCKY UTILITIES COMPANY
ANALYSIS OF TAXES CHARGED
MAY 31, 2007

Kind of Taxes	Current Month This Year	Current Month Last Year	Year To Date This Year	Year To Date Last Year
Taxes Charged to Accounts 408.1 and 409.1				
Property Taxes	1,001,000.00	984,655.69	4,577,509.00	4,743,835.69
Unemployment	43,343.97	16,387.66	108,644.00	89,914.67
Federal Old Age and Survivors Insurance	479,886.49	555,406.60	2,304,677.54	2,416,433.09
Public Service Commission Fee	138,724.62	117,195.57	693,623.10	585,977.85
Federal Income	5,340,434.05	4,164,349.67	22,797,764.51	18,836,965.99
State Income	1,027,006.54	934,309.22	6,086,193.37	4,204,129.26
Miscellaneous	2,430.71	4,176.08	24,127.63	22,552.68
Total Charged to Operating Expense	8,032,826.38	6,776,480.49	36,592,539.15	30,899,809.23
Taxes Charged to Other Accounts	1,599,854.94	1,087,925.39	1,275,529.17	2,981,943.31
Taxes Accrued on Intercompany Accounts	(192,256.91)	(202,060.68)	(1,020,150.64)	(949,990.50)
Total Taxes Charged	9,440,424.41	7,662,345.20	36,847,917.68	32,931,762.04

ANALYSIS OF TAXES ACCRUED - ACCOUNT 236

Kind of Taxes	Taxes Accrued At Beginning Of Year	Accruals To Date This Year	Payments To Date This Year	Taxes Accrued At End Of Month
Property Taxes	11,128,630.22	4,600,745.10	10,514,526.70	5,214,848.62
Unemployment	31,909.04	14,705.61	90,897.56	(44,282.91)
Federal Old Age and Survivors	436,199.68	2,088,659.00	2,160,956.02	363,902.66
Federal Income	(11,303,186.47)	22,926,893.29	19,449,118.00	(7,825,411.18)
State Income	4,945,219.18	6,239,024.27	2,892,713.00	8,291,530.45
Kentucky Sales and Use Tax	244,273.64	887,181.99	925,597.66	205,857.97
Miscellaneous	0.00	90,708.42	90,708.42	-
Totals	5,483,045.29	36,847,917.68	36,124,517.36	6,206,445.61

KENTUCKY UTILITIES COMPANY
SUMMARY OF UTILITY PLANT
MAY 31, 2007

UTILITY PLANT	NET BALANCE FIRST OF YEAR	ADDITIONS	RETIREMENTS	TRANSFER/ ADJUSTMENT	NET ADDITIONS	BALANCE TO DATE
Plant In Service						
Intangibles	25,650,657.82	1,344,146.32	-	-	1,344,146.32	26,994,804.14
Steam Production	1,528,205,107.62	5,161,313.69	(7,223,274.98)	-	(2,061,961.29)	1,526,143,146.33
Hydro Production	9,946,337.38	205,248.20	-	-	205,248.20	10,151,585.58
Other Production	490,394,644.70	572,446.73	(14,660.25)	-	557,786.48	490,952,431.18
Transmission	506,489,863.16	595,774.89	(100,128.12)	(65,223.94)	430,422.83	506,920,285.99
Distribution	1,013,864,108.52	4,027,442.33	(902,853.03)	(16,962.03)	3,107,627.27	1,016,971,735.79
General	82,323,413.89	1,270,523.45	(2,665,957.81)	(222,839.23)	(1,618,273.59)	80,705,140.30
Transportation	23,860,353.39	-	(4,934,986.29)	(48,370.31)	(4,983,356.60)	18,876,996.79
Total Electric Plant In Service	3,680,734,486.48	13,176,895.61	(15,841,860.48)	(353,395.51)	(3,018,360.38)	3,677,716,126.10
Plant Purchased or Sold	-					-
Total Plant	3,680,734,486.48	13,176,895.61	(15,841,860.48)	(353,395.51)	(3,018,360.38)	3,677,716,126.10
Construction Work In Progress	487,243,640.21	261,658,785.90	-	-	261,658,785.90	748,902,426.11
Total Utility Plant at Original Cost	4,167,978,126.69	274,835,681.51	(15,841,860.48)	(353,395.51)	258,640,425.52	4,426,618,552.21

RESERVE FOR DEPRECIATION OF UTILITY	NET BALANCE FIRST OF YEAR	ACCRUAL	RETIREMENTS	TRANSFER/ ADJUSTMENT	RWIP TRANSFERS OUT	COST OF REMOVAL	SALVAGE	OTHER CREDITS	BALANCE TO DATE
Life Reserves									
Steam Production	(835,316,309.29)	(15,208,954.75)	7,223,274.98	-	-	-	-	(18,500.00)	(843,320,489.06)
Hydro Production	(7,418,715.60)	(50,485.29)	-	-	-	-	-	-	(7,469,200.89)
Other Production	(100,459,175.61)	(6,956,915.33)	14,660.25	-	-	-	-	-	(107,401,430.69)
Transmission	(193,145,219.41)	(3,727,794.12)	100,128.12	-	-	-	-	(326,863.48)	(197,099,748.89)
Distribution	(339,507,651.05)	(9,371,687.44)	902,853.03	6,549.60	-	-	-	(448,266.02)	(348,418,201.88)
General	(29,777,581.81)	(3,683,189.95)	2,665,957.81	(6,549.60)	-		-	-	(30,801,363.55)
Transportation	(23,717,823.29)	(17,586.84)	4,934,986.29	-	-		-	-	(18,800,423.84)
Total Life Reserve For Depreciation Of Utility Plant in Service	(1,529,342,476.06)	(39,016,613.72)	15,841,860.48	-	-	-	-	(793,629.50)	(1,553,310,858.80)
Salvage Reserves									
Steam Production	(62,263,334.97)	(2,125,086.07)		-	-	691,973.02	-	-	(63,696,448.02)
Hydro Production	(748,788.82)	(15,984.65)		-	-	-	-	-	(764,773.47)
Other Production	(1,319,813.89)	-		-	-	8,912.87	-	-	(1,310,901.02)
Transmission	(110,346,842.22)	(2,552,821.36)		-	-	131,939.36	-		(112,767,724.22)
Distribution	(131,526,999.25)	(3,645,503.32)	-		-	502,536.12	(26,155.74)	-	(134,696,122.19)
General	164,993.50	10,541.12	-		-	46,920.78	(3,000.00)	-	219,455.40
Total Salvage Reserve For Depreciation Of Utility Plant in Service	(306,040,785.65)	(8,328,854.28)	-	-	-	1,382,282.15	(29,155.74)	-	(313,016,513.52)
Total Reserves									
Steam Production	(897,579,644.26)	(17,334,040.82)	7,223,274.98	-	-	691,973.02	-	(18,500.00)	(907,016,937.08)
Hydro Production	(8,167,504.42)	(66,469.94)	-	-	-	-	-	-	(8,233,974.36)
Other Production	(101,778,989.50)	(6,956,915.33)	14,660.25	-	-	8,912.87	-	-	(108,712,331.71)
Transmission	(303,492,061.63)	(6,280,615.48)	100,128.12	-	-	131,939.36	-	(326,863.48)	(309,867,473.11)
Distribution	(471,034,650.30)	(13,017,190.76)	902,853.03	6,549.60	-	502,536.12	(26,155.74)	(448,266.02)	(483,114,324.07)
General	(29,612,588.31)	(3,672,648.83)	2,665,957.81	(6,549.60)	-	46,920.78	(3,000.00)	-	(30,581,908.15)
Transportation	(23,717,823.29)	(17,586.84)	4,934,986.29	-	-	-	-	-	(18,800,423.84)
Total Life Reserve For Depreciation Of Utility Plant In Service	(1,835,383,261.70)	(47,345,468.00)	15,841,860.48	-	-	1,382,282.15	(29,155.74)	(793,629.50)	(1,866,327,372.32)
Retirement of Work in Progress	(35,953.69)	-	-	2,442,820.85	(559,496.91)	3,010,099.03	(208,546.86)	(851,632.13)	3,797,290.29
YTD Activity	(1,835,419,215.39)	(47,345,468.00)	15,841,860.48	2,442,820.85	(559,496.91)	4,392,381.18	(237,702.60)	(1,645,261.63)	(1,862,530,082.02)
Intangibles	(14,592,939.75)	(2,323,271.18)	-	-	-	-	-	-	(16,916,210.93)
Leaseholds	-	-	-	-	-	-			-
Amortization - Utility Plant in Service	(1,850,012,155.14)	(49,668,739.18)	15,841,860.48	2,442,820.85	(559,496.91)	4,392,381.18	(237,702.60)	(1,645,261.63)	(1,879,446,292.95)
Utility Plant at Original Cost Less Reserve For Depreciation and Amortization	2,639,057,291.20								2,547,172,259.26

Kentucky Utilities Company
Case No. 2008-00251
Historical Test Period Filing Requirements

Filing Requirement
807 KAR 5:001 Section 10(6)(s)
Sponsoring Witness: S. Bradford Rives

Description of Filing Requirement:

Securities and Exchange Commission's annual report for the most recent two (2) years, Form 10-Ks and any Form 8-Ks issued within the past two (2) years, and Form 10-Qs issued during the past six (6) quarters updated as current information becomes available.

Response:

The below-listed documents are provided. Please note that Securities and Exchange Commission (SEC) periodic reports, including Form 10-K, Form 10-Q and Form 8-K are provided through spring 2007 when KU terminated its status as an SEC registrant and ceased filing periodic reports under the Securities and Exchange Act of 1934. KU's deregistration was effective on March 1, 2007. KU's deregistration occurred in connection with a restructuring transaction to refinance various issuances of secured debt for the purpose of converting them to unsecured debt, which restructuring transaction and the SEC deregistration, were considered by the Kentucky Commission in Case No. 2006-00390 and discussed in the order dated January 22, 2007.

- 2007 Annual Financial Statements and Additional Information
- 2006 Annual Financial Statements and Additional Information
- 2008 1st Quarter Financial Statements and Additional Information
- 2007 3rd Quarter Financial Statements and Additional Information
- 2007 2nd Quarter Financial Statements and Additional Information

Kentucky Utilities Company
Case No. 2008-00251
Historical Test Period Filing Requirements

- 2007 1st Quarter Financial Statements and Additional Information
- SEC Form 10-Q – September 30, 2006
- SEC Form 10-Q – June 30, 2006
- SEC Form 8-K – December 7, 2006
- SEC Form 8-K – October 25, 2006
- SEC Form 8-K – July 20, 2006
- SEC Form 8-K – July 7, 2006
- SEC Form 8-K – June 23, 2006
- Report of Certain Material Changes - January 2008 – July 2008
- Report of Certain Material Changes – June 2007 – December 2007

2007 - Annual Financial Statements and Additional Information

Kentucky Utilities Company

Financial Statements and Additional Information

As of December 31, 2007 and 2006

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AG	Attorney General of Kentucky
ARO	Asset Retirement Obligation
BART	Best Available Retrofit Technology
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
CCN	Certificate of Public Convenience and Necessity
Clean Air Act	The Clean Air Act, as amended in 1990
Company	KU
CT	Combustion Turbines
DSM	Demand Side Management
ECR	Environmental Cost Recovery
EEI	Electric Energy, Inc.
E.ON	E.ON AG
E.ON U.S.	E.ON U.S. LLC (formerly LG&E Energy LLC and LG&E Energy Corp.)
E.ON U.S. Services	E.ON U.S. Services Inc. (formerly LG&E Energy Services Inc.)
EPA	U.S. Environmental Protection Agency
EPAct 2005	Energy Policy Act of 2005
FAC	Fuel Adjustment Clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FGD	Flue Gas Desulfurization
Fidelia	Fidelia Corporation (an E.ON affiliate)
FIN	FASB Interpretation No.
GHG	Greenhouse Gas
IBEW	International Brotherhood of Electrical Workers
IRP	Integrated Resource Plan
IRS	Internal Revenue Service
Kentucky Commission	Kentucky Public Service Commission
KIUC	Kentucky Industrial Utility Consumers, Inc.
KU	Kentucky Utilities Company
Kwh	Kilowatt hours
LG&E	Louisville Gas and Electric Company
LG&E Energy	LG&E Energy LLC (now E.ON U.S. LLC)
MISO	Midwest Independent Transmission System Operator, Inc.
MMBtu	Million British thermal units
Moody's	Moody's Investor Services, Inc.
MVA	Megavolt-ampere
Mw	Megawatts
Mwh	Megawatt hours
NOV	Notice of Violation
NOx	Nitrogen Oxide
OMU	Owensboro Municipal Utilities
OVEC	Ohio Valley Electric Corporation
PUHCA 2005	Public Utility Holding Company Act of 2005
S&P	Standard & Poor's Rating Services
SCR	Selective Catalytic Reduction
SFAS	Statement of Financial Accounting Standards
SIP	State Implementation Plan
SO_2	Sulfur Dioxide
TC2	Trimble County Unit 2
VDT	Value Delivery Team Process
Virginia Commission	Virginia State Corporation Commission

Business

GENERAL

KU, incorporated in Kentucky in 1912 and in Virginia in 1991, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. KU provides electricity to approximately 506,000 customers in 77 counties in central, southeastern and western Kentucky, to approximately 30,000 customers in 5 counties in southwestern Virginia and 5 customers in Tennessee. KU's service area covers approximately 6,600 square miles. KU's coal-fired electric generating stations produce most of KU's electricity. The remainder is generated by a hydroelectric power plant and natural gas and oil fueled CTs. In Virginia, KU operates under the name Old Dominion Power Company. KU also sells wholesale electric energy to 12 municipalities.

KU is a wholly-owned subsidiary of E.ON U.S., formerly known as LG&E Energy LLC. E.ON U.S. is an indirect wholly-owned subsidiary of E.ON, a German corporation, making KU an indirect wholly-owned subsidiary of E.ON. KU's affiliate, LG&E, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy and the distribution and sale of natural gas in Kentucky.

OPERATIONS

The sources of operating revenues and volumes of sales for the years ended December 31, 2007 and 2006, were as follows:

	2007		2006	
	Revenues (millions)	Volumes (000Mwh)	Revenues (millions)	Volumes (000Mwh)
Residential	$ 430	6,847	$ 380	6,313
Industrial & Commercial	597	11,047	547	10,776
Municipals	90	2,058	85	1,978
Other Retail	98	1,691	89	1,608
Wholesale	58	1,582	109	2,473
Total	$1,273	23,225	$1,210	23,148

KU set a new record peak load of 4,344 Mw on August 9, 2007, when the temperature reached 98 degrees Fahrenheit in Lexington.

KU's power generating system includes coal-fired units operated at its four steam generating stations. Natural gas and oil fueled CTs supplement the system during peak or emergency periods. As of December 31, 2007, KU owned and operated the following generating stations while maintaining a 12%-14% reserve margin:

	Summer Capability Rating (Mw)
Steam Stations:	
Tyrone – Woodford County, KY	71
Green River – Muhlenberg County, KY	163
E.W. Brown – Mercer County, KY	697
Ghent – Carroll County, KY	1,932
Total Steam Stations	2,863
Dix Dam Hydroelectric Station – Mercer County, KY	24
CT Generators (Peaking capability):	
E.W. Brown – Mercer County, KY*	757
Haefling – Fayette County, KY	36
Paddy's Run – Jefferson County, KY *	74
Trimble County – Trimble County, KY *	632
Total CT Generators	1,499
Total Capability Rating	4,386

* Some of these units are jointly owned with LG&E. See Note 10 of Notes to Financial Statements for information regarding jointly owned units.

At December 31, 2007, KU's transmission system included 111 substations (39 of which are shared with the distribution system) with a total capacity of approximately 17,223 MVA and approximately 4,030 miles of lines. The distribution system included 481 substations (39 of which are shared with the transmission system) with a total capacity of approximately 6,653 MVA, 14,082 miles of overhead lines and 2,046 miles of underground conduit.

KU has a purchase power agreement with OMU, owns 20% of EEI's common stock and owns 2.5% of OVEC's common stock. Additional information regarding these relationships is provided in Notes 1 and 9 of Notes to Financial Statements.

KU was formerly a member of the MISO, a non-profit independent transmission system operator that serves the electrical transmission needs of much of the Midwest. KU withdrew from the MISO effective September 1, 2006. KU now contracts with the Tennessee Valley Authority to act as its transmission reliability coordinator and Southwest Power Pool, Inc. to function as its independent transmission operator, pursuant to FERC requirements. See Note 2 of Notes to Financial Statements.

RATES AND REGULATIONS

E.ON, KU's ultimate parent, is a registered holding company under PUHCA 2005. E.ON, its utility subsidiaries, including KU, and certain of its non-utility subsidiaries are subject to extensive regulation by the FERC with respect to numerous matters, including: electric utility facilities and operations, wholesale sales of power and related transactions, accounting practices, issuances and sales of securities, acquisitions and sales of utility properties, payments of dividends out of capital and surplus, financial matters and inter-system sales of non-power goods and services. KU believes that it has adequate authority (including financing authority) under existing FERC orders and regulations to conduct its business and will seek additional authorization when necessary.

In February 2007, KU completed a series of financial transactions that allowed it to cease periodic reporting under the Securities Exchange Act of 1934. See Note 7 of Notes to Financial Statements.

KU is subject to the jurisdiction of the Kentucky Commission, the Virginia Commission, the Tennessee Regulatory Authority and the FERC in virtually all matters related to electric utility regulation, and as such, its accounting is subject to SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation*. Given its competitive position in the marketplace and the status of regulation in Kentucky and Virginia, KU has no plans or intentions to discontinue its application of SFAS No. 71.

For a further discussion of regulatory matters, see Notes 2 and 9 of Notes to Financial Statements.

COAL SUPPLY

Coal-fired generating units provided approximately 96% of KU's net Kwh generation for 2007. The remaining net generation for 2007 was provided by natural gas and oil fueled CT peaking units and a hydroelectric plant. Coal is expected to be the predominant fuel used by KU in the foreseeable future, with natural gas and oil being used for peaking capacity and flame stabilization in coal-fired boilers or in emergencies. KU has no nuclear generating units and has no plans to build any in the foreseeable future.

KU maintains its fuel inventory at levels estimated to be necessary to avoid operational disruptions at its coal-fired generating units. Reliability of coal deliveries can be affected from time to time by a number of factors including fluctuations in demand, coal mine production issues and other supplier or transporter operating difficulties.

KU has entered into coal supply agreements with various suppliers for coal deliveries for 2008 and beyond and normally augments its coal supply agreements with spot market purchases. KU has a coal inventory policy which it believes provides adequate protection under most contingencies.

KU expects to continue purchasing most of its coal, which has sulfur content in the 0.7% - 3.5% range, from western and eastern Kentucky, West Virginia, southern Indiana, southern Illinois and Ohio for the foreseeable future. With the installation of FGDs (SO_2 removal systems), KU expects its use of higher sulfur coal to increase. Coal is delivered to KU generating stations by a mix of transportation modes, including barge, truck and rail.

ENVIRONMENTAL MATTERS

Protection of the environment is a major priority for KU. Federal, state and local regulatory agencies have issued KU permits for various activities subject to air quality, water quality and waste management laws and regulations. See Note 9 of Notes to Financial Statements for additional information.

COMPETITION

At this time, neither the Kentucky General Assembly nor the Kentucky Commission has adopted or approved a plan or timetable for retail electric industry competition in Kentucky. The nature or timing of the ultimate legislative or regulatory actions regarding industry restructuring and their impact on KU, which may be significant, cannot currently be predicted. Some states that have already deregulated have begun discussions that could lead to re-regulation. See Note 2 of Notes to Financial Statements for additional information.

EMPLOYEES AND LABOR RELATIONS

KU had 951 full-time regular employees at December 31, 2007, 152 of which were operating, maintenance and construction employees represented by the IBEW Local 2100 and the United Steelworkers of America ("USWA") Local 9447-01. Effective August 1, 2006, KU and its employees represented by the IBEW Local 2100 entered into a new three-year collective bargaining agreement. The new agreement provides for negotiated increases or changes to wages, benefits or other provisions and for annual wage re-openers. A wage re-opener was negotiated and agreed to in July 2007. KU and employees represented by the USWA Local 9447-01 entered into a three-year collective bargaining agreement in August 2005, with provisions for annual wage re-openers. Wage re-openers were negotiated in July 2006 and July 2007.

OFFICERS OF THE COMPANY

At December 31, 2007: **

Name	Age	Position	Effective Date of Election to Present Position
Victor A. Staffieri	52	Chairman of the Board, President and Chief Executive Officer	May 2001
John R. McCall	64	Executive Vice President, General Counsel, Corporate Secretary and Chief Compliance Officer	July 1994
S. Bradford Rives	49	Chief Financial Officer	September 2003
Martyn Gallus *	43	Senior Vice President – Energy Marketing	December 2000
Chris Hermann	60	Senior Vice President – Energy Delivery	February 2003
Paula H. Pottinger	50	Senior Vice President – Human Resources	January 2006
Paul W. Thompson	50	Senior Vice President – Energy Services	June 2000
Wendy C. Welsh	53	Senior Vice President – Information Technology	December 2000
Michael S. Beer	49	Vice President – Federal Regulation and Policy	September 2004
Lonnie E. Bellar	43	Vice President – State Regulation and Rates	August 2007
Kent W. Blake	41	Vice President – Corporate Planning and Development	August 2007
D. Ralph Bowling	50	Vice President – Power Operations – WKE	August 2002
Laura G. Douglas	58	Vice President – Corporate Responsibility and Community Affairs	November 2007
R. W. Chip Keeling	51	Vice President – Communications	March 2002
John P. Malloy	46	Vice President – Energy Delivery – Retail Business	April 2007
Dorothy E. O'Brien	54	Vice President and Deputy General Counsel – Legal and Environmental Affairs	October 2007
George R. Siemens	58	Vice President – External Affairs	January 2001
P. Greg Thomas	51	Vice President – Energy Delivery – Distribution Operations	April 2007
John N. Voyles, Jr.	53	Vice President – Regulated Generation	June 2003
Daniel K. Arbough	46	Treasurer	December 2000
Valerie L. Scott	51	Controller	January 2005

Officers generally serve in the same capacities at KU and its affiliates, E.ON U.S. and LG&E.
* Mr. Gallus is serving in a position with an international E.ON affiliate, effective January 2008.
** David Sinclair, age 46, was promoted to Vice President – Energy Marketing in January 2008.

Risk Factors

KU is subject to a number of risks, including without limitation, those listed below and elsewhere in this document. Such risks could affect actual results and cause results to differ materially from those expressed in any forward-looking statements made by KU.

The rates that KU charges customers, as well as other aspects of the business, are subject to significant and complex governmental regulation. Federal and state entities regulate many aspects of utility operations, including financial and capital structure matters; siting and construction of facilities; rates, terms and conditions of service and operations; mandatory reliability and safety standards; accounting and cost allocation methodologies; tax matters; acquisition and disposal of utility assets and securities and other matters. Such regulations may subject KU to higher operating costs or increased capital expenditures and failure to comply could result in sanctions or possible penalties. In any rate-setting proceedings, federal or state agencies, intervenors and other permitted parties may challenge KU's rate request and ultimately reduce, alter or limit the rates KU seeks.

Changes in transmission and wholesale power market structures, as well as KU's exit from the MISO, could increase costs or reduce revenues. The resulting changes to transmission and wholesale power market structures and prices are not estimable and may result in unforeseen effects on energy purchases and sales, transmission and related costs or revenues.

Transmission and interstate market activities of KU, as well as other aspects of the business, are subject to significant FERC regulation. KU's business is subject to extensive regulation under the FERC covering matters including rates charged to transmission users and wholesale customers; interstate power market structure; construction and operation of transmission facilities; mandatory reliability standards; standards of conduct and affiliate restrictions and other matters. Existing FERC regulation, changes thereto or issuances of new rules or situations of non-compliance, can affect the earnings, operations or other activities of KU.

KU undertakes significant capital projects and is subject to unforeseen costs, delays or failures in such projects, as well as risk of full recovery of such costs. The completion of these facilities without delays or cost overruns is subject to risks in many areas, including approval and licensing; permitting; construction problems or delays; increases in commodity prices or labor rates; contractor performance; weather and geological issues and political, labor and regulatory developments.

KU's costs of compliance with environmental laws are significant and are subject to continuing changes. Extensive federal, state and local environmental regulations are applicable to KU's air emissions, water discharges and the management of hazardous and solid waste, among other areas; and the costs of compliance or alleged non-compliance cannot be predicted with certainty. Costs may take the form of increased capital or operating and maintenance expenses; monetary fines, penalties or forfeitures or other restrictions.

KU's operating results are affected by weather conditions, including storms and seasonal temperature variations, as well as by significant man-made or accidental disturbances, including terrorism or natural disasters. These weather or man-made factors can significantly affect KU's finances or operations by changing demand levels; causing outages; damaging infrastructure or requiring significant repair costs; affecting capital markets or impacting future growth.

KU is subject to risks regarding potential developments concerning global climate change matters. Such developments could include potential federal or state legislation or industry initiatives limiting GHG emissions; establishing costs or charges on GHG emissions or on fuels relating to such emissions; requiring GHG remediation or sequestration; establishing renewable portfolio standards or generation fleet-diversification requirements to address GHG emissions; promoting energy efficiency and conservation or other measures. KU's generation fleet is predominantly coal-fired and may be highly impacted by developments in this area.

KU's business is concentrated in the Midwest United States, specifically Kentucky. Local and regional economic conditions, such as population growth, industrial growth or expansion and economic development, as well as the operational or financial performance of major industries or customers, can affect the demand for energy.

KU is subject to operational risks relating to its generating plants, transmission facilities and distribution equipment. Operation of power plants, transmission and distribution facilities subjects KU to many risks, including the breakdown or failure of equipment; accidents; labor disputes; delivery/transportation problems; disruptions of fuel supply and performance below expected levels.

KU could be negatively affected by rising interest rates, downgrades to company or bond insurer credit ratings that could impact the Company's bond credit ratings or other negative developments in its ability to access capital markets. In the ordinary course of business, KU is reliant upon adequate long-term and short-term financing means to fund its significant capital expenditures, debt interest or maturities and operating needs. Increases in interest rates could result in increased costs to KU.

KU is subject to commodity price risk, credit risk, counterparty risk and other risks associated with the energy business. General market or pricing developments or failures by counterparties to perform their obligations relating to energy, fuels, other commodities, goods, services or payments could result in potential increased costs to KU.

KU is subject to risks associated with defined benefit retirement plans, health care plans, wages and other employee-related matters. Risks include adverse developments in legislation or regulation, future costs or funding levels, returns on investments, interest rates and actuarial matters, as well as, changing wage levels, whether related to collective bargaining agreements or employment market conditions, ability to attract and retain key personnel and changing costs of providing health care benefits.

Legal Proceedings

Rates and Regulatory Matters

For a discussion of current rates and regulatory matters, including base rate increase proceedings, merger surcredit proceedings, VDT proceedings, TC2 proceedings, Kentucky Commission, FERC and MISO proceedings and other rates or regulatory matters affecting KU, see Notes 2 and 9 of Notes to Financial Statements.

Environmental

For a discussion of environmental matters including additional reductions in SO_2, NOx and other emissions mandated by recent or potential regulations; items regarding notices of violations and other emissions proceedings; global warming or climate change matters and other environmental items affecting KU, see Note 9 of Notes to Financial Statements.

Litigation

For a discussion of litigation matters, see Note 9 of Notes to Financial Statements.

Other

In the normal course of business, other lawsuits, claims, environmental actions and other governmental proceedings arise against KU. To the extent that damages are assessed in any of these lawsuits, KU believes that its insurance coverage is adequate. Management, after consultation with legal counsel, does not anticipate that liabilities arising out of currently pending or threatened lawsuits and claims will have a material adverse effect on KU's financial position or results of operations.

Selected Financial Data

(in millions)	Years Ended December 31				
	2007	2006	2005	2004	2003
Operating revenues	$1,273	$1,210	$1,207	$ 995	$ 892
Net operating income	$ 268	$ 235	$ 202	$ 228	$ 162
Net income	$ 167	$ 152	$ 112	$ 134	$ 91
Total assets	$3,796	$3,148	$2,756	$2,610	$2,505
Long-term obligations (including amounts due within one year)	$1,264	$ 843	$ 746	$ 726	$ 688

Management's Discussion and Analysis and Notes to Financial Statements should be read in conjunction with the above information.

Management's Discussion and Analysis

The following discussion and analysis by management focuses on those factors that had a material effect on KU's financial results of operations and financial condition during 2007 and 2006 and should be read in connection with the financial statements and notes thereto.

Forward Looking Statements

Some of the following discussion may contain forward-looking statements that are subject to risks, uncertainties and assumptions. Such forward-looking statements are intended to be identified in this document by the words "anticipate," "expect," "estimate," "objective," "possible," "potential" and similar expressions. Actual results may materially vary. Factors that could cause actual results to materially differ include: general economic conditions; business and competitive conditions in the energy industry; changes in federal or state legislation; unusual weather; actions by state or federal regulatory agencies; actions by credit rating agencies and other factors described from time to time in KU's reports, including as noted in the Risk Factors section of this report.

RESULTS OF OPERATIONS

The electric utility business is affected by seasonal temperatures. As a result, operating revenues (and associated operating expenses) are not generated evenly throughout the year.

Net Income

Net income in 2007 increased $15 million compared to 2006. The increase was primarily the result of increased retail sales volumes, increased ECR surcharge and decreased purchased power expense. Partially offsetting these items were decreased wholesale sales, higher interest expense, decreased MISO related revenue and decreased equity in earnings of EEI.

Revenues

Revenues in 2007 increased $63 million primarily due to:

- Increased fuel costs ($57 million) billed to customers through the FAC due to increased fuel prices and sales volumes delivered
- Increased sales volumes delivered ($30 million) resulting from a 2% increase in heating degree days and a 46% increase in cooling degree days
- Increased ECR surcharge ($25 million) due to increased recoverable capital spending
- Increased transmission service revenues ($4 million)

These increases were partially offset by:

- Lower wholesale sales ($37 million) due to decreased volumes and lower wholesale market pricing
- Lower MISO related revenue ($16 million) resulting from the exit from the MISO

Expenses

Fuel for electric generation comprises a large component of total operating expenses. Increases or decreases in the cost of fuel are reflected in retail rates through the FAC, subject to the approval of the Kentucky Commission, the Virginia Commission and the FERC.

Fuel for electric generation increased $37 million in 2007 primarily due to:

- Increased cost of fuel burned ($20 million) due to higher coal prices
- Increased generation ($17 million) due to higher demand

Power purchased expense decreased $14 million in 2007 primarily due to:

- Decreased volumes purchased ($19 million) due to increased internal generation
- Increased cost per Mwh of purchases ($5 million) due to higher fuel prices

Other operation and maintenance expenses increased $1 million in 2007 primarily due to increased maintenance expenses ($12 million), partially offset by decreased other operation expenses ($11 million).

Other maintenance expenses increased $12 million in 2007 primarily due to:

- Increased boiler maintenance expense ($7 million)
- Increased electric plant maintenance ($5 million)
- Increased vegetation management expense ($1 million)
- Decreased overhead conductor and devices maintenance ($1 million)

Other operation expenses decreased $11 million in 2007 primarily due to:

- Decreased MISO Day 1 and Day 2 expenses ($16 million) due to the exit from the MISO effective September 1, 2006, and refunds from the MISO for certain charges
- Decreased VDT workforce reduction expense ($3 million) due to completion of VDT amortization in March 2006
- Increased MISO Day 1 expense ($3 million) due to credit received from the MISO for financial transmission rights in 2006
- Increased outside services expense ($3 million)
- Increased wholesale expense ($1 million) due to a recorded credit in April 2006 for a FERC ordered refund from the MISO for charges assessed in excess of the rates in the MISO transmission tariff
- Increased research and development expenses ($1 million)

Equity earnings in EEI decreased $3 million in 2007 primarily due to decreased other electric earnings at EEI, resulting from decreased emission allowance sales in 2007 and increased purchased power expense.

Other income – net increased $5 million in 2007 primarily due to increased other income ($7 million) relating to increased allowance for funds used during construction, gain on disposal of property and increased interest income from bond proceeds on deposit with a trustee, partially offset by increased other expenses ($2 million) relating to penalties.

Interest expense increased $17 million in 2007, primarily due to increased interest expense to affiliated companies resulting from increased affiliate borrowings to fund increased capital additions.

CRITICAL ACCOUNTING POLICIES/ESTIMATES

Preparation of financial statements and related disclosures in compliance with generally accepted accounting principles requires the application of appropriate technical accounting rules and guidance, as well as the use of estimates. The application of these policies necessarily involves judgments regarding future events, including legal and regulatory challenges and anticipated recovery of costs. These judgments could materially impact the financial statements and disclosures based on varying assumptions, which may be appropriate to use. In addition, the financial and operating environment also may have a significant effect, not only on the operation of the business, but on the results reported through the application of accounting measures used in preparing the financial statements and related disclosures, even if the nature of the accounting policies applied has not changed. Specific risks for these critical accounting policies are described in the Notes to Financial Statements. Each of these has a higher likelihood of resulting in materially different reported amounts under different conditions or using different assumptions. Events rarely develop exactly as forecasted and the best estimates routinely require adjustment.

Critical accounting policies and estimates including unbilled revenue, allowance for doubtful accounts, regulatory mechanisms, pension and postretirement benefits and income taxes are detailed in Notes 1, 2, 3, 5, 6 and 9 of Notes to Financial Statements.

Recent Accounting Pronouncements. Recent accounting pronouncements affecting KU are detailed in Note 1 of Notes to Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES

KU uses net cash generated from its operations and external financing (including financing from affiliates) to fund construction of plant and equipment and the payment of dividends. KU believes that such sources of funds will be sufficient to meet the needs of its business in the foreseeable future.

As of December 31, 2007, KU is in a negative working capital position in part because of the classification of certain variable-rate pollution control bonds totaling $33 million that are subject to tender for purchase at the option of the holder as current portion of long-term debt. Credit facilities totaling $35 million are in place to fund such tenders, if necessary. KU has never needed to access these facilities. KU expects to cover any working capital deficiencies with cash flow from operations, money pool borrowings and borrowings from Fidelia.

Operating Activities

Cash provided by operations was $302 million and $223 million in 2007 and 2006, respectively.

The 2007 increase of $79 million was primarily the result of increases in cash due to changes in:

- Earnings, net of non-cash items ($55 million)
- Material and supplies ($33 million) due to lower coal inventories on hand at December 31, 2007
- MISO exit fee ($20 million) due to the MISO exit being completed effective September 1, 2006
- Accrued income taxes ($15 million) due to income tax accrued during 2007 being greater than estimated payments
- ECR recovery ($11 million)
- Prepayments and other current assets ($9 million)
- Other current liabilities ($8 million)
- Other liabilities ($7 million)
- Other regulatory assets ($4 million)
- FAC recovery ($3 million)

These increases were partially offset by cash used for changes in:

- Pension and postretirement funding ($36 million)
- Accounts payable ($26 million)
- Property and other taxes payable ($14 million)
- Accounts receivable ($10 million)

Investing Activities

The primary use of funds for investing activities continues to be for capital expenditures. Net cash used for investing activities increased $382 million in 2007 compared to 2006 primarily due to increased capital expenditures of $395 million, offset by decreased restricted cash of $13 million. Restricted cash represents the escrowed proceeds of the Pollution Control Bonds issued, which are disbursed as qualifying costs are incurred.

Financing Activities

Net cash inflows from financing activities were $422 million and $124 million in 2007 and 2006, respectively. See Note 7 of Notes to Financial Statements for information of redemptions, maturities and issuances of long-term debt.

Future Capital Requirements

KU expects its capital expenditures for the three-year period ending December 31, 2010, to total approximately $1,465 million, consisting primarily of construction estimates for installation of FGDs on Ghent and Brown units totaling approximately $425 million, construction of TC2 totaling approximately $360 million, the Brown ash pond totaling approximately $40 million, a customer care system totaling approximately $25 million and on-going construction related to generation and distribution assets. See Note 9 of Notes to Financial Statements for additional information.

KU's construction program is designed to ensure that there will be adequate capacity and reliability to meet the electric needs of its service area and to comply with environmental regulations. These needs are continually being reassessed and appropriate revisions are made, when necessary, in construction schedules. Future capital requirements may be affected in varying degrees by factors such as electric energy demand load growth, changes in construction expenditure levels, rate actions by regulatory agencies, new legislation, market entry of competing electric power generators, changes in commodity prices and labor rates, changes in environmental regulations and other regulatory requirements. See Contractual Obligations further below and Note 9 of Notes to Financial Statements for current commitments. KU anticipates funding future capital requirements through operating cash flow, debt and/or infusions of capital from its parent.

Regulatory approvals are required for KU to incur additional debt. The Virginia Commission and the FERC authorize the issuance of short-term debt while the Kentucky Commission, the Virginia Commission and the Tennessee Regulatory Authority authorize the issuance of long-term debt. In November 2007, KU received a two-year authorization from the FERC to borrow up to $400 million in short-term funds. KU also has authorization from the Virginia Commission that expires at the end of 2009 allowing short-term borrowing of up to $400 million.

KU's debt ratings as of December 31, 2007, were:

	Moody's	S&P
Pollution control revenue bonds	A2	BBB+
Issuer rating	A2	-
Corporate credit rating	-	BBB+

These ratings reflect the views of Moody's and S&P. A security rating is not a recommendation to buy, sell or hold securities and is subject to revision or withdrawal at any time by the rating agency. See Note 7 of Notes to Financial Statements for a discussion of recent downgrade actions related to the pollution control revenue bonds.

Contractual Obligations

The following is provided to summarize contractual cash obligations for periods after December 31, 2007. KU anticipates cash from operations and external financing will be sufficient to fund future obligations. Future interest obligations cannot be quantified because most of KU's debt is variable rate. See Statements of *Capitalization*.

(in millions)	Payments Due by Period						
Contractual Cash Obligations	2008	2009	2010	2011	2012	Thereafter	Total
Short-term debt (a)	$ 23	$ -	$ -	$ -	$ -	$ -	$ 23
Long-term debt	-	-	33	-	50	1,181 (b)	1,264
Operating leases (c)	6	5	3	2	2	4	22
Unconditional power purchase obligations (d)	23	25	16	8	9	143	224
Coal and gas purchase obligations (e)	329	146	93	57	57	-	682
Retirement obligations (f)	23	24	23	23	23	124	240
Other obligations (g)	307	79	6	-	-	-	392
Total contractual cash obligations	$711	$279	$174	$90	$141	$1,452	$2,847

(a) Represents borrowings from affiliated company due within one year.
(b) Includes long-term debt of $33 million classified as current liabilities because these bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events These bonds mature in 2032. KU does not expect to pay these amounts in 2008.
(c) Represents future operating lease payments.
(d) Represents future minimum payments under OMU and OVEC power purchase agreements through 2010 and 2026, respectively
(e) Represents contracts to purchase coal and natural gas
(f) Represents currently projected cash flows for pension, postretirement and other post-employment benefit plans as calculated by the actuary.
(g) Represents construction commitments, including commitments for TC2 and the FGDs.

CONTROLS AND PROCEDURES

The Company is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process 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. A company's internal control over financial reporting includes those policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; 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 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 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 has assessed the effectiveness of its internal control over financial reporting as of December 31, 2007. In making this assessment, the Company used the criteria set forth by the Committee of Sponsoring

Organizations of the Treadway Commission in Internal Control - Integrated Framework ("COSO"). The Company has concluded that, as of December 31, 2007, the Company's internal control over financial reporting was effective based on those criteria.

KU is no longer subject to the internal control and other requirements of the Sarbanes-Oxley Act of 2002 and associated rules (the "Act") and consequently has not issued Management's Report on Internal Controls over Financial Reporting pursuant to Section 404 of the Act.

Kentucky Utilities Company
Statements of Income
(Millions of $)

	Years Ended December 31 2007	2006
OPERATING REVENUES:		
Total operating revenues (Note 11)	$1,273	$1,210
OPERATING EXPENSES:		
Fuel for electric generation	461	424
Power purchased (Notes 9 and 11)	168	182
Other operation and maintenance expenses	255	254
Depreciation and amortization (Note 1)	121	115
Total operating expenses	1,005	975
Net operating income	268	235
Equity earnings in EEI (Note 1)	(26)	(29)
Other income – net	(6)	(1)
Interest expense (Notes 7 and 8)	15	15
Interest expense to affiliated companies (Note 11)	41	24
Income before income taxes	244	226
Federal and state income taxes (Note 6)	77	74
Net income	$ 167	$ 152

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

Statements of Retained Earnings
(Millions of $)

	Years Ended December 31 2007	2006
Balance January 1	$ 870	$ 718
Add net income	167	152
Balance December 31	$1,037	$ 870

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

Kentucky Utilities Company
Statements of Comprehensive Income
(Millions of $)

	Years Ended December 31	
	2007	2006
Net income	$167	$ 152
Additional minimum pension liability adjustment, net of tax expense of $0 and $13 for 2007 and 2006, respectively (Note 5)	-	19
Other comprehensive income, net of tax (Note 12)	-	19
Comprehensive income	$167	$ 171

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

Kentucky Utilities Company
Balance Sheets
(Millions of $)

	December 31 2007	December 31 2006
ASSETS:		
Current assets:		
Cash and cash equivalents (Note 1)	$ -	$ 6
Restricted cash (Note 1)	11	23
Accounts receivable – less reserve of $2 in 2007 and 2006 (Note 1)	172	123
Accounts receivable from affiliated companies (Note 11)	17	50
Materials and supplies (Note 1):		
Fuel (predominantly coal)	42	64
Other materials and supplies	34	34
Prepayments and other current assets	12	18
Total current assets	288	318
Other property and investments (Note 1)	29	25
Utility plant, at original cost (Note 1)	3,868	3,681
Less: reserve for depreciation	1,622	1,553
Total utility plant, net	2,246	2,128
Construction work in progress	1,071	487
Total utility plant and construction work in progress	3,317	2,615
Deferred debits and other assets:		
Regulatory assets (Note 2):		
Pension and postretirement benefits (Notes 1 and 2)	28	64
Other	86	83
Cash surrender value of key man life insurance	37	35
Other assets	11	8
Total deferred debits and other assets	162	190
Total Assets	$3,796	$3,148

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

Kentucky Utilities Company
Balance Sheets (continued)
(Millions of $)

	December 31 2007	December 31 2006
LIABILITIES AND EQUITY:		
Current liabilities:		
Current portion of long-term debt (Note 7)	$ 33	$ 141
Notes payable to affiliated companies (Notes 8 and 11)	23	97
Accounts payable	160	83
Accounts payable to affiliated companies (Note 11)	48	87
Customer deposits	20	19
Other current liabilities	28	23
Total current liabilities	312	450
Long-term debt:		
Long-term bonds (Note 7)	300	219
Long-term notes to affiliated company (Note 7)	931	483
Total long-term debt	1,231	702
Deferred credits and other liabilities:		
Accumulated deferred income taxes (Note 6)	285	289
Accumulated provision for pensions and related benefits (Note 5)	83	126
Investment tax credit (Note 6)	55	13
Asset retirement obligations	30	28
Regulatory liabilities (Note 2):		
Accumulated cost of removal of utility plant	310	297
Deferred income taxes	22	27
Other regulatory liabilities	10	6
Other liabilities	23	17
Total deferred credits and other liabilities	818	803
Commitments and contingencies (Note 9)		
COMMON EQUITY:		
Common stock, without par value - Authorized 80,000,000 shares, outstanding 37,817,878 shares	308	308
Additional paid-in-capital (Note 11)	90	15
Retained earnings	1,016	854
Undistributed subsidiary earnings	21	16
Total retained earnings	1,037	870
Total common equity	1,435	1,193
Total Liabilities and Equity	$3,796	$3,148

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

Kentucky Utilities Company
Statements of Cash Flows
(Millions of $)

	Years Ended December 31 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 167	$ 152
Items not requiring cash currently:		
Depreciation and amortization	121	115
Deferred income taxes-net	(6)	14
Investment tax credit-net	42	11
Provision for pension and postretirement plans	36	4
Other	(7)	2
Change in certain current assets and liabilities:		
Accounts receivable	(16)	(6)
Materials and supplies	22	(11)
Accounts payable	(26)	-
Accrued income taxes	2	(13)
Property and other taxes payable	(4)	10
Prepayments and other current assets	1	(8)
Other current liabilities	10	2
Pension and postretirement funding	(43)	(7)
MISO exit fee	-	(20)
Environmental cost recovery mechanism refundable	(1)	(12)
Other	4	(10)
Net cash provided by operating activities	302	223
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction expenditures	(742)	(347)
Change in restricted cash	12	(1)
Net cash used for investing activities	(730)	(348)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Long-term borrowings from affiliated company	448	100
Short-term borrowings from affiliated company	289	763
Repayment of short-term borrowings from affiliated company	(363)	(736)
Retirement of first mortgage bonds	(108)	(36)
Issuance of pollution control bonds	81	33
Additional paid-in capital	75	-
Net cash provided by financing activities	422	124
Change in cash and cash equivalents	(6)	(1)
Cash and cash equivalents at beginning of year	6	7
Cash and cash equivalents at end of year	$ -	$ 6
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Income taxes	$38	$82
Interest on borrowed money	16	15
Interest to affiliated companies on borrowed money	29	20

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

Kentucky Utilities Company
Statements of Capitalization
(Millions of $)

	December 31 2007	2006
LONG-TERM DEBT (Note 7):		
First mortgage bonds:		
P due May 15, 2007, 7.92% (Note 3)	-	54
Pollution control series:		
10, due November 1, 2024, variable %	-	54
Mercer Co. 2000 Series A, due May 1, 2023, variable %	13	13
Carroll Co. 2002 Series A, due February 1, 2032, variable %	21	21
Carroll Co. 2002 Series B, due February 1, 2032, variable %	2	2
Muhlenberg Co. 2002 Series A, due February 1, 2032, variable %	2	2
Mercer Co. 2002 Series A, due February 1, 2032, variable %	8	8
Carroll Co. 2002 Series C, due October 1, 2032, variable %	96	96
Carroll Co. 2004 Series A, due October 1, 2034, variable %	50	50
Carroll Co. 2005 Series A, due June 1, 2035, variable %	13	13
Carroll Co. 2005 Series B, due June 1, 2035, variable %	13	13
Carroll Co. 2006 Series A, due June 1, 2036, variable %	17	17
Carroll Co. 2006 Series C, due June 1, 2036, variable %	17	17
Carroll Co. 2007 Series A, due February 1, 2026, variable %	18	-
Carroll Co. 2006 Series B, due October 1, 2034, variable %	54	-
Trimble Co. 2007 Series A, due March 1, 2037, variable %	9	-
Notes payable to Fidelia:		
Due November 24, 2010, 4.24%, unsecured	33	33
Due January 16, 2012, 4.39%, unsecured	50	50
Due April 30, 2013, 4.55%, unsecured	100	100
Due August 15, 2013, 5.31%, unsecured	75	75
Due July 8, 2015, 4.735%, unsecured	50	50
Due December 21, 2015, 5.36%, unsecured	75	75
Due October 25, 2016, 5.675% unsecured	50	50
Due June 23, 2036, 6.33%, unsecured	50	50
Due December 19, 2014, 5.45% unsecured	100	-
Due June 20, 2017, 5.98% unsecured	50	-
Due October 25, 2019, 5.71% unsecured	70	-
Due February 7, 2022, 5.69% unsecured	53	-
Due September 14, 2028, 5.96% unsecured	100	-
Due March 30, 2037, 5.86% unsecured	75	-
Total long-term debt outstanding	1,264	843
Less current portion of long-term debt	33	141
Long-term debt	1,231	702
COMMON EQUITY:		
Common stock, without par value -		
Authorized 80,000,000 shares, outstanding 37,817,878 shares	308	308
Additional paid-in-capital (Note 11)	90	15
Retained earnings	1,016	854
Undistributed subsidiary earnings	21	16
Total retained earnings	1,037	870
Total common equity	1,435	1,193
Total capitalization	$2,666	$1,895

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

Note 1 - Summary of Significant Accounting Policies

KU, incorporated in Kentucky in 1912 and in Virginia in 1991, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. KU provides electricity to approximately 506,000 customers in 77 counties in central, southeastern and western Kentucky, to approximately 30,000 customers in 5 counties in southwestern Virginia and 5 customers in Tennessee. KU's coal-fired electric generating stations produce most of KU's electricity. The remainder is generated by a hydroelectric power plant and natural gas and oil fueled CTs. In Virginia, KU operates under the name Old Dominion Power Company. KU also sells wholesale electric energy to 12 municipalities.

KU is a wholly-owned subsidiary of E.ON U.S., formerly known as LG&E Energy LLC. E.ON U.S. is an indirect wholly-owned subsidiary of E.ON, a German corporation, making KU an indirect wholly-owned subsidiary of E.ON. KU's affiliate, LG&E, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy and the distribution and sale of natural gas in Kentucky.

Certain reclassification entries have been made to the previous years' financial statements to conform to the 2007 presentation with no impact on net assets, liabilities and capitalization or previously reported net income and cash flows.

Regulatory Accounting. KU is subject to SFAS No. 71, under which regulatory assets are created based on expected recovery from customers in future rates to defer costs that would otherwise be charged to expense. Likewise, regulatory liabilities are created based on expected return to customers in future rates to defer credits that would otherwise be reflected as income, or, in the case of costs of removal, are created to match long-term future obligations arising from the current use of assets. The accounting for regulatory assets and liabilities is based on specific ratemaking decisions or precedent for each item as prescribed by the FERC, the Kentucky Commission or the Virginia Commission. See Note 2, Rates and Regulatory Matters, for additional detail regarding regulatory assets and liabilities.

Cash and Cash Equivalents. KU considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Restricted Cash. Proceeds from bond issuances for environmental equipment (primarily related to the installation of FGDs) are held in trust pending expenditure for qualifying assets.

Allowance for Doubtful Accounts. The allowance for doubtful accounts is based on the ratio of the amounts charged-off during the last twelve months to the retail revenues billed over the same period multiplied by the retail revenues billed over the last four months. Accounts with no payment activity are charged-off after four months, although collection efforts continue thereafter.

Materials and Supplies. Fuel and other materials and supplies inventories are accounted for using the average-cost method. Emission allowances are included in other materials and supplies and are not currently traded by KU. At December 31, 2007 and 2006, the emission allowances inventory was less than $1 million and approximately $2 million, respectively.

Other Property and Investments. Other property and investments on the balance sheets consists of KU's investment in EEI, economic development loans provided to various communities in KU's service territory, KU's investment in OVEC, funds related to KU's long-term purchased power contract with OMU and non-utility plant.

Although KU holds investment interests in OVEC and EEI, it is not the primary beneficiary, therefore, neither are consolidated into KU's financial statements. KU and 11 other electric utilities are participating owners of OVEC, located in Piketon, Ohio. OVEC owns and operates two power plants that burn coal to generate electricity, Kyger Creek Station in Ohio and Clifty Creek Station in Indiana. Pursuant to current contractual arrangements, KU's share of OVEC's output is 2.5%, approximately 55 Mw of generation capacity.

As of December 31, 2007 and 2006, KU's investment in OVEC totaled less than $1 million and is accounted for under the cost method of accounting. KU's maximum exposure to loss as a result of its involvement with OVEC is limited to the value of its investment. In the event of the inability of OVEC to fulfill its power provision requirements, KU anticipates substituting such power supply with either owned generation or market purchases and believes it would generally recover associated incremental costs through regulatory rate mechanisms. See Note 9, Commitments and Contingencies, for further discussion of developments regarding KU's ownership interests and power purchase rights.

KU owns 20% of the common stock of EEI, which owns and operates a 1,162-Mw generating station in southern Illinois. Prior to 2006, KU was entitled to take 20% of the available capacity of the station under a pricing formula comparable to the cost of other power generated by KU. This contract governing the purchases from EEI terminated on December 31, 2005. Since December 31, 2005, EEI has sold power under general market-based pricing and terms. KU has not contracted with EEI for power under the new arrangements, but maintains its 20% ownership in the common stock of EEI. Replacement power for the EEI capacity has been largely provided by KU generation.

KU's investment in EEI is accounted for under the equity method of accounting and, as of December 31, 2007 and 2006, totaled $23 million and $18 million, respectively. KU's direct exposure to loss as a result of its involvement with EEI is generally limited to the value of its investment.

Utility Plant. KU's utility plant is stated at original cost, which includes payroll-related costs such as taxes, fringe benefits and administrative and general costs. Construction work in progress has been included in the rate base for determining retail customer rates in Kentucky. KU has not recorded a significant allowance for funds used during construction.

The cost of plant retired or disposed of in the normal course of business is deducted from plant accounts and such cost is charged to the reserve for depreciation. When complete operating units are disposed of, appropriate adjustments are made to the reserve for depreciation and gains and losses, if any, are recognized.

Depreciation and Amortization. Depreciation is provided on the straight-line method over the estimated service lives of depreciable plant. The amounts provided were approximately 3.2% in 2007 and 3.1% in 2006 of average depreciable plant. Of the amount provided for depreciation at December 31, 2007 and 2006, approximately 0.5% was related to the retirement, removal and disposal costs of long lived assets.

Unamortized Debt Expense. Debt expense is capitalized in deferred debits and amortized using the straight line method, which approximates the effective interest method, over the lives of the related bond issues.

Income Taxes. Income taxes are accounted for under SFAS No. 109, *Accounting for Income Taxes* and FIN 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of SFAS No. 109.* In accordance with these statements, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as measured by enacted tax rates that are expected to be in effect in the periods when the deferred tax assets and liabilities are expected to be settled or realized. Significant judgment is required in determining the provision for income taxes, and there are transactions for which the ultimate tax outcome is uncertain. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. . Uncertain tax positions are analyzed periodically and adjustments are made when events occur to warrant a change. See Note 6, Income Taxes.

Deferred Income Taxes. Deferred income taxes are recognized at currently enacted tax rates for all material temporary differences between the financial reporting and income tax bases of assets and liabilities.

Investment Tax Credits. The EPAct 2005 added Section 48A to the Internal Revenue Code, which provides for an investment tax credit to promote the commercialization of advanced coal technologies that will generate electricity in an environmentally responsible manner. KU and LG&E received an investment tax credit related to TC2, for more details see Note 6, Income Taxes. Investment tax credits prior to 2006 resulted from provisions of the tax law that permitted a reduction of KU's tax liability based on credits for construction expenditures. Deferred investment tax credits are being amortized to income over the estimated lives of the related property that gave rise to the credits.

Revenue Recognition. Revenues are recorded based on service rendered to customers through month-end. KU accrues an estimate for unbilled revenues from each meter reading date to the end of the accounting period based on allocating the daily system net deliveries between billed volumes and unbilled volumes. The allocation is based on a daily ratio of the number of meter reading cycles remaining in the month to the total number of meter reading cycles in each month. Each day's ratio is then multiplied by each day's system net deliveries to determine an estimated billed and unbilled volume for each day of the accounting period. The unbilled revenue estimates included in accounts receivable were $59 million and $42 million at December 31, 2007 and 2006, respectively.

Fuel Costs. The cost of fuel for generation is charged to expense as used.

Management's Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent items at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accrued liabilities, including legal and environmental, are recorded when they are probable and estimable. Actual results could differ from those estimates.

Recent Accounting Pronouncements. The following are recent accounting pronouncements affecting KU:

SFAS No. 160

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements,* which is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The objective of this statement is to improve the relevance, comparability and transparency of financial information in a reporting entity's consolidated financial statements. The Company expects the adoption of SFAS No. 160 to have no impact on its statements of operations, financial position and cash flows.

SFAS No. 159

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115*. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis (the fair value option). Unrealized gains and losses on items for which the fair value option has been elected are to be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. SFAS No. 159 was adopted effective January 1, 2008 and had no impact on the statements of operations, financial position and cash flows.

SFAS No. 157

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which, except as described below, is effective for fiscal years beginning after November 15, 2007. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 does not expand the application of fair value accounting to new circumstances. In February 2008, the FASB issued FASB Staff Position 157-2, *Effective Date of FASB Statement No. 157*, which delays the effective date of SFAS No. 157 for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. SFAS No. 157 was adopted effective January 1, 2008, except as it applies to those nonfinancial assets and liabilities, and had no impact on the statements of operations, financial position and cash flows, however, the Company will provide additional disclosures relating to its financial derivatives, AROs and pension assets as required in 2008.

FIN 48

In July 2006, the FASB issued FIN 48 which clarifies the accounting for the uncertainty of income tax positions recognized in an enterprise's financial statements in accordance with SFAS No. 109. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

The evaluation of a tax position in accordance with FIN 48 is a two-step process. The first step is recognition based on the determination of whether it is "more likely than not" that a tax position will be sustained upon examination. The second step is to measure a tax position that meets the "more likely than not" threshold. The tax position is measured as the amount of potential benefit that exceeds 50% likelihood of being realized.

FIN 48 is effective for fiscal years beginning after December 15, 2006, and was adopted effective January 1, 2007. The impact of FIN 48 on the statements of operations, financial position and cash flows was not material.

Note 2 - Rates and Regulatory Matters

KU is subject to the jurisdiction of the Kentucky Commission, the Virginia Commission, the Tennessee Regulatory Authority and the FERC in virtually all matters related to electric utility regulation, and as such, its accounting is subject to SFAS No. 71. Given its competitive position in the marketplace and the status of regulation in Kentucky and Virginia, KU has no plans or intentions to discontinue its application of SFAS No. 71.

Rate Case

In December 2003, KU filed an application with the Kentucky Commission requesting an adjustment in KU's rates. The revenue increase requested was $58 million. In June 2004, the Kentucky Commission issued an Order approving an increase in KU's base rates of approximately $46 million (7%). The rate increase took effect on July 1, 2004.

Final proceedings took place during the first quarter of 2006 concerning the sole remaining open issue relating to state income tax rates used in calculating the granted rate increase. On March 31, 2006, the Kentucky Commission issued an Order resolving this issue in KU's favor consistent with the original rate increase order.

Regulatory Assets and Liabilities

The following regulatory assets and liabilities were included in the balance sheets as of December 31:

(in millions)	2007	2006
ARO	$ 24	$ 22
MISO exit	20	20
FAC	17	16
Unamortized loss on bonds	10	10
ECR	11	10
Other	4	5
Subtotal	86	83
Pension and postretirement benefits	28	64
Total regulatory assets	$ 114	$ 147
Accumulated cost of removal of utility plant	$ 310	$ 297
Deferred income taxes - net	22	27
Other	10	6
Total regulatory liabilities	$ 342	$ 330

KU does not currently earn a rate of return on the FAC regulatory asset, which is a separate recovery mechanism with recovery within twelve months. No return is earned on the pension and postretirement benefits regulatory asset which represents the changes in funded status of the plans. The Company will seek recovery of this asset in future proceedings with the Kentucky and Virginia Commissions. No return is currently earned on the ARO asset. This regulatory asset will be offset against the associated regulatory liability, ARO asset and ARO liability at the time the underlying asset is retired. The MISO exit amount represents the costs relating to the withdrawal from MISO membership. KU will seek recovery of this asset in future proceedings with the Kentucky and Virginia Commissions. KU currently earns a rate of return on the remaining regulatory assets. Other regulatory assets include VDT costs, the merger surcredit and deferred storm costs. Other regulatory liabilities include DSM and MISO costs included in base rates that will be netted against costs of withdrawing from the MISO in the next rate case.

ARO. A summary of KU's net ARO assets, regulatory assets, liabilities and cost of removal established under FIN 47, *Accounting for Conditional Asset Retirement Obligations, an Interpretation of SFAS No. 143,* and SFAS No. 143, *Accounting for Asset Retirement Obligations,* follows:

(in millions)	ARO Net Assets	ARO Liabilities	Regulatory Assets	Regulatory Liabilities	Accumulated Cost of Removal	Cost of Removal Depreciation
As of December 31, 2005	$ 6	$(27)	$20	$ (2)	$ 2	$ 1
ARO accretion	-	(1)	1	-	-	-
ARO depreciation	(1)	-	1	-	-	-
As of December 31, 2006	5	(28)	22	(2)	2	1
ARO accretion	-	(2)	2	-	-	-
As of December 31, 2007	$ 5	$(30)	$24	$ (2)	$ 2	$ 1

Pursuant to regulatory treatment prescribed under SFAS No. 71, an offsetting regulatory credit was recorded in depreciation and amortization in the income statement of $2 million in 2007 and 2006 for the ARO accretion and depreciation expense. KU AROs are primarily related to the final retirement of assets associated with generating units. For assets associated with AROs, the removal cost accrued through depreciation under regulatory accounting is established as a regulatory liability pursuant to regulatory treatment prescribed under SFAS No. 71. There were no FIN 47 net asset additions during 2007 or 2006. For the years ended December 31, 2007 and 2006, KU recorded less than $1 million of depreciation expense related to the cost of removal of ARO related assets. An offsetting regulatory liability was established pursuant to regulatory treatment prescribed under SFAS No. 71.

KU transmission and distribution lines largely operate under perpetual property easement agreements which do not generally require restoration upon removal of the property. Therefore, under SFAS No. 143, no material asset retirement obligations are recorded for transmission and distribution assets.

MISO Exit. Following receipt of applicable FERC, Kentucky Commission and other regulatory orders, KU withdrew from the MISO effective September 1, 2006. Specific proceedings regarding the costs and benefits of the MISO and exit matters had been underway since July 2003. Since the exit from the MISO, KU has been operating under a FERC-approved open access-transmission tariff. KU now contracts with the Tennessee Valley Authority to act as its transmission Reliability Coordinator and Southwest Power Pool, Inc. to function as Independent Transmission Organization, pursuant to FERC requirements.

KU and the MISO have agreed upon overall calculation methods for the contractual exit fee to be paid by the Company following its withdrawal. In October 2006, KU paid approximately $20 million to the MISO pursuant to an invoice regarding the exit fee and made related FERC compliance filings. The Company's payment of this exit fee amount was with reservation of its rights to contest the amount, or components thereof, following a continuing review of its calculation and supporting documentation. In December 2006, KU provided notice to the MISO of its disagreement with the calculation of the exit fee. KU and the MISO have resolved their dispute regarding the calculation of the exit fee and, in November 2007, filed an application with the FERC for approval of a recalculation agreement. In March 2008, the FERC approved the parties' recalculation of the exit fee, and the approved agreement provides KU with an immediate recovery of $1 million and will provide an estimated $3 million over the next eight years for credits realized from other payments the MISO will receive, plus interest. Orders of the Kentucky Commission approving the Company's exit from the MISO have authorized the establishment of a regulatory asset for the exit fee, subject to adjustment for possible future MISO credits, and a regulatory liability for certain revenues associated with former MISO administrative charges, which may continue to be collected via base rates. The treatment of the regulatory asset and liability will be determined in KU's next rate case, however, the Company historically has received approval to recover and refund regulatory assets and liabilities.

FAC. KU's retail rates contain an FAC, whereby increases and decreases in the cost of fuel for generation are reflected in the rates charged to retail customers. The FAC allows the Company to adjust customers' accounts for the difference between the fuel cost component of base rates and the actual fuel cost, including transportation costs. Refunds to customers occur if the actual costs are below the embedded cost component. Additional charges to customers occur if the actual costs exceed the embedded cost component. The amount of the regulatory asset or liability is the amount that has been under- or over-recovered due to timing or adjustments to the mechanism.

The Kentucky Commission requires public hearings at six-month intervals to examine past fuel adjustments, and at two-year intervals to review past operations of the fuel clause and transfer of the then current fuel adjustment charge or credit to the base charges.

In January 2008, the Kentucky Commission initiated a routine examination of KU's FAC for the six-month period May 1, 2007 through October 31, 2007. Data discovery is ongoing and a public hearing is scheduled in March 2008.

In August 2007, the Kentucky Commission initiated a routine examination of KU's FAC for the six-month period of November 1, 2006 through April 30, 2007. Data discovery has concluded and a public hearing was held in October 2007. The Kentucky Commission issued an Order in January 2008, approving the charges and credits billed through the FAC during the review period.

In December 2006, the Kentucky Commission initiated its periodic two-year review of KU's past operations of the fuel clause and transfer of fuel costs from the FAC to base rates for November 1, 2004 through October 31, 2006. In March 2007, the KIUC challenged KU's recovery of approximately $5 million in aggregate fuel costs KU incurred during a period prior to its exit from the MISO and requested the Kentucky Commission disallow this amount. A public hearing was held in May 2007. In October 2007, the Kentucky Commission issued its Order approving the calculation and application of KU's FAC charges and fuel procurement practices and indicated that KU was in compliance with the provisions of Administrative Regulation 807 KAR 5:5056. The Kentucky Commission further approved KU's recommendation for the transfer of fuel cost from the FAC to base rates. In November 2007, the KIUC filed a petition for rehearing, claiming the Kentucky Commission misinterpreted the KIUC's arguments in the proceeding. In the same month, the Kentucky Commission issued an Order denying the KIUC's request for rehearing. An appeal was not filed by the KIUC.

In July 2006, the Kentucky Commission initiated a six-month review of the FAC for KU for the period of November 1, 2005 through April 30, 2006. The Kentucky Commission issued an Order in November 2006, approving the charges and credits billed through the FAC during the review period.

In January 2003, the Kentucky Commission reviewed KU's FAC for the six-month period ended October 31, 2001. The Kentucky Commission ordered KU to reduce its fuel costs for purposes of calculating its FAC by less than $1 million. At issue was the purchase of approximately 102,000 tons of coal from Western Kentucky Energy Corp., a non-regulated affiliate, for use at KU's Ghent facility. The Kentucky Commission further ordered that an independent audit be conducted to examine operational and management aspects of both KU's and LG&E's fuel procurement functions. The final report's recommendations, issued in February 2004, related to documentation and process improvements. Management Audit Action Plans were agreed upon by KU and the Kentucky Commission Staff in the second quarter of 2004, and resulted in Audit Progress Reports being filed by KU with the Kentucky Commission. In February 2007, the Kentucky Commission staff indicated that KU fully complied with all audit recommendations and that no further reports are required.

KU also employs an FAC mechanism for Virginia customers that uses an average fuel cost factor based primarily on projected fuel costs. The fuel cost factor may be adjusted annually for over or under collections of fuel costs from the previous year. In February 2007, KU filed an application with the Virginia Commission seeking approval of an increase of approximately $4 million in its fuel cost factor to reflect higher fuel costs incurred and under-collected during 2006, and anticipated higher fuel costs to be incurred in 2007. The Virginia Commission approved KU's request in April 2007. In February 2008, KU filed an application with the Virginia Commission seeking approval of a decrease of 0.599 cents/KWh in its fuel cost factor applicable during the billing period April 2008 through March 2009. The decrease was requested because KU has fully recovered its under-recovered fuel expenses from the prior periods.

Unamortized Loss on Bonds. The costs of early extinguishment of debt, including call premiums, legal and other expenses, and any unamortized balance of debt expense are amortized using the straight line method, which approximates the effective interest method, over the life of either replacement debt (in the case of refinancing) or the original life of the extinguished debt.

ECR. Kentucky law permits KU to recover the costs of complying with the Federal Clean Air Act, including a return of operating expenses, and a return of and on capital invested, through the ECR mechanism. The amount of the regulatory asset or liability is the amount that has been under- or over-recovered due to timing or adjustments to the mechanism.

In September 2007, the Kentucky Commission initiated six-month and two-year reviews for periods ending October 31, 2006 and April 30, 2007, respectively, of KU's environmental surcharge. Data discovery concluded in December 2007, and all parties to the case submitted requests with the Kentucky Commission to waive rights to a hearing on this matter. The case is submitted for decision and an order is anticipated in the second quarter of 2008.

In June 2006, KU filed an application for a CCN to construct an SCR at the Ghent station and to amend its ECR plan with the Kentucky Commission seeking approval to recover investments in environmental upgrades at the Company's generating facilities. The estimated capital cost of the upgrades for the years 2008 through 2010 is approximately $125 million, of which approximately $115 million is for the Air Quality Control System at TC2. A final Order was issued by the Kentucky Commission in December 2006, approving all expenditures and investments as submitted. In October 2007, KU met with the Kentucky Commission and other interested parties to discuss the status of the Ghent Unit 2 SCR construction. KU informed the Kentucky Commission that construction of the Ghent Unit 2 SCR was not going to commence before the CCN expired in December 2007, due to a change in the economics for the project. The CCN expired in December 2007, and KU has delayed construction of the Ghent Unit 2 SCR.

In April 2006, the Kentucky Commission initiated six-month and two-year reviews of KU's environmental surcharge for six-month periods ending July 2003, January 2004, January 2005, July 2005 and January 2006 and for the two-year period ending July 2004. A final Order was received in January 2007, approving the charges and credits billed through the ECR during the review period as well as approving billing adjustments, a roll-in to base rates, revisions to the monthly surcharge filing and the rate of return on capital.

VDT. In December 2001, the Kentucky Commission issued an Order approving a settlement agreement allowing KU to set up a regulatory asset of $54 million for workforce reduction costs and begin amortizing it over a five-year period starting in April 2001. Some employees rescinded their participation in the voluntary enhanced severance program which, along with the non-recurring charge of $7 million for FERC and Virginia jurisdictions, thereby decreased the charge to the regulatory asset from $64 million to $54 million. The Order reduced revenues by approximately $11 million through a surcredit on bills to ratepayers over the same five-year period, reflecting a sharing (40% to the ratepayers and 60% to KU) of savings as stipulated by KU, net of amortization costs of the workforce reduction. The five-year VDT amortization period expired in March 2006.

As part of the settlement agreement in the rate case, in September 2005, KU filed with the Kentucky Commission a plan for the future ratemaking treatment of the VDT surcredit and costs. In February 2006, the AG, KIUC and KU reached a settlement agreement on the future ratemaking treatment of the VDT surcredits and costs and subsequently submitted a joint motion to the Kentucky Commission to approve the unanimous settlement agreement. Under the terms of the settlement agreement, the VDT surcredit will continue at the current level until such time as KU files for a change in base rates. The Kentucky Commission issued an Order in March 2006, approving the settlement agreement.

Merger Surcredit. As part of the LG&E Energy merger with KU Energy Corporation in 1998, KU estimated non-fuel savings over a ten-year period following the merger. Costs to achieve these savings were deferred and amortized over a five-year period pursuant to regulatory orders. In approving the merger, the Kentucky Commission adopted KU's proposal to reduce its retail customers' bills based on one-half of the estimated merger-related savings, net of deferred and amortized amounts, over a five-year period. The surcredit mechanism provides that 50% of the net non-fuel cost savings estimated to be achieved from the merger be provided to ratepayers through a monthly bill credit, and 50% be retained by KU over a five-year period. In that same order, the Kentucky Commission required KU, after the end of the five-year period, to present a plan for sharing with ratepayers the then-projected non-fuel savings associated with the merger. KU submitted this filing in January 2003, proposing to continue to share with ratepayers, on a 50%/50% basis, the estimated fifth-year gross level of non-fuel savings associated with the merger. In October 2003, the Kentucky Commission issued an Order approving a settlement agreement reached with the parties in the case. According to the Order, KU's merger surcredit would remain in place for another five-year term beginning July 1, 2003, the merger savings would continue to be shared 50% with ratepayers and 50% with shareholders and KU would file a plan for the merger surcredit six months before its expiration.

In December 2007, KU submitted to the Kentucky Commission its plan to allow the merger surcredit to terminate as scheduled on June 30, 2008. The Kentucky Commission has not issued a procedural schedule for this proceeding.

Deferred Storm Costs. Based on an Order from the Kentucky Commission in June 2004, KU reclassified from maintenance expense to a regulatory asset, $4 million related to costs not reimbursed from the 2003 ice storm. These costs will be amortized through June 2009. KU earns a return of these amortized costs, which are included in KU's jurisdictional operating expenses.

Pension and Postretirement Benefits. KU adopted SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans,* in 2006. This statement requires employers to recognize the over-funded or under-funded status of a defined benefit pension and postretirement plan as an asset or liability in the balance sheet and to recognize through comprehensive income the changes in the funded status in the year in which the changes occur. Under SFAS No. 71, KU can defer recoverable costs that would otherwise be charged to expense or equity by non-regulated entities. Current rate recovery in Kentucky and Virginia is based on SFAS No. 87, *Employers' Accounting for Pensions,* and SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other than Pensions,* both of which were amended by SFAS No. 158. Regulators have been clear and consistent with their historical treatment of such rate recovery, therefore, KU has recorded a regulatory asset representing the probable recovery of the portion of the change in funded status of the pension and postretirement plans that is expected to be recovered. The regulatory asset will be adjusted annually as prior service cost and actuarial gains and losses are recognized in net periodic benefit cost.

Accumulated Cost of Removal of Utility Plant. As of December 31, 2007 and 2006, KU has segregated the cost of removal, previously embedded in accumulated depreciation, of $310 million and $297 million, respectively, in accordance with FERC Order No. 631. This cost of removal component is for assets that do not have a legal ARO under SFAS No. 143. For reporting purposes in the balance sheets, KU has presented this cost of removal as a regulatory liability pursuant to SFAS No. 71.

Deferred Income Taxes – Net. Deferred income taxes represent the future income tax effects of recognizing the regulatory assets and liabilities in the income statement. Deferred income taxes are recognized at currently enacted tax rates for all material temporary differences between the financial reporting and income tax bases of assets and liabilities.

DSM. KU's rates contain a DSM provision. The provision includes a rate mechanism that provides for concurrent recovery of DSM costs and provides an incentive for implementing DSM programs. The provision allows KU to recover revenues from lost sales associated with the DSM programs based on program plan engineering estimates and post-implementation evaluations.

In July 2007, KU and LG&E filed an application with the Kentucky Commission requesting an order approving enhanced versions of the existing DSM programs along with the addition of several new cost effective programs. The total annual budget for these programs is approximately $26 million, an increase over the existing annual budget of approximately $10 million. Data discovery concluded in November 2007, and the Community Action Council ("CAC") for Lexington-Fayette, Bourbon, Harrison and Nicholas counties and the Kentucky Association for Community Action ("KACA"), filed a motion for hearing. In January 2008, the CAC and KACA filed a motion with the Kentucky Commission to withdraw the request because the parties reached a settlement. The Kentucky Commission is allowing the current tariffs to remain in effect until a final order is issued.

Other Regulatory Matters

Utility Competition in Virginia. The Commonwealth of Virginia passed the Virginia Electric Utility Restructuring Act in 1999. This act gave Virginia customers the ability to choose their electric supplier. Rates are capped at current levels through December 2010. The Virginia Commission will continue to require each Virginia utility to make annual filings of either a base rate change or an Annual Informational Filing consisting of a set of standard financial schedules. The Virginia Commission Staff will issue a Staff Report regarding the individual utility's financial performance during the historic 12-month period. The Staff Report can lead to an adjustment in rates, but through December 2010, rates are subject to the capped rate period and essentially "frozen". In April 2007, Virginia passed legislation terminating this competitive market and commencing re-regulation of utility rates in Virginia. The new act will end the cap on rates at the end of 2008, rather than through December 2010, and end customer choice for most consumers in the applicable regions of the state. Thereafter, a hybrid model of regulation is expected to apply in Virginia, whereby utility rates would be reviewed every two years and a utility's rate of return on equity shall not be set lower than the average of the rates of return for other regional utilities, with certain caps, floors or adjustments. The legislation was effective in July 2007, and also includes a 10% nonbinding goal for renewable power generation by 2022, as well as incentives for new generation, including renewables. Under the legislation, KU retains an existing exemption from customer choice and other restructuring activities as applicable to KU's limited service territory in Virginia. However, subject to future developments, KU may or may not undertake such a rate proceeding in the first six months of 2009 based on calendar year 2008 financial data under the hybrid model of regulation, or make biennial rate filings with the Virginia Commission thereafter.

Regional Reliability Council. KU has changed its regional reliability council membership from the Reliability First Corporation to the SERC Reliability Corporation ("SERC"), effective January 1, 2007. Regional reliability councils are industry consortiums that promote, coordinate and ensure the reliability of the bulk electric supply systems in North America.

TC2 CCN Application. A CCN application for construction of the new, base-load, coal fired unit TC2, which will be jointly owned by KU and LG&E, was approved by the Kentucky Commission in November 2005, and initial CCN applications for three transmission lines were approved in September 2005 and May 2006. In August 2006, KU obtained dismissal of a judicial review of such CCN approvals by certain property owners. In December 2007, the Kentucky Court of Appeals reversed and remanded the lower Court's dismissal. Both parties have filed for reconsideration of elements of the appellate court's ruling. The transmission lines are also subject to routine regulatory filings and the right-of-way acquisition process. See Note 9, Commitments and Contingencies, for further discussion regarding the TC2 air permit.

Ghent FGD Inquiry. In October 2006, the Kentucky Commission commenced an inquiry into elements of KU's planned construction of one of its three new FGDs at the Ghent generating station. The proceeding requested, and KU provided, additional information regarding configuration details, expenditures and the proposed construction sequence applicable to future construction phases of the Ghent FGD project. In January 2007, the Kentucky Commission issued an Order completing its inquiry in the matter and confirming its approval of KU's construction plan. The Order also provided general guidance for jurisdictional utilities regarding applicable information and data requirements for future CCN applications and subsequent proceedings.

Market-Based Rate Authority. In July 2006, the FERC issued an Order in KU's market-based rate proceeding accepting KU's further proposal to address certain market power issues the FERC had claimed would arise upon an exit from the MISO. In particular, KU received permission to sell power at market-based rates at the interface of control areas in which it may be deemed to have market power, subject to a restriction that such power not be collusively re-sold back into such control areas. However, restrictions exist on sales by KU of power at market-based rates in the KU/LG&E and Big Rivers Electric Corporation control areas. In June 2007, the FERC issued Order No. 697 implementing certain reforms to market-based rate regulations, including restrictions similar to those previously in place for KU's power sales at control area interfaces. As a condition of receiving and retaining market-based rate authority, KU must comply with applicable affiliate restrictions set forth in FERC's regulation.

FERC Audit Results. In July 2006, the FERC issued a final report under a routine audit that its Office of Enforcement (formerly its Office of Market Oversight and Investigations) had conducted regarding the compliance of E.ON U.S. and its subsidiaries, including KU, under the FERC's standards of conduct and codes of conduct requirements, as well as other areas. The final report contained certain findings calling for improvements in E.ON U.S. and its subsidiaries' structures, policies and procedures relating to transmission, generation dispatch, energy marketing and other practices. E.ON U.S. and its subsidiaries have agreed to certain corrective actions and have submitted procedures related to such corrective actions to the FERC. The corrective actions are in the nature of organizational and operational improvements as described above and are not expected to have a material adverse impact on the Company's results of operations or financial condition.

Mandatory Reliability Standards. As a result of EPAct 2005, certain formerly voluntary reliability standards became mandatory in June 2007, and authority was delegated to various regional reliability organizations ("RRO") by the Electric Reliability Organization, which was authorized by the FERC to enforce compliance with such standards, including promulgating new standards. Failure to comply with mandatory reliability standards can subject a registered entity to sanctions, including potential fines of up to $1 million per day as well as non-monetary penalties, depending upon the circumstances of the violation. KU is a member of the SERC, which acts as KU's RRO. The SERC is currently assessing KU's compliance with certain existing mitigation plans resulting from a prior RRO's audit of various reliability standards. While KU believes itself to be in substantial compliance with the mandatory reliability standards generally, KU cannot predict the outcome of the current SERC proceeding or of other analysis which may be conducted regarding compliance with particular reliability standards.

IRP. Integrated resource planning regulations in Kentucky require major utilities to make triennial IRP filings with the Kentucky Commission. In April 2005, KU and LG&E filed their 2005 joint IRP with the Kentucky Commission. The IRP provides historical and projected demand, resource and financial data, and other operating performance and system information. The AG and the KIUC were granted intervention in the IRP proceeding. The Kentucky Commission issued its staff report with no substantive issues noted and closed the case by Order in February 2006. KU and LG&E will submit the next joint triennial filing in April 2008.

PUHCA 2005. E.ON, KU's ultimate parent, is a registered holding company under PUHCA 2005. E.ON, its utility subsidiaries, including KU, and certain of its non-utility subsidiaries, are subject to extensive regulation by the FERC with respect to numerous matters, including: electric utility facilities and operations, wholesale sales of power and related transactions, accounting practices, issuances and sales of securities, acquisitions and sales of utility properties, payments of dividends out of capital and surplus, financial matters and inter-system sales of non-power goods and services. KU believes that it has adequate authority (including financing authority) under existing FERC orders and regulations to conduct its business and will seek additional authorization when necessary.

EPAct 2005. The EPAct 2005 was enacted in August 2005. Among other matters, this comprehensive legislation contains provisions mandating improved electric reliability standards and performance; granting enhanced civil penalty authority to the FERC; providing economic and other incentives relating to transmission, pollution control and renewable generation assets; increasing funding for clean coal generation incentives; repealing the Public Utility Holding Company Act of 1935; enacting PUHCA 2005 and expanding FERC jurisdiction over public utility holding companies and related matters via the Federal Power Act and PUHCA 2005.

In February 2006, the Kentucky Commission initiated an administrative proceeding to consider the requirements of the EPAct 2005, Subtitle E Section 1252, Smart Metering, which concerns time-based metering and demand response, and Section 1254, Interconnections. EPAct 2005 requires each state regulatory authority to conduct a formal investigation and issue a decision on whether or not it is appropriate to implement certain Section 1252, Smart Metering standards within eighteen months after the enactment of EPAct 2005 and to commence consideration of Section 1254, Interconnection standards within one year after the enactment of EPAct 2005. Following a public hearing with all Kentucky jurisdictional electric utilities, in December 2006, the Kentucky Commission issued an Order in this proceeding indicating that the EPAct 2005 Section 1252, Smart Metering and Section 1254, Interconnection standards should not be adopted. However, all five Kentucky Commission jurisdictional utilities are required to file real-time pricing pilot programs for their large commercial and industrial customers. KU developed a real-time pricing pilot for large industrial and commercial customers and filed the details of the plan with the Kentucky Commission in April 2007. Data discovery concluded in July 2007, and no parties to the case requested a hearing. In February 2008, the Kentucky Commission issued an Order approving the real-time pricing pilot program proposed by KU for implementation within approximately eight months. KU will notify the Kentucky Commission 10 days prior to the actual implementation date and will file annual reports on the program within 90 days of each plan year-end for the 3-year pilot period.

Green Energy Riders. In February 2007, KU and LG&E filed a Joint Application and Testimony for Proposed Green Energy Riders. The AG and KIUC were granted full intervention. In May 2007, a Kentucky Commission Order was issued authorizing KU to establish Small and Large Green Energy Riders, allowing customers to contribute funds to be used for the purchase of renewable energy credits.

Home Energy Assistance Program. In July 2007, KU filed an application with the Kentucky Commission for the establishment of a new Home Energy Assistance program. During September 2007, the Kentucky Commission approved KU's new five-year program as filed, effective in October 2007. The program terminates in September 2012, and is funded through a $0.10 per month meter charge.

Depreciation Study. In December 2007, KU filed a depreciation study with the Kentucky Commission requesting a change in the depreciation rates as required by a previous Order. An adjustment to the depreciation rates is dependent on an order being received by the Kentucky Commission, the timing of which cannot currently be determined.

Note 3 - Financial Instruments

The cost and estimated fair values of KU's non-trading financial instruments as of December 31 follow:

	2007		2006	
(in millions)	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt (including current portion of $33 million)	$333	$333	$360	$360
Long-term debt from affiliate	$931	$996	$483	$487

All of the above valuations reflect prices quoted by exchanges except for the loans from affiliate which are fair valued using accepted valuation models. The fair values of cash and cash equivalents, accounts receivable, cash surrender value of key man life insurance, accounts payable and notes payable are substantially the same as their carrying values.

Interest Rate Swaps (hedging derivatives). KU has used over-the-counter interest rate swaps to hedge exposure to market fluctuations in certain of its debt instruments. Pursuant to Company policy, use of these financial instruments has been intended to mitigate risk, earnings and cash flow volatility and was not speculative in nature. Management had designated all of the interest rate swaps as hedge instruments. Financial instruments designated as fair value hedges and the underlying hedged items are periodically marked to market with the resulting net gains and losses recorded directly into net income. Upon termination of any fair value hedge, the resulting gain or loss is recorded into net income.

KU had no outstanding interest rate swap agreements at December 31, 2007. KU was party to an interest rate swap agreement with a notional amount of $53 million as of December 31, 2006. The interest rate swap was terminated in February 2007, when the underlying debt was defeased. Under this swap agreement, KU paid variable rates based on the London Interbank Offer Rate averaging 7.44% and received fixed rates averaging 7.92% at December 31, 2006. The swap agreement in effect at December 31, 2006 had been designated as a fair value hedge. The fair value designation was assigned because the underlying fixed rate debt had a firm future commitment. For 2007 and 2006, the effect of marking these financial instruments and the underlying debt to market resulted in pre-tax gains of less than $1 million recorded in interest expense.

Interest rate swaps hedge interest rate risk on the underlying debt under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended, in addition to swaps being marked to market, the item being hedged must also be marked to market. Consequently, at December 31, 2006, KU's debt reflects a mark-to-market adjustment of less than $1 million.

Energy Risk Management Activities (non-hedging derivatives). KU conducts energy trading and risk management activities to maximize the value of power sales from physical assets it owns. Energy trading activities are principally forward financial transactions to hedge price risk and are accounted for on a mark-to-market basis in accordance with SFAS No. 133, as amended.

The table below summarizes KU's energy trading and risk management activities:

(in millions)	2007	2006
Fair value of contracts at beginning of period, net asset	$ 1	$ 1
Unrealized gains and losses recognized at contract inception during the period	-	-
Realized gains and losses recognized during the period	-	1
Changes in fair values attributable to changes in valuation techniques and assumptions	(1)	(2)
Other unrealized gains and losses and changes in fair values	-	1
Fair value of contracts at end of period, net asset	$ -	$ 1

No changes to valuation techniques for energy trading and risk management activities occurred during 2007 or 2006. Changes in market pricing, interest rate and volatility assumptions were made during both years. All contracts outstanding at December 31, 2007 and 2006, have a maturity of less than one year and are valued using prices actively quoted for proposed or executed transactions or quoted by brokers.

KU maintains policies intended to minimize credit risk and revalues credit exposures daily to monitor compliance with those policies. At December 31, 2007, 100% of the trading and risk management commitments were with counterparties rated BBB-/Baa3 equivalent or better.

KU hedges the price volatility of its forecasted electric wholesale sales with the sales of market-traded electric forward contracts for periods of less than one year. Hedge accounting treatment has not been elected for these transactions, and therefore gains and losses are shown in the statements of income in other income – net. No material pre-tax gains and losses resulted in 2007. Pre-tax gains of $1 million resulted in 2006.

Note 4 - Concentrations of Credit and Other Risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed to perform as contracted. Concentrations of credit risk (whether on- or off-balance sheet) relate to groups of customers or counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

KU's customer receivables and revenues arise from deliveries of electricity to approximately 506,000 customers in over 600 communities and adjacent suburban and rural areas in 77 counties in central, southeastern and western Kentucky, to approximately 30,000 customers in five counties in southwestern Virginia and 5 customers in Tennessee. For the years ended December 31, 2007 and 2006, 100% of total revenue was derived from electric operations.

Effective August 1, 2006, KU and its employees represented by the IBEW Local 2100 entered into a new three-year collective bargaining agreement. The new agreement provides for negotiated increases or changes to wages, benefits or other provisions and for annual wage re-openers. A wage re-opener was negotiated in July 2007. KU and its employees represented by the USWA Local 9447-01 entered into a three-year collective bargaining agreement effective August 2005, with authorized annual wage re-openers. The employees represented by these two bargaining units comprise approximately 16% of KU's workforce at December 31, 2007. Wage re-openers were negotiated in July 2006, and July 2007.

Note 5 - Pension and Other Postretirement Benefit Plans

KU has both funded and unfunded non-contributory defined benefit pension plans and other postretirement benefit plans that together cover substantially all of its employees. The healthcare plans are contributory with participants' contributions adjusted annually. KU uses December 31 as the measurement date for its plans.

Obligations and Funded Status. The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of assets over the two-year period ending December 31, 2007, and a statement of the funded status as of December 31 for KU's sponsored defined benefit plans:

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2007	2006	2007	2006
Change in benefit obligation				
Benefit obligation at beginning of year	$ 303	$ 318	$ 88	$ 95
Service cost	6	6	2	2
Interest cost	17	17	5	5
Benefits paid, net of retiree contributions	(19)	(19)	(5)	(5)
Actuarial gain and other	(23)	(19)	(14)	(9)
Benefit obligation at end of year	$ 284	$ 303	$ 76	$ 88
Change in plan assets				
Fair value of plan assets at beginning of year	$ 253	$ 247	$ 12	$ 9
Actual return on plan assets	17	26	-	1
Employer contributions	13	-	6	7
Benefits paid, net of retiree contributions	(19)	(19)	(5)	(5)
Administrative expenses and other	-	(1)	-	-
Fair value of plan assets at end of year	$ 264	$ 253	$ 13	$ 12
Funded status at end of year	$ (20)	$ (50)	$ (63)	$ (76)

Amounts Recognized in Statement of Financial Position. The following tables provide the amounts recognized in the balance sheets and information for plans with benefit obligations in excess of plan assets as of December 31:

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2007	2006	2007	2006
Regulatory assets	$ 37	$ 59	$ (9)	$ 5
Accrued benefit liability (non-current)	(20)	(50)	(63)	(76)

Additional year-end information for plans with accumulated benefit obligations in excess of plan assets:

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2007	2006	2007	2006
Benefit obligation	$ 284	$ 303	$ 76	$ 88
Accumulated benefit obligation	243	258	-	-
Fair value of plan assets	264	253	13	12

Components of Net Periodic Benefit Cost. The following table provides the components of net periodic benefit cost for the plans:

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2007	2006	2007	2006
Service cost	$ 6	$ 6	$ 2	$ 2
Interest cost	17	17	5	5
Expected return on plan assets	(21)	(20)	(1)	(1)
Amortization of prior service costs	1	1	-	1
Amortization of actuarial loss	2	4	-	-
Amortization of transitional obligation	-	-	-	1
Benefit cost at end of year	$ 5	$ 8	$ 6	$ 8

The assumptions used in the measurement of KU's pension benefit obligation are shown in the following table:

	2007	2006
Weighted-average assumptions as of December 31:		
Discount rate	6.66%	5.96%
Rate of compensation increase	5.25%	5.25%

The discount rate is based on the November Mercer Pension Discount Yield Curve, adjusted by the basis point change in the Moody's Corporate Aa Bond Rate in December.

The assumptions used in the measurement of KU's net periodic benefit cost are shown in the following table:

	2007	2006
Discount rate	5.90%	5.50%
Expected long-term return on plan assets	8.25%	8.25%
Rate of compensation increase	5.25%	5.25%

To develop the expected long-term rate of return on assets assumption, KU considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

The following describes the effects on pension benefits by changing the major actuarial assumptions discussed above:

- A 1% change in the assumed discount rate could have an approximate $30 million positive or negative impact to the 2007 accumulated benefit obligation and an approximate $40 million positive or negative impact to the 2007 projected benefit obligation.
- A 25 basis point change in the expected rate of return on assets would have an approximate $1 million positive or negative impact on 2007 pension expense.

Assumed Healthcare Cost Trend Rates. For measurement purposes, a 9% annual increase in the per capita cost of covered healthcare benefits was assumed for 2007. The rate was assumed to decrease gradually to 5% by 2015 and remain at that level thereafter.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. A 1% change in assumed healthcare cost trend rates would have resulted in an increase or decrease of less than $1 million on the 2007 total of service and interest costs components and an increase or decrease of $4 million in year-end 2007 postretirement benefit obligations.

Expected Future Benefit Payments and Medicare Subsidy Receipts. The following list provides the amount of expected future benefit payments, which reflect expected future service and the estimated gross amount of Medicare subsidy receipts:

(in millions)	Pension Plans	Other Postretirement Benefits	Medicare Subsidy Receipts
2008	$ 18	$ 6	$ (1)
2009	18	7	(1)
2010	17	7	(1)
2011	17	7	(1)
2012	17	7	(1)
2013-17	90	37	(3)

Plan Assets. The following table shows KU's weighted-average asset allocation by asset category at December 31:

Pension Plans	Target Range	2007	2006
Equity securities	45% - 75%	57%	61%
Debt securities	30% - 50%	43%	39%
Other	0% - 10%	0%	0%
Totals		100%	100%

The investment policy of the pension plans was developed in conjunction with financial consultants, investment advisors and legal counsel. The goal of the investment policy is to preserve the capital of the fund and maximize investment earnings. The return objective is to exceed the benchmark return for the policy index comprised of the following: Russell 3000 Index, MSCI-EAFE Index, Lehman Aggregate and Lehman U.S. Long Government/Credit Bond Index in proportions equal to the targeted asset allocation.

Evaluation of performance focuses on a long-term investment time horizon of at least three to five years or a complete market cycle. The assets of the pension plans are broadly diversified within different asset classes (equities, fixed income securities and cash equivalents).

To minimize the risk of large losses in a single asset class, no more than 5% of the portfolio will be invested in the securities of any one issuer with the exclusion of the U.S. government and its agencies. The equity portion of the fund is diversified among the market's various subsections to diversify risk, maximize returns and avoid undue exposure to any single economic sector, industry group or individual security. The equity subsectors include, but are not limited to, growth, value, small capitalization and international.

In addition, the overall fixed income portfolio may have an average weighted duration, or interest rate sensitivity which is within +/- 20% of the duration of the overall fixed income benchmark. Foreign bonds in the aggregate shall not exceed 10% of the total fund. The portfolio may include a limited investment of up to 20% in below investment grade securities provided that the overall average portfolio quality remains "AA" or better. The below investment grade securities include, but are not limited to, medium-term notes, corporate debt, non-dollar and emerging market debt and asset backed securities. The cash investments should be in securities that either are of short maturities (not to exceed 180 days) or readily marketable with modest risk.

Derivative securities are permitted only to improve the portfolio's risk/return profile, to modify the portfolio's duration or to reduce transaction costs and must be used in conjunction with underlying physical assets in the portfolio. Derivative securities that involve speculation, leverage, interest rate anticipation, or any undue risk whatsoever are not deemed appropriate investments.

The investment objective for the postretirement benefit plan is to provide current income consistent with stability of principal and liquidity while maintaining a stable net asset value of $1.00 per share. The postretirement funds are invested in a prime cash money market fund that invests primarily in a portfolio of short-term, high-quality fixed income securities issued by banks, corporations and the U.S. government.

Contributions. KU made a discretionary contribution to the pension plan of $13 million in January 2007. After this payment, KU's pension plan assets are in excess of the December 31, 2007 accumulated benefit obligation.

In addition, KU made contributions to other postretirement benefit plans of $6 million and $7 million in 2007 and 2006, respectively. In 2008, KU anticipates making voluntary contributions to fund the Voluntary Employee Beneficiary Association trusts to match the annual postretirement expense and funding the 401(h) plan up to the maximum amount allowed by law.

Pension Legislation. The Pension Protection Act of 2006 was enacted in August 2006. The new rules are generally effective for plan years beginning after 2008. Among other matters, this comprehensive legislation contains provisions applicable to defined benefit plans which generally (i) mandate 100% funding of current liabilities within seven years; (ii) increase tax-deduction levels regarding contributions; (iii) revise certain actuarial assumptions, such as mortality tables and discount rates; and (iv) raise federal insurance premiums and other fees for under-funded and distressed plans. The legislation also contains similar provisions relating to defined-contribution plans and qualified and non-qualified executive pension plans and other matters.

Thrift Savings Plans. KU has a thrift savings plan under section 401(k) of the Internal Revenue Code. Under the plan, eligible employees may defer and contribute to the plan a portion of current compensation in order to provide future retirement benefits. KU makes contributions to the plan by matching a portion of the employee contributions. The costs of this matching were $2 million for 2007 and 2006.

Note 6 - Income Taxes

A United States consolidated income tax return is filed by E.ON U.S.'s direct parent, E.ON US Investments Corp., for each tax period. Each subsidiary of the consolidated tax group, including KU, will calculate its separate income tax for the tax period. The resulting separate-return tax cost or benefit will be paid to or received from the parent company or its designee. KU also files income tax returns in various state jurisdictions. With few exceptions, KU is no longer subject to U.S. federal income tax examinations for years before 2004. Statutes of limitations related to 2004 and later returns are still open. Tax years 2005, 2006 and 2007 are under audit by the IRS with the 2007 return being examined under an IRS pilot program named "Compliance Assurance Process". This program accelerates the IRS's review to the actual calendar year applicable to the return and ends 90 days after the return is filed.

KU adopted the provisions of FIN 48 effective January 1, 2007. At the date of adoption, KU had less than $1 million of unrecognized tax benefits, primarily related to federal income taxes. If recognized, the less than $1 million of unrecognized tax benefits would reduce the effective income tax rate. Additions and reductions of uncertain tax positions during 2007 were less than $1 million.

Possible amounts of uncertain tax positions for KU that may decrease within the next 12 months total less than $1 million and are based on the expiration of statutes during 2008.

KU, upon adoption of FIN 48, adopted a new financial statement classification for interest and penalties. Prior to the adoption of FIN 48, KU recorded interest and penalties for income taxes on the income statements in income tax expense and in the taxes accrued balance sheet account, net of tax. Upon adoption of FIN 48, interest is recorded as interest expense and penalties are recorded as operating expenses on the income statement and accrued expenses in the balance sheets, on a pre-tax basis. Interest of less than $1 million was accrued for 2007 and 2006 based on IRS and Kentucky Department of Revenue large corporate interest rates for underpayment of taxes. No penalties were accrued by KU upon adoption of FIN 48 or through December 31, 2007.

Components of income tax expense are shown in the table below:

(in millions)		2007	2006
Current	- federal	$ 28	$ 51
	- state	13	11
Deferred	- federal – net	(5)	-
	- state – net	(1)	1
Investment tax credit – deferred		43	12
Amortization of investment tax credit		(1)	(1)
Total income tax expense		$ 77	$ 74

Current federal income tax expense decreased and investment tax credit – deferred increased primarily due to the recording of investment tax credits of $43 million and $12 million at December 31, 2007 and 2006, respectively, as discussed below.

In June 2006, KU and LG&E filed a joint application with the U.S. Department of Energy ("DOE") requesting certification to be eligible for investment tax credits applicable to the construction of TC2. The EPAct 2005 added Section 48A to the Internal Revenue Code, which provides for an investment tax credit to promote the commercialization of advanced coal technologies that will generate electricity in an environmentally responsible manner. KU's and LG&E's application requested up to the maximum amount of "advanced coal project" credit allowed per taxpayer, or $125 million, based on an estimate of 15% of projected qualifying TC2 expenditures. In November 2006, the DOE and the IRS announced that KU and LG&E were selected to receive the tax credit. A final IRS certification required to obtain the investment tax credit was received in August 2007. KU's portion of the TC2 tax credit will be approximately $100 million over the construction period and will be amortized to income over the life of the related property beginning when the facility is placed in service. Based on eligible construction expenditures incurred, KU recorded investment tax credits of $43 million and $12 million in 2007 and 2006, respectively, decreasing current federal income taxes.

In September 2007, KU received Order 2007-00178 from the Kentucky Commission approving the accounting of the investment tax credit. In March 2008, certain groups filed suit in federal court in North Carolina against the DOE and IRS claiming the investment tax credit program was violative of certain environmental laws and demanded relief, including suspension or termination of the program. KU is not able to predict the ultimate outcome of this proceeding.

Components of net deferred tax liabilities included in the balance sheets are shown below:

(in millions)	2007	2006
Deferred tax liabilities:		
Depreciation and other plant-related items	$292	$291
Regulatory assets and other	40	37
Total deferred tax liabilities	332	328
Deferred tax assets:		
Income taxes due to customers	9	10
Pensions and related benefits	17	11
Liabilities and other	23	23
Total deferred tax assets	49	44
Net deferred income tax liability	$283	$284
Balance sheet classification		
Current assets	$ (2)	$ (5)
Non-current liabilities	285	289
Net deferred income tax liability	$283	$284

A reconciliation of differences between the statutory U.S. federal income tax rate and KU's effective income tax rate follows:

	2007	2006
Statutory federal income tax rate	35.0%	35.0%
State income taxes, net of federal benefit	3.4	3.9
Reduction of income tax accruals	(0.4)	(0.5)
Qualified production deduction	(1.2)	(0.4)
EEI dividend	(2.9)	(3.4)
Amortization of investment tax credit	(0.4)	(0.5)
Other differences	(1.9)	(1.4)
Effective income tax rate	31.6%	32.7%

The EEI dividend for 2007 and 2006 reflects tax benefits associated with the receipt of dividends from KU's investment in EEI. Subsequent to an EEI management decision regarding changes in the distribution of EEI's previous earnings, KU elected to provide deferred taxes for all book and tax temporary differences in this investment.

Other differences primarily relate to excess deferred taxes which reflect the benefits of deferred taxes reversing at tax rates that differ from statutory rates and various other permanent differences.

H. R. 4520, known as the "American Jobs Creation Act of 2004", allows electric utilities to take a deduction for qualified production activities income starting in 2005.

Kentucky House Bill 272, also known as "Kentucky's Tax Modernization Plan", was signed into law in March 2005. This bill contains a number of changes in Kentucky's tax system, including the reduction of the Corporate income tax rate from 8.25% to 7% effective January 1, 2005, and a further reduction to 6% effective January 1, 2007. As a result of the income tax rate changes, KU's deferred tax reserve amount will exceed its actual deferred tax liability attributable to existing temporary differences, since the new statutory rates are lower than rates when the deferred tax liability originated. In December 2006, KU received approval from the Kentucky Commission to establish and amortize a regulatory liability of $11 million for these net excess deferred income tax balances. KU will amortize these depreciation-related excess deferred income tax balances under the average rate assumption method which matches the amortization of the excess deferred income taxes with the life of the timing differences to which they relate. Excess deferred income tax balances related to non-depreciation timing differences were expensed in 2006 due to their immaterial amount. There were no additional adjustments in 2007.

KU expects to have adequate levels of taxable income to realize its recorded deferred tax assets.

Note 7 - Long-Term Debt

As of December 31, 2007 and 2006, long-term debt and the current portion of long-term debt consist primarily of pollution control bonds and long-term loans from affiliated companies as summarized below.

(in millions)	Stated Interest Rates	Maturities	Principal Amounts
Outstanding at December 31, 2007:			
Noncurrent portion	Variable – 6.33%	2010-2037	$1,231
Current portion	Variable	2032	$ 33
Outstanding at December 31, 2006:			
Noncurrent portion	Variable – 6.33%	2010-2036	$ 702
Current portion	Variable – 7.92%	2007-2032	$ 141

Pollution control series bonds are obligations of KU issued in connection with tax-exempt pollution control revenue bonds issued by various governmental entities, principally counties in Kentucky. A loan agreement obligates KU to make debt service payments to the county that equate to the debt service due from the county on the related pollution control revenue bonds. Until a series of financing transactions was completed during February 2007, the county's debt was also secured by an equal amount of KU's first mortgage bonds that were pledged to the trustee for the pollution control revenue bonds that match the terms and conditions of the county's debt, but require no payment of principal and interest unless KU defaults on the loan agreement. Proceeds from bond issuances for environmental equipment (primarily related to the installation of FGDs) are held in trust pending expenditure for qualifying assets. At December 31, 2007, and 2006, KU had $11 million and $23 million, respectively, of bond proceeds in trust, included in restricted cash in the balance sheets.

Several of the KU pollution control bonds are insured by monoline bond insurers whose ratings have been under pressure due to exposures relating to insurance of sub-prime mortgages. At December 31, 2007, KU had an aggregate $333 million of outstanding pollution control indebtedness, of which $300 million is in the form of insured auction rate securities wherein interest rates are reset either weekly or every 35 days via an auction process. Beginning in late 2007, the interest rates on these insured bonds began to increase due to investor concerns about the creditworthiness of the bond insurers. In 2008, interest rates have continued to increase, and the Company has experienced "failed auctions" when there are insufficient bids for the bonds. When there is a failed auction, the interest rate is set pursuant to a formula stipulated in the indenture which can be as high as 15%. During 2007, the average rate on the auction rate bonds was 3.96%, whereas the average rate in January and February of 2008 was 4.72%. The instruments governing these auction rate bonds permit KU to convert the bonds to other interest rate modes, such as various short-term variable rates, long-term fixed rates or intermediate-term fixed rates that are reset infrequently. In the first quarter of 2008, the ratings of the Carroll County 2004 Series A bonds were downgraded from AAA to AA and subsequently to A by S&P and from Aaa to A2 by Moody's, and the Carroll County 2006 Series C bonds were downgraded from Aaa to A2 by Moody's and from AAA to A- by S&P due to downgrades of the bond insurer. In February 2008, KU issued a notice to bondholders of its intention to convert the Carroll County 2007 Series A bonds and the Trimble County 2007 Series A bonds from the auction rate mode to a fixed interest rate mode, as permitted under the loan documents. In March 2008, KU will issue notices to bondholders of its intention to convert the Carroll County 2006 Series C bonds and the Mercer County 2000 Series A bonds from the auction mode to a weekly interest rate mode, as permitted under the loan documents. KU expects to purchase such bonds and hold some or all such bonds until a later date, including potential further conversion, remarketings or refinancings. Uncertainty in markets relating to auction rate securities or steps KU has taken or may take to mitigate such uncertainty, such as additional conversions, subsequent restructurings or redemptions and refinancings, could result in KU incurring increased interest expense, transaction expenses or other costs and fees or experiencing reduced liquidity relating to existing or future pollution control financing structures. See Note 13, Subsequent Events.

All of KU's first mortgage bonds were released and terminated in February 2007. Only the tax-exempt pollution control revenue bonds issued by the counties remain. Under the provisions for certain of KU's variable-rate pollution control bonds, the bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events, causing the bonds to be classified as current portion of long-term debt in the balance sheets. The average annualized interest rate for these bonds during 2007 and 2006 was 3.72% and 3.56%, respectively.

At December 31, 2006, KU had an interest rate swap used to hedge KU's underlying debt obligations. The swap hedged specific debt issuances and, consistent with management's designation, was accorded hedge accounting treatment. The swap effectively converted the fixed rate obligation on KU's first mortgage bond Series P to variable-rate. At December 31, 2006, the remaining swap had a notional value of $53 million. The swap was terminated in February 2007, when the underlying bond was defeased. See Note 3, Financial Instruments.

Redemptions and maturities of long-term debt for 2007 and 2006 are summarized below:

($ in millions) Year	 Description	Principal Amount	 Rate	Secured/ Unsecured	 Maturity
2007	Pollution control bonds	$ 54	Variable	Secured	2024
2007	First mortgage bonds	$ 54	7.92%	Secured	2007
2006	First mortgage bonds	$ 36	5.99%	Secured	2006

Issuances of long-term debt for 2007 and 2006 are summarized below:

($ in millions) Year	Description	Principal Amount	Rate	Secured/ Unsecured	Maturity
2007	Pollution control bonds	$ 54	Variable	Unsecured	2034
2007	Pollution control bonds	$ 18	Variable	Unsecured	2026
2007	Pollution control bonds	$ 9	Variable	Unsecured	2037
2007	Due to Fidelia	$ 53	5.69%	Unsecured	2022
2007	Due to Fidelia	$ 75	5.86%	Unsecured	2037
2007	Due to Fidelia	$ 50	5.98%	Unsecured	2017
2007	Due to Fidelia	$100	5.96%	Unsecured	2028
2007	Due to Fidelia	$ 70	5.71%	Unsecured	2019
2007	Due to Fidelia	$100	5.45%	Unsecured	2014
2006	Pollution control bonds	$ 17	Variable	Unsecured	2036
2006	Pollution control bonds	$ 17	Variable	Unsecured	2036
2006	Due to Fidelia	$ 50	5.675%	Unsecured	2016
2006	Due to Fidelia	$ 50	6.33%	Unsecured	2036

In February 2007, KU completed a series of financial transactions impacting its periodic reporting requirements. The $54 million Pollution Control Series 10 bond was refinanced and replaced with a new unsecured tax-exempt bond of the same amount maturing in 2034. The $53 million Series P bond was defeased and replaced with an intercompany loan totaling $53 million from Fidelia. In conjunction with the defeasance, the Company terminated the related interest rate swap. Fidelia also agreed to eliminate the second lien on its two secured loans. Pursuant to the terms of the remaining tax-exempt bonds, the first mortgage bonds were cancelled and the underlying lien on substantially all of KU's assets was released following the completion of these steps. KU no longer has any secured debt and is no longer subject to periodic reporting under the Securities Exchange Act of 1934.

Long-term debt maturities for KU are shown in the following table:

(in millions)		
2008 - 2009	$ -	
2010	33	
2011	-	
2012	50	
Thereafter	1,181	(a)
Total	$1,264	

(a) Includes long-term debt of $33 million classified as current liabilities because these bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events. These bonds mature in 2032. KU does not expect to pay these amounts in 2008.

Note 8 - Notes Payable and Other Short-Term Obligations

KU participates in an intercompany money pool agreement wherein E.ON U.S. and/or LG&E make funds available to KU at market-based rates (based on an index of highly rated commercial paper issues) up to $400 million.

($ in millions)	Total Money Pool Available	Amount Outstanding	Balance Available	Average Interest Rate
December 31, 2007	$400	$23	$377	4.75%
December 31, 2006	$400	$97	$303	5.25%

As of December 31, 2007 and 2006, E.ON U.S. maintained a revolving credit facility totaling $150 million and $200 million, respectively, with an affiliated company, E.ON North America, Inc., to ensure funding availability for the money pool. The balance is as follows:

($ in millions)	Total Available	Amount Outstanding	Balance Available	Average Interest Rate
December 31, 2007	$150	$ 62	$88	4.97%
December 31, 2006	$200	$102	$98	5.49%

During June 2007, KU entered into a short-term bilateral line of credit totaling $35 million. During the third quarter of 2007, KU extended the maturity date on this facility to June 2012. There was no outstanding balance under this facility at December 31, 2007.

The covenants under this revolving line of credit include:

- The debt/total capitalization ratio must be less than 70%
- E.ON must own at least 66.667% of voting stock of KU directly or indirectly
- The corporate credit rating of the Company must be at or above BBB- and Baa3 as determined by S&P and Moody's
- A limitation on disposing of assets aggregating more than 15% of total assets as of December 31, 2006

Note 9 - Commitments and Contingencies

Operating Leases. KU leases office space, office equipment and vehicles and accounts for these leases as operating leases. In addition, KU reimburses LG&E for a portion of the lease expense paid by LG&E for KU's usage of office space leased by LG&E. Total lease expense was $6 million for 2007 and 2006. The future minimum annual lease payments for operating leases for years subsequent to December 31, 2007, are shown in the following table:

(in millions)	
2008	$ 6
2009	5
2010	3
2011	2
2012	2
Thereafter	4
Total	$22

Owensboro Contract Litigation. In May 2004, the City of Owensboro, Kentucky and OMU commenced a suit now removed to the U.S. District Court for the Western District of Kentucky, against KU concerning a long-term power supply contract (the "OMU Agreement") with KU. The dispute involves interpretational differences regarding issues under the OMU Agreement, including various payments or charges between KU and OMU and rights concerning excess power, termination and emissions allowances. The complaint seeks in excess of $6 million in damages in connection with one of its claims for periods prior to 2004, plus damages in an unspecified amount for later-occurring periods on that claim and for other claims. OMU has additionally requested injunctive and other relief, including a declaration that KU is in material breach of the contract. KU has filed an answer in that court denying the OMU claims and presenting counterclaims and amended such filing in January 2007, to include further counterclaims alleging additional damages. During 2005, the FERC declined KU's application to exercise exclusive jurisdiction on matters. In July 2005, the district court resolved a summary judgment motion made by KU in OMU's favor, ruling that a contractual provision grants OMU the ability to terminate the contract without cause upon four years' prior notice, for which ruling KU retains certain rights to appeal. A motion to reconsider that ruling is presently pending before the Court. The parties are continuing various discovery proceedings, as well as settlement negotiations. A trial date has been set for October 2008. In May 2006, OMU issued a notification of its intent to terminate the OMU agreement contract in May 2010, without cause, absent any earlier relief which may be permitted by the proceeding. The Company is currently unable to determine the final outcome of this matter.

Sale and Leaseback Transaction. KU is a participant in a sale and leaseback transaction involving its 62% interest in two jointly owned CTs at KU's E.W. Brown generating station (Units 6 and 7). Commencing in December 1999, KU and LG&E entered into a tax-efficient, 18-year lease of the CTs. KU and LG&E have provided funds to fully defease the lease, and have executed an irrevocable notice to exercise an early purchase option contained in the lease after 15.5 years. The financial statement treatment of this transaction is no different than if KU had retained its ownership. The leasing transaction was entered into following receipt of required state and federal regulatory approvals.

In case of default under the lease, KU is obligated to pay to the lessor its share of certain fees or amounts. Primary events of default include loss or destruction of the CTs, failure to insure or maintain the CTs and unwinding of the transaction due to governmental actions. No events of default currently exist with respect to the lease. Upon any termination of the lease, whether by default or expiration of its term, title to the CTs reverts jointly to KU and LG&E.

At December 31, 2007, the maximum aggregate amount of default fees or amounts was $10 million, of which KU would be responsible for 62% (approximately $6 million). KU has made arrangements with E.ON U.S., via guarantee and regulatory commitment, for E.ON U.S. to pay KU's full portion of any default fees or amounts.

Letter of Credit. KU has provided a letter of credit totaling less than $1 million to support certain obligations related to workers' compensation.

Purchased Power. KU has purchased power arrangements with OMU and OVEC. Under the OMU agreement, which could last through January 1, 2020, KU purchases all of the output of an approximately 400-Mw coal-fired generating station not required by OMU. The amount of purchased power available to KU during 2008-2010, which is expected to be approximately 6% of KU's total Kwh native load energy requirements, is dependent upon a number of factors including the OMU units' availability, maintenance schedules, fuel costs and OMU requirements. Payments are based on the total costs of the station allocated per terms of the OMU agreement. Included in the total costs is KU's proportionate share of debt service requirements on $246 million of OMU bonds outstanding at December 31, 2007. The debt service is allocated to KU based on its annual allocated share of capacity, which averaged approximately 39% in 2007. KU does not guarantee the OMU bonds, or any requirements therein, in the event of default by OMU.

KU has a contract for purchased power with OVEC, terminating in 2026, for various Mw capacities. KU has an investment of 2.5% ownership in OVEC's common stock, which is accounted for on the cost method of accounting. KU's share of OVEC's output is 2.5%, approximately 55 Mw of generation capacity. Future obligations for power purchases are shown in the following table:

(in millions)	
2008	$ 23
2009	25
2010	16
2011	8
2012	9
Thereafter	143
Total	$ 224

Construction Program. KU had approximately $392 million of commitments in connection with its construction program at December 31, 2007.

In June 2006, KU and LG&E entered into a construction contract regarding the TC2 project. The contract is generally in the form of a lump-sum, turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may serve to increase or decrease the ultimate construction price paid or payable to the contractor. The contract also contains standard representations, covenants, indemnities, termination and other provisions for arrangements of this type, including termination for convenience or for cause rights.

TC2 Air Permit. The Sierra Club and other environmental groups filed a petition challenging the air permit issued for the TC2 baseload generating unit which was issued by the Kentucky Division of Air Quality in November 2005. The filing of the challenge did not stay the permit, so the Company was free to proceed with construction during the pendancy of the action. In June 2007, the state hearing officer assigned to the matter recommended upholding the air permit with minor revisions. In September 2007, the Secretary of the Kentucky Environmental and Public Protection Cabinet issued a final Order approving the hearing officer's recommendation and upholding the permit. In September 2007, KU administratively applied for a permit revision to reflect minor design changes. In October 2007, the environmental groups submitted comments objecting to the draft permit revisions and, in part, attempting to reassert general objections to the generating unit. An agency decision on the final permit revisions may occur during 2008. The Company is currently unable to determine the final outcome of this matter.

Mine Safety Compliance Costs. In March 2006, the Mine Safety and Health Administration enacted Emergency Temporary Standards regulations and has issued additional regulations as the result of the passage of the Mine Improvement and New Emergency Response Act of 2006, which was signed into law in June 2006. At the state level, Kentucky and other states that supply coal to KU, have passed new mine safety legislation. These pieces of legislation require all underground coal mines to implement new safety measures and install new safety equipment. Under the terms of some of the coal contracts KU has in place, provisions are made to allow for price adjustments for compliance costs resulting from new or amended laws or regulations. KU has begun to receive information from the mines it contracts with regarding price adjustments related to these compliance costs and has hired a consultant to review all supplier claims for validity and reasonableness. At this time KU has not been notified of claims by all mines and is reviewing those claims it has received. An adjustment will be made to the value of the coal inventory once the amount is determinable, however, the amount cannot be estimated at this time. The Company expects to recover these costs through the FAC.

Environmental Matters. KU's operations are subject to a number of environmental laws and regulations in each of the jurisdictions in which it operates, governing, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety.

Clean Air Act Requirements. The Clean Air Act establishes a comprehensive set of programs aimed at protecting and improving air quality in the United States by, among other things, controlling stationary sources of air emissions such as power plants. While the general regulatory framework for these programs is established at the federal level, most of the programs are implemented and administered by the states under the oversight of the EPA. The key Clean Air Act programs relevant to KU's business operations are described below.

Ambient Air Quality. The Clean Air Act requires the EPA to periodically review the available scientific data for six criteria pollutants and establish concentration levels in the ambient air sufficient to protect the public health and welfare with an extra margin for safety. These concentration levels are known as national ambient air quality standards ("NAAQS"). Each state must identify "nonattainment areas" within its boundaries that fail to comply with the NAAQS and develop a SIP to bring such nonattainment areas into compliance. If a state fails to develop an adequate plan, the EPA must develop and implement a plan. As the EPA increases the stringency of the NAAQS through its periodic reviews, the attainment status of various areas may change, thereby triggering additional emission reduction obligations under revised SIPs aimed to achieve attainment.

In 1997, the EPA established new NAAQS for ozone and fine particulates that required additional reductions in SO_2 and NOx emissions from power plants. In 1998, the EPA issued its final "NOx SIP Call" rule requiring reductions in NOx emissions of approximately 85% from 1990 levels in order to mitigate ozone transport from the midwestern U.S. to the northeastern U.S. To implement the new federal requirements, Kentucky amended its SIP in 2002 to require electric generating units to reduce their NOx emissions to 0.15 pounds weight per MMBtu on a company-wide basis. In 2005, the EPA issued the CAIR which requires additional SO_2 emission reductions of 70% and NOx emission reductions of 65% from 2003 levels. The CAIR provides for a two-phase cap and trade program, with initial reductions of NOx and SO_2 emissions due by 2009 and 2010, respectively, and final reductions due by 2015. The final rule is currently under challenge in a number of federal court proceedings. In 2006, Kentucky proposed to amend its SIP to adopt state requirements similar to those under the federal CAIR. Depending on the level of action determined necessary to bring local nonattainment areas into compliance with the new ozone and fine particulate standards, KU's power plants are potentially subject to additional reductions in SO_2 and NOx emissions. KU's weighted-average company-wide emission rate for SO_2 in 2007 was approximately 1.33 lbs./MMBtu of heat input, with every generating unit below its emission limit established by the Kentucky Division for Air Quality.

Hazardous Air Pollutants. As provided in the 1990 amendments to the Clean Air Act, the EPA investigated hazardous air pollutant emissions from electric utilities and submitted a report to Congress identifying mercury emissions from coal-fired power plants as warranting further study. In 2005, the EPA issued the CAMR establishing mercury standards for new power plants and requiring all states to issue new SIPs including mercury requirements for existing power plants. The EPA issued a model rule which provides for a two-phase cap and trade program with initial reductions due by 2010 and final reductions due by 2018. The CAMR provides for reductions of 70% from 2003 levels. The EPA closely integrated the CAMR and CAIR programs to ensure that the 2010 mercury reduction targets will be achieved as a "co-benefit" of the controls installed for purposes of compliance with the CAIR. The final rule is also currently under challenge in the federal courts. In

February 2008, a federal appellate court issued a decision in one of the proceedings vacating the current CAMR, an outcome that may have the effect of resulting in more stringent mercury reduction rules. However, the ruling could be subject to further appeal. In 2006, Kentucky proposed to amend its SIP to adopt state requirements similar to those under the federal CAMR. In 2006, the Kentucky air agency adopted a regulation aimed at regulating additional hazardous air pollutants from sources including power plants, but it was withdrawn in 2007. To the extent those rules are final, they are not expected to have a material impact on KU's power plant operations.

Acid Rain Program The 1990 amendments to the Clean Air Act imposed a two-phased cap and trade program to reduce SO_2 emissions from power plants that were thought to contribute to "acid rain" conditions in the northeastern U.S. The 1990 amendments also contained requirements for power plants to reduce NOx emissions through the use of available combustion controls.

Regional Haze The Clean Air Act also includes visibility goals for certain federally designated areas, including national parks, and requires states to submit SIPs that will demonstrate reasonable progress toward preventing future impairment and remedying any existing impairment of visibility in those areas. In 2005, the EPA issued its Clean Air Visibility Rule detailing how the Clean Air Act's BART requirements will be applied to facilities, including power plants, built between 1962 and 1974 that emit certain levels of visibility impairing pollutants. Under the final rule, as the CAIR will result in more visibility improvement than BART, states are allowed to substitute CAIR requirements in their regional haze SIPs in lieu of controls that would otherwise be required by BART. The final rule has been challenged in the courts.

Installation of Pollution Controls Many of the programs under the Clean Air Act utilize cap and trade mechanisms that require a company to hold sufficient emissions allowances to cover its authorized emissions on a company-wide basis and do not require installation of pollution controls on every generating unit. Under cap and trade programs, companies are free to focus their pollution control efforts on plants where such controls are particularly efficient and utilize the resulting emission allowances for smaller plants where such controls are not cost effective. KU met its Phase I SO_2 requirements primarily through installation of FGD equipment on Ghent Unit 1. KU's combined strategy for its Phase II SO_2 requirements, which commenced in 2000, includes the installation of additional FGD equipment, as well as using accumulated emissions allowances and fuel switching to defer certain additional capital expenditures. In order to achieve the NOx emission reductions and associated obligations, KU installed additional NOx controls, including SCR technology, during the 2000 to 2007 time period at a cost of $220 million. In 2001, the Kentucky Commission granted approval to recover the costs incurred by KU for these projects through the environmental surcharge mechanism. Such monthly recovery is subject to periodic review by the Kentucky Commission.

In order to achieve the emissions reductions mandated by the CAIR and CAMR, KU expects to incur additional capital expenditures totaling approximately $675 million during the 2008 through 2010 time period for pollution controls including FGD and SCR equipment, and additional operating and maintenance costs in operating such controls. In 2005, the Kentucky Commission granted approval to recover the costs incurred by KU for these projects through the ECR mechanism. Such monthly recovery is subject to periodic review by the Kentucky Commission. KU believes its costs in reducing SO_2, NOx and mercury emissions to be comparable to those of similarly situated utilities with like generation assets. KU's compliance plans are subject to many factors including developments in the emission allowance and fuels markets, future legislative and regulatory enactments, legal proceedings and advances in clean air technology. KU will continue to monitor these developments to ensure that its environmental obligations are met in the most efficient and cost-effective manner.

Potential GHG Controls. In 2005, the Kyoto Protocol for reducing GHG emissions took effect, obligating 37 industrialized countries to undertake substantial reductions in GHG emissions. The U.S. has not ratified the Kyoto Protocol and there are currently no mandatory GHG emission reduction requirements at the federal level. Legislation mandating GHG reductions has been introduced in the Congress, but no federal legislation has been enacted to date. In the absence of a program at the federal level, various states have adopted their own GHG emission reduction programs. Such programs have been adopted in various states including 11 northeastern U.S. states and the District of Columbia under the Regional GHG Initiative program and California. Substantial efforts to pass federal GHG legislation are ongoing. In addition, litigation is currently pending before various courts to determine whether the EPA and the states have the authority to regulate GHG emissions under existing law. In April 2007, the U.S. Supreme Court ruled that the EPA has the authority to regulate GHG under the Clean Air Act. KU is monitoring ongoing efforts to enact GHG reduction requirements at the state and federal level and is assessing potential impacts of such programs and strategies to mitigate those impacts. KU is unable to predict whether mandatory GHG reduction requirements will ultimately be enacted. As a Company with significant coal-fired generating assets, KU could be substantially impacted by programs requiring mandatory reductions in GHG emissions, although the precise impact on the operations of KU, including the reduction targets and deadlines that would be applicable, cannot be determined prior to the enactment of such programs.

Brown New Source Review Litigation. In April 2006, the EPA issued an NOV alleging that KU had violated certain provisions of the Clean Air Act's new source review rules relating to work performed in 1997, on a boiler and turbine at KU's E.W. Brown generating station. In December 2006, the EPA issued a second NOV alleging the Company had exceeded heat input values in violation of the air permit for the unit. During 2006, KU provided data responses to the EPA with respect to the allegations in the NOVs. In March 2007, the Department of Justice filed a complaint in federal court in Kentucky alleging the same violations specified in the prior NOVs. The complaint seeks civil penalties, including potential per-day fines, remedial measures and injunctive relief. In April 2007, KU filed an answer in the civil suit denying the allegations. In July 2007, a July 2009 date for trial on the merits was scheduled. The parties continue periodic settlement discussions and a $2 million accrual has been recorded based on the current status of those discussions, however, KU cannot determine the overall outcome or potential effects of these matters, including whether substantial fines, penalties or remedial construction may result.

Section 114 Requests. In August 2007, the EPA issued administrative information requests under Section 114 of the Clean Air Act requesting new source review-related data regarding certain construction and maintenance activities at LG&E's Mill Creek 4 and Trimble County 1 generating units and KU's Ghent 2 generating unit. The Companies are complying with the information requests and are not able to predict further proceedings in this matter at this time.

Ghent Opacity NOV. In September 2007, the EPA issued an NOV alleging that KU had violated certain provisions of the Clean Air Act's operating rules relating to opacity during June and July of 2007 at Units 1 and 3 of KU's Ghent generating station. The parties have commenced initial discussions on this matter. KU is not able to estimate the outcome or potential effects of these matters, including whether substantial fines, penalties or remedial construction may result.

General Environmental Proceedings. KU has recently settled certain environmental matters. During 2005 and 2006, final judicial and administrative approvals were received regarding a consent decree relating to the October 1999 leak of approximately 38,000 gallons of diesel fuel (of which 34,000 gallons were recovered) from an underground pipeline at KU's E.W. Brown Station. Under the terms of the settlement, KU paid a civil penalty in 2006 and has agreed to construct a supplemental environmental project and maintain the project for ten years, each at a cost of less than $1 million. During 2006, final judicial and administrative approvals were received regarding a settlement associated with a former transformer scrap-yard which had been the subject of

April 2002 correspondence to KU and other potentially responsible parties. Under the terms of the settlement, the parties bore aggregate cleanup costs of approximately $2 million, of which KU's share was less than $1 million, which was paid in December 2006.

From time to time, KU appears before the EPA, various state or local regulatory agencies and state and federal courts regarding matters involving compliance with applicable environmental laws and regulations. Such matters include liability under the Comprehensive Environmental Response, Compensation and Liability Act for cleanup at various off-site waste sites and ongoing claims regarding GHG emissions from KU's generating stations. Based on analysis to date, the resolution of such matters is not expected to have a material impact on the operations of KU.

Note 10 - Jointly Owned Electric Utility Plant

KU and LG&E have begun construction of TC2, a jointly owned unit at the Trimble County site. KU and LG&E own undivided 60.75% and 14.25% interests, respectively, in TC2. Of the remaining 25% of TC2, Illinois Municipal Electric Agency ("IMEA") owns a 12.12% undivided interest and Indiana Municipal Power Agency ("IMPA") owns a 12.88% undivided interest. Each company is responsible for its proportionate share of capital cost during construction, and fuel, operation and maintenance cost when TC2 begins operation, which is expected to occur in 2010.

	TC2				
	LG&E	KU	IMPA	IMEA	Total
Ownership interest	14.25%	60.75%	12.88%	12.12%	100%
Mw capacity	107	455	97	91	750

(in millions)	LG&E	KU
Construction work in progress	$74	$332

KU and LG&E jointly own the following CTs and related equipment:

($ in millions)	KU				LG&E				Total			
Ownership Percentage	Mw Capacity	($) Cost	($) Depre-ciation	($) Net Book Value	Mw Capacity	($) Cost	($) Depre-ciation	($) Net Book Value	Mw Capacity	($) Cost	($) Depre-ciation	($) Net Book Value
KU 47%, LG&E 53% (1)	129	51	(11)	40	146	58	(12)	46	275	109	(23)	86
KU 62%, LG&E 38% (2)	190	78	(14)	64	118	50	(10)	40	308	128	(24)	104
KU 71%, LG&E 29% (3)	228	80	(14)	66	92	32	(6)	26	320	112	(20)	92
KU 63%, LG&E 37% (4)	404	137	(17)	120	236	79	(8)	71	640	216	(25)	191
KU 71%, LG&E 29% (5)	n/a	9	(2)	7	n/a	3	-	3	n/a	12	(2)	10

1) Comprised of Paddy's Run 13 and E.W. Brown 5. In addition to the above jointly owned utility plant, there is an inlet air cooling system attributable to Unit 5 and units 8-11 at the E.W. Brown facility. This inlet air cooling system is not jointly owned, however, it is used to increase production on the units to which it relates, resulting in an additional 88 Mw of capacity for KU.
2) Comprised of units 6 and 7 at the E.W. Brown facility.
3) Comprised of units 5 and 6 at the Trimble County facility.
4) Comprised of CT Substation 7-10 and units 7, 8, 9 and 10 at the Trimble County facility.
5) Comprised of CT Substation 5 and 6 and CT Pipeline at the Trimble County facility.

Both KU's and LG&E's participating share of direct expenses of the jointly owned plants is included in the corresponding operating expenses on its respective income statement (e.g., fuel, maintenance of plant, other operating expense).

Note 11 - Related Party Transactions

KU, subsidiaries of E.ON U.S. and subsidiaries of E.ON engage in related party transactions. Transactions between KU and E.ON U.S. subsidiaries are eliminated upon consolidation of E.ON U.S. Transactions between KU and E.ON subsidiaries are eliminated upon consolidation of E.ON. These transactions are generally performed at cost and are in accordance with the FERC regulations under PUHCA 2005 and the applicable Kentucky Commission and Virginia Commission regulations. The significant related party transactions are disclosed below.

Electric Purchases

KU and LG&E purchase energy from each other in order to effectively manage the load of their retail and wholesale customers. These sales and purchases are included in the statements of income as operating revenues and purchased power operating expense. KU intercompany electric revenues and purchased power expense for the years ended December 31, were as follows:

(in millions)	2007	2006
Electric operating revenues from LG&E	$46	$77
Purchased power from LG&E	93	99

Interest Charges

See Note 8, Notes Payable and Other Short-Term Obligations, for details of intercompany borrowing arrangements. Intercompany agreements do not require interest payments for receivables related to services provided when settled within 30 days.

KU's intercompany interest income and expense for the years ended December 31, were as follows:

(in millions)	2007	2006
Interest on money pool loans	$ 6	$ 3
Interest on Fidelia loans	35	21

Other Intercompany Billings

E.ON U.S. Services provides KU with a variety of centralized administrative, management and support services. These charges include payroll taxes paid by E.ON U.S. on behalf of KU, labor and burdens of E.ON U.S. Services employees performing services for KU and vouchers paid by E.ON U.S. Services on behalf of KU. The cost of these services is directly charged to KU, or for general costs which cannot be directly attributed, charged based on predetermined allocation factors, including the following ratios: number of customers, total assets, revenues, number of employees and other statistical information. These costs are charged on an actual cost basis.

In addition, KU and LG&E provide services to each other and to E.ON U.S. Services. Billings between KU and LG&E relate to labor and overheads associated with union employees performing work for the other utility, charges related to jointly owned CTs and other miscellaneous charges. Billings from KU to E.ON U.S. Services

2006 - Annual Financial Statements and Additional Information

Kentucky Utilities Company

Financial Statements and Additional Information

As of December 31, 2006 and 2005

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AG	Attorney General of Kentucky
ARO	Asset Retirement Obligation
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
CAVR	Clean Air Visibility Rule
CCN	Certificate of Public Convenience and Necessity
Clean Air Act	The Clean Air Act, as amended in 1990
Company	KU
CT	Combustion Turbines
DSM	Demand Side Management
ECR	Environmental Cost Recovery
EEI	Electric Energy, Inc
E ON	E ON AG
E ON U S	E ON U S LLC (formerly LG&E Energy LLC and LG&E Energy Corp)
E ON U S Services	E ON U S Services Inc (formerly LG&E Energy Services Inc)
EPA	U S Environmental Protection Agency
EPAct 2005	Energy Policy Act of 2005
FAC	Fuel Adjustment Clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FGD	Flue Gas Desulfurization
Fidelia	Fidelia Corporation (an E ON affiliate)
FIN	FASB Interpretation
GHG	Greenhouse Gas
IBEW	International Brotherhood of Electrical Workers
IMEA	Illinois Municipal Electric Agency
IMPA	Indiana Municipal Power Agency
IRP	Integrated Resource Plan
Kentucky Commission	Kentucky Public Service Commission
KIUC	Kentucky Industrial Utility Consumers, Inc
KU	Kentucky Utilities Company
Kwh	Kilowatt hours
LG&E	Louisville Gas and Electric Company
LG&E Energy	LG&E Energy LLC (now E ON U S LLC)
MISO	Midwest Independent Transmission System Operator, Inc
MMBtu	Million British thermal units
Moody's	Moody's Investor Services, Inc
Mva	Megavolt-ampere
Mw	Megawatts
Mwh	Megawatt hours
NOx	Nitrogen Oxide
OMU	Owensboro Municipal Utilities
OVEC	Ohio Valley Electric Corporation
PUHCA 1935	Public Utility Holding Company Act of 1935
PUHCA 2005	Public Utility Holding Company Act of 2005
S&P	Standard & Poor's Rating Services
SCR	Selective Catalytic Reduction
SFAS	Statement of Financial Accounting Standards
SIP	State Implementation Plan
SO_2	Sulfur Dioxide
TC2	Trimble County Unit 2
USWA	United Steelworkers of America
VDT	Value Delivery Team Process
Virginia Commission	Virginia State Corporation Commission

Business

GENERAL

KU, incorporated in Kentucky in 1912 and in Virginia in 1991, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. KU provides electricity to approximately 501,000 customers in 77 counties in central, southeastern and western Kentucky, to approximately 30,000 customers in 5 counties in southwestern Virginia and 5 customers in Tennessee. KU's coal-fired electric generating plants produce most of KU's electricity, the remainder is generated by a hydroelectric power plant and natural gas and oil fueled CTs. In Virginia, KU operates under the name Old Dominion Power Company.

KU is a wholly-owned subsidiary of E.ON U.S., formerly known as LG&E Energy LLC. E.ON U.S. is an indirect wholly-owned subsidiary of E.ON, a German corporation, making KU an indirect wholly-owned subsidiary of E.ON. KU's affiliate LG&E, is a regulated public utility engaged in the generation, transmission distribution and sale of electric energy and the distribution of natural gas in Kentucky.

OPERATIONS

The sources of operating revenues and volumes of sales for the two years ended December 31, 2006, were as follows:

	2006		2005	
	Revenues (millions)	Volumes (000 Mwh)	Revenues (millions)	Volumes (000 Mwh)
Residential	$ 380	6,313	$ 364	6,599
Industrial & Commercial	505	9,946	461	9,925
Municipals	85	1,978	80	2,014
Other Retail	208	4,741	216	5,578
Off System Sales	32	170	86	641
Total	$1,210	23,148	$1,207	24,757

KU set an annual peak load of 4,207 Mw on August 2, 2006, when the temperature reached 95 degrees Fahrenheit. This was the highest hourly customer demand in KU's history.

KU's power generating system consists of the coal-fired units operated at its four steam generating stations. Natural gas and oil fueled CTs supplement the system during peak or emergency periods. As of December 31, 2006, KU owned and operated the following generating stations while maintaining a 12%-14% reserve margin:

	Summer Capability Rating (Mw)
Steam Stations:	
Tyrone – Woodford County, KY	129
Green River – Muhlenberg County, KY	163
E.W. Brown – Mercer County, KY	697
Ghent – Carroll County, KY	1,945
Total steam stations	2,934
Dix Dam hydroelectric station – Mercer County, KY	24
CT Generators (Peaking capability):	
E.W. Brown – Mercer County, KY	757
Haefling – Fayette County, KY	36
Paddy's Run – Jefferson County, KY *	74
Trimble County – Trimble County, KY *	632
Total CT generators	1,499
Total capability rating	4,457

* LG&E operates these units on behalf of KU. See Note 10 of Notes to Financial Statements for information regarding these and other jointly-owned units.

At December 31, 2006, KU's transmission system included 110 substations (36 of which are shared with the distribution system) with a total capacity of approximately 16,978 Mva and approximately 4,031 miles of lines. The distribution system included 480 substations with a total capacity of approximately 6,180 Mva, 13,805 miles of overhead lines and 1,881 miles of underground conduit.

KU has a purchased power agreement with OMU, owns 20% of EEI's common stock and owns 2.5% of OVEC's common stock. Additional information regarding these relationships is provided in Notes 1 and 9 of Notes to Financial Statements.

KU was formerly a member of the MISO, a non-profit independent transmission system operator that serves the electrical transmission needs of much of the Midwest. KU withdrew from the MISO effective September 1, 2006. KU now contracts with the Tennessee Valley Authority to act as its transmission reliability coordinator and Southwest Power Pool Inc. to function as its independent transmission operator, pursuant to FERC requirements. See Note 2 of Notes to Financial Statements.

RATES AND REGULATIONS

E.ON, KU's ultimate parent, is a registered holding company under PUHCA 2005. E.ON, its utility subsidiaries, including KU, and certain of its non-utility subsidiaries are subject to extensive regulation by the FERC with respect to numerous matters, including: electric utility facilities and operations, wholesale sales of power and related transactions, accounting practices, issuances and sales of securities, acquisitions and sales of utility properties, payments of dividends out of capital and surplus, financial matters and inter-system sales of non-power goods and services. KU believes that it has adequate authority (including financing authority) under existing FERC orders and regulations to conduct its business and will seek additional authorization when necessary.

In February 2007, KU completed a series of financial transactions that allow it to cease periodic reporting under the Securities Exchange Act of 1934. See Note 13 of Notes to Financial Statements for additional information.

KU is subject to the jurisdiction of the Kentucky Commission, the Virginia Commission, the Tennessee Regulatory Authority and the FERC in virtually all matters related to electric utility regulation, and as such, its accounting is subject to SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation*. Given its competitive position in the marketplace and the status of regulation in Kentucky and Virginia, KU has no plans or intentions to discontinue its application of SFAS No. 71.

For a further discussion of regulatory matters, see Notes 2, 9 and 13 of Notes to Financial Statements.

COAL SUPPLY

Coal-fired generating units provided approximately 97% of KU's net kilowatt-hour generation for 2006. The remaining net generation for 2006 was provided by natural gas and oil-fueled CT peaking units and a hydroelectric plant. Coal is expected to be the predominant fuel used by KU in the foreseeable future, with natural gas and oil being used for peaking capacity and flame stabilization in coal-fired boilers or in emergencies. KU has no nuclear generating units and has no plans to build any in the foreseeable future.

KU maintains its fuel inventory at levels estimated to be necessary to avoid operational disruptions at its coal-fired generating units. Reliability of coal deliveries can be affected from time to time by a number of factors including fluctuations in demand, coal mine production issues and other supplier or transporter operating difficulties.

KU has entered into coal supply agreements with various suppliers for coal deliveries for 2007 and beyond and normally augments its coal supply agreements with spot market purchases. KU has a coal inventory policy which it believes provides adequate protection under most contingencies.

KU expects to continue purchasing most of its coal, which has sulfur content in the 0.7%-3.5% range, from western and eastern Kentucky, West Virginia, southern Indiana, southern Illinois and Ohio for the foreseeable future. Coal is delivered to KU generating stations by a mix of transportation modes, including barge, truck and rail.

ENVIRONMENTAL MATTERS

Protection of the environment is a major priority for KU. Federal, state and local regulatory agencies have issued KU permits for various activities subject to air quality, water quality and waste management laws and regulations. See Note 9 of Notes to Financial Statements for additional information.

COMPETITION

At this time, neither the Kentucky General Assembly nor the Kentucky Commission has adopted or approved a plan or timetable for retail electric industry competition in Kentucky. The nature or timing of the ultimate legislative or regulatory actions regarding industry restructuring and their impact on KU, which may be significant, cannot currently be predicted. Some states that have already deregulated have begun discussions that could lead to re-regulation. See Note 2 of Notes to Financial Statements for additional information.

EMPLOYEES AND LABOR RELATIONS

KU had approximately 941 full-time regular employees at December 31, 2006. Approximately 150 operating, maintenance and construction employees were represented by the IBEW Local 2100 and the USWA Local 9447-01. Effective August 1, 2006, KU and its employees represented by the IBEW Local 2100 entered into a new three-year collective bargaining agreement. The new agreement provides for negotiated increases or changes to wages, benefits or other provisions and for annual wage re-openers. KU and employees represented by the USWA Local 9447-01 entered into a three-year collective bargaining agreement in August 2005 with provisions for annual wage re-openers.

OFFICERS OF THE COMPANY

At December 31, 2006:

Name	Age	Position	Effective Date of Election to Present Position
Victor A. Staffieri	51	Chairman of the Board, President and Chief Executive Officer	May 2001
John R. McCall	63	Executive Vice President, General Counsel and Corporate Secretary	July 1994
S. Bradford Rives	48	Chief Financial Officer	September 2003
Martyn Gallus	42	Senior Vice President – Energy Marketing	December 2000
Chris Hermann	59	Senior Vice President – Energy Delivery	February 2003
Paula H. Pottinger	49	Senior Vice President – Human Resources	January 2006
Paul W. Thompson	49	Senior Vice President – Energy Services	June 2000
Wendy C. Welsh	52	Senior Vice President – Information Technology	December 2000
Michael S. Beer	48	Vice President – Federal Regulation and Policy	September 2004
D. Ralph Bowling	49	Vice President – Power Operations WKE	August 2002
R. W. Chip Keeling	50	Vice President – Communications	March 2002
George R. Siemens	57	Vice President – External Affairs	January 2001
David A. Vogel*	41	Vice President – Retail and Gas Storage Operations	March 2003
John N. Voyles	52	Vice President – Regulated Generation	June 2003
Daniel K. Arbough	45	Treasurer	December 2000
Valerie L. Scott	50	Controller	January 2005

Officers generally serve in the same capacities at KU and its affiliates, E.ON U.S. and LG&E.
*Mr. Vogel announced his resignation from the Company during March 2007.

Risk Factors

KU is subject to a number of risks, including without limitation, those listed below and elsewhere in this document. Such risks could affect actual results and cause results to differ materially from those expressed in any forward-looking statements made by KU.

The rates that KU charges customers, as well as other aspects of the business, are subject to significant and complex governmental regulation. Federal and state entities regulate many aspects of utility operations, including financial and capital structure matters; siting and construction of facilities; rates, terms and conditions of service, safety and operations; accounting and cost allocation methodologies; acquisition and disposal of utility assets and securities and other matters.

KU's exit from the MISO, as well as changes in transmission and wholesale power market structures, could increase costs or reduce revenues. The resulting changes to transmission and wholesale power market structures and prices are not completely estimable and may result in unforeseen effects on energy purchases and sales, transmission and related costs or revenues.

KU undertakes significant capital projects and is subject to unforeseen costs, delays or failures in such projects, as well as risk of full recovery of such costs. The completion of these facilities without delays or cost overruns is subject to risks in many areas, including approval and licensing; permitting; construction problems or delays; increases in commodity prices or labor rates; contractor performance; weather and geological issues and political, labor and regulatory developments.

KU's costs of compliance with environmental laws are significant and are subject to continuing changes. Extensive federal, state and local environmental regulations are applicable to KU's air emissions, water discharges and the management of hazardous and solid waste, among other areas, and the costs of compliance or of alleged non-compliance cannot be predicted with certainty.

KU's operating results are affected by weather conditions, including storms and seasonal temperature variations, as well as by significant man-made or accidental disturbances. These weather or man-made factors can significantly affect KU's finances or operations by changing demand levels, causing outages, damaging infrastructure or requiring significant repair costs.

KU is subject to risks regarding potential developments concerning global climate change matters. Such developments could include potential federal or state legislation or industry initiatives limiting GHG emissions, establishing costs or charges on GHG emissions or on fuels relating to such emissions, requiring remediation, sequestration or generation fleet-diversification to address GHG emissions, promoting energy efficiency or other measures.

KU's businesses are concentrated in the Midwest United States, specifically Kentucky. Local and regional economic conditions, such as population growth, industrial growth or expansion and economic development, as well as the operational or financial performance of major industries or customers, can affect the demand for energy.

KU is subject to operational risks relating to its generating plants, transmission facilities and distribution equipment. Operation of power plants, transmission and distribution facilities subject KU to many risks, including the breakdown or failure of equipment, accidents, labor disputes, delivery/transportation problems, disruptions of fuel supply and performance below expected levels.

KU could be negatively affected by rising interest rates, downgrades to credit ratings or other negative developments in its ability to access capital markets. In the ordinary course of business, KU is reliant upon adequate long-term and short-term financing means to fund its significant capital expenditures, debt interest or maturities and operating needs. Increases in interest rates could result in increased costs to KU.

KU is subject to commodity price risk, credit risk, counterparty risk and other risks associated with the energy business. General market or pricing developments or failures by counterparties to perform their obligations relating to energy, fuels, other commodities, goods, services or payments could result in potential increased costs to KU.

KU is subject to risks associated with defined benefit retirement plans, health care plans, wages and other employee-related matters. Risks include adverse developments in legislation or regulation, future costs or funding levels, returns on investments, interest rates and actuarial matters, as well as, changing wage levels, whether related to collective bargaining agreements or employment market conditions, and changing costs of providing health care benefits.

Legal Proceedings

Rates and Regulatory Matters

For a discussion of current rate and regulatory matters, including base rate increase proceedings, the Kentucky AG investigation, VDT proceedings, TC2 proceedings, Kentucky Commission, FERC and MISO proceedings and other rate or regulatory matters affecting KU, see Notes 2, 9 and 13 of Notes to Financial Statements.

Environmental

For a discussion of environmental matters including additional reductions in SO_2, NOx and other emissions mandated by recent regulations; items regarding the E.W. Brown and Ghent stations and the manufactured gas plant sites; global warming or climate change matters and other environmental items, see Note 9 of Notes to Financial Statements.

Litigation

For a discussion of litigation matters, including the OMU contract dispute, see Note 9 of Notes to Financial Statements.

Other

In the normal course of business, other lawsuits, claims, environmental actions and other governmental proceedings arise against KU. To the extent that damages are assessed in any of these lawsuits, KU believes that its insurance coverage is adequate. Management, after consultation with legal counsel, does not anticipate that liabilities arising out of other currently pending or threatened lawsuits and claims will have a material adverse effect on KU's financial position or results of operations.

Selected Financial Data

(in millions)	Years Ended December 31				
	2006	2005	2004	2003	2002
Operating revenues	$1,210	$1,207	$ 995	$ 892	$ 862
Net operating income	$ 235	$ 202	$ 228	$ 162	$ 163
Net income	$ 152	$ 112	$ 134	$ 91	$ 93
Total assets	$3,143	$2,756	$2,610	$2,505	$2,252
Long-term obligations (including amounts due within one year)	$ 843	$ 746	$ 726	$ 688	$ 501

Management's Discussion and Analysis and Notes to Financial Statements should be read in conjunction with the above information.

Management's Discussion and Analysis

The following discussion and analysis by management focuses on those factors that had a material effect on KU's financial results of operations and financial condition during 2006 and 2005 and should be read in connection with the financial statements and notes thereto.

Forward Looking Statements

Some of the following discussion may contain forward-looking statements that are subject to risks, uncertainties and assumptions. Such forward-looking statements are intended to be identified in this document by the words "anticipate," "expect," "estimate," "objective," "possible," "potential" and similar expressions. Actual results may materially vary. Factors that could cause actual results to materially differ include: general economic conditions; business and competitive conditions in the energy industry; changes in federal or state legislation; unusual weather; actions by state or federal regulatory agencies; actions by credit rating agencies and other factors described from time to time in KU's reports, including as noted in the Risk Factors section of this report.

RESULTS OF OPERATIONS

The electric utility business is affected by seasonal weather patterns. As a result, operating revenues (and associated operating expenses) are not generated evenly throughout the year.

Net Income

Net income in 2006 increased $40 million compared to 2005. The increase was primarily the result of higher equity in earnings from EEI of $27 million and a decrease in other operation and maintenance expenses of $33 million largely as a result of lower MISO Day 2 expenses. Partially offsetting these items was an increase in income tax expense of $10 million primarily due to increased income before income tax and an increase in interest expense to affiliates of $8 million.

Revenues

Revenues in 2006 increased $3 million primarily due to:

- Increased fuel costs ($58 million) billed to customers through the FAC
- Increased ECR surcharge ($18 million) billed to customers
- Increased revenue due to lower merger surcredit given to customers based on lower sales volumes ($4 million)
- Decreased wholesale sales ($37 million) primarily resulting from lower sales volumes due to regional demand
- Decreased MISO related revenue ($29 million) due to the exit from the MISO
- Decreased sales volumes and other ($11 million) resulting from an 11% decrease in cooling degree days in 2006 as compared to the same period in 2005 (the number of cooling degree days in 2006 was 8% below the 20-year average)

Expenses

Fuel for generation comprises a large component of total operating expenses. Increases or decreases in the cost of fuel are reflected in retail rates through the FAC, subject to the approval of the Kentucky Commission, the Virginia Commission and the FERC.

Fuel for generation increased $40 million in 2006 primarily due to:

- Increased cost of fuel burned ($39 million) due to higher coal prices

Power purchased expense decreased $37 million in 2006 primarily due to:

- Decreased volumes purchased ($33 million) due to increased internal generation

Other operation and maintenance expenses decreased $33 million in 2006 primarily due to decreased other operation expenses ($35 million), partially offset by increased property and other taxes ($2 million) and increased maintenance expenses ($1 million).

Other operation expenses decreased $35 million in 2006 primarily due to:

- Decreased other power supply expenses ($29 million) resulting from lower MISO Day 2 expenses
- Decreased transmission expenses ($7 million) due to lower MISO related expenses
- Decreased administrative and general expenses ($5 million) primarily due to the completion of the VDT amortization
- Increased steam generation operation expense ($4 million) primarily due to the increased cost of fees, permits and licenses

Equity earnings in EEI increased $27 million in 2006 primarily due to increased revenues at EEI from its sales of electricity at market-based rates versus cost, commencing January 1, 2006.

Interest expense, including interest expense to affiliated companies, increased $8 million in 2006 primarily due to:

- Increased interest to affiliated companies ($8 million)
- Increased interest rates on variable rate debt ($3 million)
- Increased cost of the interest rate swap ($2 million)
- Decreased external fixed rate debt ($4 million)

CRITICAL ACCOUNTING POLICIES/ESTIMATES

Preparation of financial statements and related disclosures in compliance with generally accepted accounting principles requires the application of appropriate technical accounting rules and guidance, as well as the use of estimates. The application of these policies necessarily involves judgments regarding future events, including legal and regulatory challenges and anticipated recovery of costs. These judgments, in and of themselves, could materially impact the financial statements and disclosures based on varying assumptions, which may be appropriate to use. In addition, the financial and operating environment also may have a significant effect, not only on the operation of the business, but on the results reported through the application of accounting measures used in preparing the financial statements and related disclosures, even if the nature of the accounting policies applied has not changed. Specific risks for these critical accounting policies are described in the following paragraphs. Each of these has a higher likelihood of resulting in materially different reported amounts under different conditions or using different assumptions. Events rarely develop exactly as forecasted and the best estimates routinely require adjustment.

Critical accounting policies and estimates including unbilled revenue, allowance for doubtful accounts, regulatory mechanisms, pension and postretirement benefits and income taxes are detailed in Notes 1, 2, 3, 5, 6 and 9 of Notes to Financial Statements.

Recent Accounting Pronouncements. Recent accounting pronouncements affecting KU are detailed in Note 1 of Notes to Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES

KU uses net cash generated from its operations and external financing (including financing from affiliates) to fund construction of plant and equipment and the payment of dividends. KU believes that such sources of funds will be sufficient to meet the needs of its business in the foreseeable future.

As of December 31, 2006, KU is in a negative working capital position in part because of the classification of certain variable-rate pollution control bonds totaling $87 million which bonds are subject to tender for purchase at the option of the holder as current portion of long-term debt. KU expects to cover any working capital deficiencies with cash flow from operations, money pool borrowings and borrowings from Fidelia.

Operating Activities

Cash provided by operations was $223 million and $221 million in 2006 and 2005, respectively.

The 2006 increase of $2 million was primarily the result of increases in cash due to changes in:

- Higher earnings, net of non-cash items ($64 million)
- Accounts receivable ($48 million) largely due to decreased sales volume growth due to milder weather

These increases were partially offset by cash used for:

- Accounts payable ($31 million)
- Payment of the fee required to exit the MISO ($20 million)
- Accrued income taxes due to the timing of payments at the end of the year ($20 million)
- Prepayments and other current assets ($13 million)
- ECR revenues ($12 million)
- Materials and supplies ($7 million)

Investing Activities

The primary use of funds for investing activities continues to be for capital expenditures. Capital expenditures were $347 million and $140 million in 2006 and 2005, respectively. KU expects its capital expenditures for the three-year period ending December 31, 2009 to total approximately $1.9 billion, which consists primarily of construction estimates associated with installation of FGDs on Ghent and Brown units and an SCR at Ghent totaling approximately $725 million, the construction of TC2 totaling approximately $605 million and on-going construction related to generation and distribution assets. See Note 9 of Notes to Financial Statements for additional information.

Net cash used for investing activities increased $186 million in 2006 compared to 2005 primarily due to increased capital expenditures of $207 million. Restricted cash represents the escrowed proceeds of the Pollution Control Bonds issued which are disbursed as qualifying costs are incurred.

Financing Activities

Net cash inflows (outflows) from financing activities were $124 million and $(57) million in 2006 and 2005, respectively.

See Notes 7 and 13 of Notes to Financial Statements for information of redemptions, maturities and issuances of long-term debt.

Future Capital Requirements

KU's construction program is designed to ensure that there will be adequate capacity and reliability to meet the electric needs of its service area and to comply with environmental regulations. These needs are continually being reassessed and appropriate revisions are made, when necessary, in construction schedules. Future capital requirements may be affected in varying degrees by factors such as electric energy demand load growth, changes in construction expenditure levels, rate actions by regulatory agencies, new legislation, market entry of competing electric power generators, changes in commodity prices and labor rates, changes in environmental regulations and other regulatory requirements. See Contractual Obligations further below and Note 9 of Notes to Financial Statements for current commitments. KU anticipates funding future capital requirements through operating cash flow, debt and/or infusions of capital from its parent.

Regulatory approvals are required for KU to incur additional debt. The Virginia Commission and the FERC authorize the issuance of short-term debt while the Kentucky Commission, the Virginia Commission and the Tennessee Regulatory Authority authorize the issuance of long-term debt. In February 2006, KU received a two-year authorization from the FERC to borrow up to $400 million in short-term funds. KU also has authorization from the Virginia Commission that expires at the end of 2007 allowing short-term borrowing of up to $400 million.

KU's debt ratings as of December 31, 2006, were:

	Moody's	S&P
First mortgage bonds	A1	A
Pollution control revenue bonds	A1	A
Preferred stock	Baa1	BBB-
Issuer rating	A2	-
Corporate credit rating	-	BBB+

*Effective February 23, 2007, KU no longer had first mortgage bonds outstanding and S&P has adjusted its rating for the pollution control revenue bonds to BBB+ following the completion of certain financing transactions which eliminated the lien on the assets of the Company.

These ratings reflect the views of Moody's and S&P. A security rating is not a recommendation to buy, sell or hold securities and is subject to revision or withdrawal at any time by the rating agency.

Contractual Obligations

The following is provided to summarize contractual cash obligations for periods after December 31, 2006. KU anticipates cash from operations and external financing will be sufficient to fund future obligations. Future interest obligations cannot be quantified because most of KU's debt is variable rate. (See Statements of Capitalization)

(in millions)	Payments Due by Period						
Contractual Cash Obligations	2007	2008	2009	2010	2011	Thereafter	Total
Short-term debt (a)	$ 97	$ -	$ -	$ -	$ -	$ -	$ 97
Long-term debt	53	-	-	33	-	757 (b)	843
Operating leases (c)	6	5	3	2	2	5	23
Unconditional power purchase obligations (d)	22	24	23	25	25	306	425
Coal purchase obligations (e)	362	222	34	18	-	-	636
Retirement obligations (f)	26	25	25	25	25	127	253
Other obligations (g)	465	418	203	1	-	-	1,087
Total contractual cash obligations	$1,031	$694	$288	$104	$ 52	$1,195	$3,364

(a) Represents borrowings from affiliated company due within one year.

(b) Includes long-term debt of $87 million classified as current liabilities because these bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events. Maturity dates for these bonds range from 2024 to 2032. KU does not expect to pay these amounts in 2007.

(c) Represents future operating lease payments.

(d) Represents future minimum payments under OVEC and OMU power purchase agreements through 2024.

(e) Represents contracts to purchase coal.

(f) Represents currently projected cash flows for pension, postretirement and other post-employment benefit plans as calculated by the actuary.

(g) Represents construction commitments, including commitments for TC2 and the FGDs.

Kentucky Utilities Company
Statements of Income
(Millions of $)

	Years Ended December 31 2006	2005
OPERATING REVENUES:		
Total operating revenues (Note 11)	$1,210	$1,207
OPERATING EXPENSES:		
Fuel for electric generation	424	384
Power purchased (Notes 9 and 11)	182	219
Other operation and maintenance expenses	254	287
Depreciation and amortization (Note 1)	115	115
Total operating expenses	975	1,005
Net operating income	235	202
Equity earnings in EEI (Note 1)	(29)	(2)
Other income – net	(1)	(3)
Interest expense (Notes 7 and 8)	15	15
Interest expense to affiliated companies (Note 11)	24	16
Income before income taxes	226	176
Federal and state income taxes (Note 6)	74	64
Net income	$ 152	$ 112

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

Statements of Retained Earnings
(Millions of $)

	Years Ended December 31 2006	2005
Balance January 1	$ 718	$ 659
Add net income	152	112
	870	771
Deduct: Cash dividends declared on stock and other:		
4.75% cumulative preferred	-	1
6.53% cumulative preferred	-	1
Common	-	50
Call premium and expenses	-	1
	-	53
Balance December 31	$ 870	$ 718

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

Kentucky Utilities Company
Statements of Comprehensive Income
(Millions of $)

	Years Ended December 31	
	2006	2005
Net income	$ 152	$ 112
Additional minimum pension liability adjustment, net of tax benefit (expense) of $(13) and $4 for 2006 and 2005, respectively (Note 5)	19	(6)
Other comprehensive income (loss), net of tax (Note 12)	19	(6)
Comprehensive income	$ 171	$ 106

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

Kentucky Utilities Company
Balance Sheets
(Millions of $)

	December 31 2006	2005
ASSETS:		
Current assets:		
Cash and cash equivalents (Note 1)	$ 6	$ 7
Restricted cash (Note 1)	23	22
Accounts receivable-less reserve of $2 million in 2006 and $1 million in 2005 (Note 1)	123	135
Accounts receivable from affiliated companies (Note 11)	50	32
Materials and supplies (Note 1):		
Fuel (predominantly coal)	64	55
Other materials and supplies	34	32
Prepayments and other current assets	13	5
Total current assets	313	288
Other property and investments (Note 1)	25	23
Utility plant, at original cost (Note 1)	3,681	3,650
Less: reserve for depreciation	1,553	1,508
Total utility plant, net	2,128	2,142
Construction work in progress	487	197
Total utility plant and construction work in progress	2,615	2,339
Deferred debits and other assets:		
Regulatory assets (Note 2):		
Pension and postretirement benefits (Notes 1 and 2)	64	-
Other	83	58
Cash surrender value of key man life insurance	35	32
Intangible pension asset	-	8
Other assets	8	8
Total deferred debits and other assets	190	106
Total Assets	$3,143	$2,756

The accompanying notes are an integral part of these financial statements

Kentucky Utilities Company
Balance Sheets (continued)
(Millions of $)

	December 31 2006	2005
LIABILITIES AND EQUITY:		
Current liabilities:		
Current portion of long-term debt (Note 7)	$ 141	$ 123
Notes payable to affiliated companies (Notes 8 and 11)	97	70
Accounts payable	83	89
Accounts payable to affiliated companies (Note 11)	87	57
Accrued income taxes	-	13
Customer deposits	19	17
Other current liabilities	23	14
Total current liabilities	450	383
Long-term debt:		
Long-term bonds (Note 7)	219	240
Long-term notes to affiliated company (Note 7)	483	383
Total long-term debt	702	623
Deferred credits and other liabilities:		
Accumulated deferred income taxes (Note 6)	284	274
Accumulated provision for pensions and related benefits (Note 5)	126	92
Asset retirement obligations	28	27
Regulatory liabilities (Note 2):		
Accumulated cost of removal of utility plant	297	281
Regulatory liability deferred income taxes	27	23
Other regulatory liabilities	6	11
Other liabilities	30	20
Total deferred credits and other liabilities	798	728
Commitments and contingencies (Note 9)		
COMMON EQUITY:		
Common stock, without par value -		
Authorized 80,000,000 shares, outstanding 37,817,878 shares	308	308
Additional paid-in-capital	15	15
Accumulated other comprehensive income (Note 12)	-	(19)
Retained earnings	854	704
Undistributed subsidiary earnings	16	14
Total retained earnings	870	718
Total common equity	1,193	1,022
Total Liabilities and Equity	$3,143	$2,756

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

Kentucky Utilities Company
Statements of Cash Flows
(Millions of $)

	Years Ended December 31 2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 152	$ 112
Items not requiring cash currently:		
Depreciation and amortization	115	115
Deferred income taxes-net	14	(2)
Investment tax credit-net	11	(2)
VDT amortization	3	12
Provision for pension and postretirement plans	4	(1)
Other	(1)	-
Change in certain current assets and liabilities:		
Accounts receivable	(6)	(54)
Materials and supplies	(11)	(4)
Accounts payable	-	31
Accrued income taxes	(13)	7
Property and other taxes payable	10	-
Prepayments and other current assets	(6)	7
Postretirement funding	(7)	(7)
MISO exit fee	(20)	-
Earnings sharing mechanism receivable	-	3
Environmental cost recovery mechanism refundable	(12)	-
Fuel adjustment clause receivable, net	(4)	-
Other	(6)	4
Net cash provided by operating activities	223	221
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction expenditures	(347)	(140)
Change in restricted cash	(1)	(22)
Net cash used for investing activities	(348)	(162)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Long-term borrowings from affiliated company	100	125
Short-term borrowings from affiliated company	763	716
Repayment of short-term borrowings from affiliated company	(736)	(681)
Retirement of first mortgage bonds	(36)	(50)
Repayment of long-term borrowings from affiliated company	-	(75)
Issuance of pollution control bonds	33	27
Retirement of preferred stock (Note 7)	-	(41)
Repayment of life insurance loans (Note 7)	-	(27)
Payment of dividends	-	(52)
Other	-	1
Net cash provided by (used for) financing activities	124	(57)
Change in cash and cash equivalents	(1)	2
Cash and cash equivalents at beginning of year	7	5
Cash and cash equivalents at end of year	$ 6	$ 7
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Income taxes	$82	$59
Interest on borrowed money	15	12
Interest to affiliated companies on borrowed money	20	15

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

Kentucky Utilities Company
Statements of Capitalization
(Millions of $)

	December 31 2006	2005
LONG-TERM DEBT (Note 7):		
First mortgage bonds:		
S due January 15, 2006, 5.99%	$ -	$ 36
P due May 15, 2007, 7.92% (Note 3)	54	55
Pollution control series:		
10, due November 1, 2024, variable %	54	54
11, due May 1, 2023, variable %	13	13
12, due February 1, 2032, variable %	21	21
13, due February 1, 2032, variable %	2	2
14, due February 1, 2032, variable %	2	2
15, due February 1, 2032, variable %	8	8
16, due October 1, 2032, variable %	96	96
17, due October 1, 2034, variable %	50	50
18, due June 1, 2035, variable %	13	13
19, due June 1, 2035, variable %	13	13
20, due June 1, 2036, variable %	17	-
21, due June 1, 2036, variable %	17	-
Notes payable to Fidelia:		
Due November 24, 2010, 4.24%, secured	33	33
Due January 16, 2012, 4 39%, unsecured	50	50
Due April 30, 2013, 4.55%, unsecured	100	100
Due August 15, 2013, 5.31%, secured	75	75
Due July 8, 2015, 4 735%, unsecured	50	50
Due December 21, 2015, 5.36%, unsecured	75	75
Due October 25, 2016, 5 675% unsecured	50	-
Due June 23, 2036, 6.33%, unsecured	50	-
Total long-term debt outstanding	843	746
Less current portion of long-term debt	141	123
Long-term debt	702	623
COMMON EQUITY:		
Common stock, without par value -		
Authorized 80,000,000 shares, outstanding 37,817,878 shares	308	308
Additional paid-in-capital	15	15
Accumulated other comprehensive income (Note 12)	-	(19)
Retained earnings	854	704
Undistributed subsidiary earnings	16	14
Total retained earnings	870	718
Total common equity	1,193	1,022
Total capitalization	$1,895	$1,645

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

Note 1 - Summary of Significant Accounting Policies

KU, incorporated in Kentucky in 1912 and in Virginia in 1991, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. KU provides electricity to approximately 501,000 customers in 77 counties in central, southeastern and western Kentucky, to approximately 30,000 customers in 5 counties in southwestern Virginia and 5 customers in Tennessee. KU's coal-fired electric generating plants produce most of KU's electricity, with the remainder generated by a hydroelectric power plant and natural gas and oil fueled CTs. In Virginia, KU operates under the name Old Dominion Power Company.

KU is a wholly-owned subsidiary of E.ON U.S., formerly known as LG&E Energy LLC. E.ON U.S. is an indirect wholly-owned subsidiary of E.ON, a German corporation, making KU an indirect wholly-owned subsidiary of E.ON. KU's affiliate, LG&E, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy and the distribution of natural gas in Kentucky.

Certain reclassification entries have been made to the previous years' financial statements to conform to the 2006 presentation with no impact on net assets, liabilities and capitalization or previously reported net income and cash flows.

Regulatory Accounting. KU is subject to SFAS No. 71, under which costs that would otherwise be charged to expense are deferred as regulatory assets based on expected recovery from customers in future rates. Likewise, credits that would otherwise be reflected as income are deferred as regulatory liabilities based on expected return to customers in future rates. The current or expected recovery of deferred costs and expected return of deferred credits is based on specific ratemaking decisions or precedent for each item as prescribed by the FERC, the Kentucky Commission or the Virginia Commission. See Note 2, Rates and Regulatory Matters, for additional detail regarding regulatory assets and liabilities.

Cash and Cash Equivalents. KU considers all debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Restricted Cash. Proceeds from bond issuances for environmental equipment (primarily related to the installation of FGDs) are held in trust pending expenditure for qualifying assets, which is expected to occur during 2007.

Allowance for Doubtful Accounts. The allowance for doubtful accounts is based on the ratio of the amounts charged-off during the last twelve months to the retail revenues billed over the same period multiplied by the retail revenues billed over the last four months. Accounts with no payment activity are charged-off after four months, although collection efforts continue thereafter.

Materials and Supplies. Fuel and other materials and supplies inventories are accounted for using the average-cost method. Emission allowances are included in other materials and supplies and are not currently traded by KU. At December 31, 2006 and 2005, the emission allowances inventory was approximately $2 million.

Other Property and Investments. Other property and investments on the balance sheets consists of KU's investment in EEI, economic development loans provided to various communities in KU's service territory, KU's investment in OVEC, funds related to KU's long-term purchased power contract with OMU and non-utility plant.

Although KU holds investment interests in OVEC and EEI, it is not the primary beneficiary, therefore, neither are consolidated into KU's financial statements. KU and 11 other electric utilities are participating owners of OVEC, located in Piketon, Ohio. OVEC owns and operates two power plants that burn coal to generate electricity, Kyger Creek Station in Ohio and Clifty Creek Station in Indiana. Pursuant to current contractual arrangements, KU's share of OVEC's output is 2.5%, approximately 55 Mw of generation capacity.

As of December 31, 2006 and 2005, KU's investment in OVEC totaled less than $1 million and is accounted for under the cost method of accounting. KU's maximum exposure to loss as a result of its involvement with OVEC is limited to the value of its investment. In the event of the inability of OVEC to fulfill its power provision requirements, KU anticipates substituting such power supply with either owned generation or market purchases and believes it would generally recover associated incremental costs through regulatory rate mechanisms. See Note 9, Commitments and Contingencies, for further discussion of developments regarding KU's ownership interests and power purchase rights.

KU owns 20% of the common stock of EEI, which owns and operates a 1,000-Mw generating station in southern Illinois. Prior to 2006, KU was entitled to take 20% of the available capacity of the station under a pricing formula comparable to the cost of other power generated by KU. This contract governing the purchases from EEI terminated on December 31, 2005. Since December 31, 2005, EEI has sold power under general market-based pricing and terms. KU has not contracted with EEI for power under the new arrangements, but maintains its 20% ownership in the common stock of EEI. Replacement power for the EEI capacity has been largely provided by KU generation.

KU's investment in EEI is accounted for under the equity method of accounting and, as of December 31, 2006 and 2005, totaled $18 million and $16 million, respectively. KU's direct exposure to loss as a result of its involvement with EEI is generally limited to the value of its investment.

Utility Plant. KU's utility plant is stated at original cost, which includes payroll-related costs such as taxes, fringe benefits and administrative and general costs. Construction work in progress has been included in the rate base for determining retail customer rates in Kentucky. KU has not recorded a significant allowance for funds used during construction.

The cost of plant retired or disposed of in the normal course of business is deducted from plant accounts and such cost, plus removal expense less salvage value, is charged to the reserve for depreciation. When complete operating units are disposed of, appropriate adjustments are made to the reserve for depreciation and gains and losses, if any, are recognized.

Depreciation and Amortization. Depreciation is provided on the straight-line method over the estimated service lives of depreciable plant. The amounts provided were approximately 3.1% in 2006 and 3.2% in 2005 of average depreciable plant. Of the amount provided for depreciation at December 31, 2006 and 2005, approximately 0.5% was related to the retirement, removal and disposal costs of long lived assets.

Unamortized Debt Expense. Debt expense is capitalized in deferred debits and amortized over the lives of the related bond issues.

Income Taxes. Income taxes are accounted for under SFAS No. 109, *Accounting for Income Taxes*. In accordance with this statement, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, as measured by enacted tax rates that are expected to be in effect in the periods when the deferred tax assets and liabilities are expected to be settled or realized. Significant judgment is required in determining the provision for income taxes, and there are transactions for which the ultimate tax outcome is uncertain. To provide for these uncertainties or exposures, an allowance is maintained for tax contingencies based on management's best estimate of probable loss. Tax contingencies are analyzed periodically and adjustments are made when events occur to warrant a change. See Note 6, Income Taxes.

Deferred Income Taxes. Deferred income taxes are recognized at currently enacted tax rates for all material temporary differences between the financial reporting and income tax bases of assets and liabilities.

Investment Tax Credits. The EPAct 2005 added Section 48A to the Internal Revenue Code, which provides for an investment tax credit to promote the commercialization of advanced coal technologies that will generate electricity in an environmentally responsible manner. KU and LG&E received an investment tax credit related to TC2, for more details see Note 6, Income Taxes. Investment tax credits prior to 2006 resulted from provisions of the tax law that permitted a reduction of KU's tax liability based on credits for construction expenditures. Deferred investment tax credits are being amortized to income over the estimated lives of the related property that gave rise to the credits.

Revenue Recognition. Revenues are recorded based on service rendered to customers through month-end. KU accrues an estimate for unbilled revenues from each meter reading date to the end of the accounting period based on allocating the daily system net deliveries between billed volumes and unbilled volumes. The allocation is based on a daily ratio of the number of meter reading cycles remaining in the month to the total number of meter reading cycles in each month. Each day's ratio is then multiplied by each day's system net deliveries to determine an estimated billed and unbilled volume for each day of the accounting period. The unbilled revenue estimates included in accounts receivable were approximately $42 million and $48 million at December 31, 2006 and 2005, respectively.

Fuel Costs. The cost of fuel for generation is charged to expense as used.

Management's Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent items at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accrued liabilities, including legal and environmental, are recorded when they are probable and estimable. Actual results could differ from those estimates.

Recent Accounting Pronouncements. The following are recent accounting pronouncements affecting KU:

FIN 48

In July 2006, the FASB issued FIN 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of SFAS No. 109*, which clarifies the accounting for the uncertainty of income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

The evaluation of a tax position in accordance with FIN 48 is a two-step process. The first step is recognition based on the determination of whether it is "more likely than not" that a tax position will be sustained upon examination. The second step is to measure a tax position that meets the "more likely than not" threshold. The tax position will be measured as the amount of potential benefit that exceeds 50% likelihood of being realized.

FIN 48 is effective for fiscal years beginning after December 15, 2006. FIN 48 was adopted effective January 1, 2007. The impact of FIN 48 on the statements of operations, financial position and cash flows is not expected to be material.

SFAS No. 157

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which is effective for fiscal years beginning after November 15, 2007. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. KU is now analyzing the future impacts of SFAS No. 157 on results of operations and financial condition.

SFAS No. 158

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, which is effective for fiscal years ending after December 15, 2006 for employers with publicly traded equity securities, and for employers controlled by entities with publicly traded equity securities, which is applicable for KU. This statement requires employers to recognize the over-funded or under-funded status of a defined benefit pension and postretirement plan as an asset or a liability in the balance sheet and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. This statement also requires employers to measure the funded status of a plan as of the date of its year-end balance sheet. This statement amended SFAS No. 87, *Employers' Accounting for Pensions,* SFAS No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, SFAS No. 106 *Employers' Accounting for Postretirement Benefits Other Than Pensions,* and SFAS No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits*.

SFAS No. 71 provides guidance to regulated utilities for deferring costs that would otherwise be charged to expense or equity by non-regulated enterprises. In applying the provisions of this statement to the requirements of SFAS No. 158, KU recorded a regulatory asset representing the adjustment to the pension liability in recognizing the funded status of the pension liability. This adjustment would have been represented in Accumulated Other Comprehensive Income without the application of SFAS No. 71.

KU has adopted SFAS No. 158 effective for fiscal year ending December 31, 2006. The incremental effects of applying SFAS No. 158 are shown in the following table:

(in millions)	Before Adoption of SFAS No. 158*	Adjustments	After Adoption of SFAS No. 158
Accrued pension and postretirement liability	$ (75)	$ (51)	$ (126)
Pension and postretirement regulatory asset	13	51	64

* Balances before the application of SFAS No. 158 include the effects of 2006 plan experience and changes in actuarial assumptions on the additional minimum liability, coupled with the regulatory impacts of SFAS No. 71.

Note 2 - Rates and Regulatory Matters

KU is subject to the jurisdiction of the Kentucky Commission, the Virginia Commission, the Tennessee

Regulatory Authority and the FERC in virtually all matters related to electric utility regulation, and as such, its accounting is subject to SFAS No. 71. Given its competitive position in the marketplace and the status of regulation in Kentucky and Virginia, KU has no plans or intentions to discontinue its application of SFAS No. 71.

Rate Case

In December 2003, KU filed an application with the Kentucky Commission requesting an adjustment in KU's rates. The revenue increase requested was $58 million. In June 2004, the Kentucky Commission issued an Order approving an increase in the base rates of KU of approximately $46 million (6.8%). The rate increase took effect on July 1, 2004.

During 2004 and 2005, the AG conducted an investigation of KU, as well as of the Kentucky Commission and its staff, requesting information regarding allegedly improper communications between KU and the Kentucky Commission, particularly during the period covered by the rate case. Concurrently, the AG had filed pleadings with the Kentucky Commission requesting rehearing of the rate case on computational components of the increased rates, including income taxes, cost of removal and depreciation amounts. In August 2004, the Kentucky Commission denied the AG's rehearing request on the cost of removal and depreciation issues and granted rehearing on the income tax component. The Kentucky Commission further agreed to hold in abeyance further proceedings in the rate case, until the AG filed its investigative report regarding the allegations of improper communication.

In January 2005 and February 2005, the AG filed a motion summarizing its investigative report as containing evidence of improper communications and record-keeping errors by KU in its conduct of activities before the Kentucky Commission or other state governmental entities and forwarded such report to the Kentucky Commission under continued confidential treatment to allow it to consider the report, including its impact, if any, on completing its investigation and any remaining steps in the rate case. To date, KU has neither seen nor requested copies of the report or its contents.

In December 2005, the Kentucky Commission issued an Order noting completion of its inquiry, including review of the AG's investigative report. The Order concluded that no improper communications occurred during the rate proceedings. Final proceedings took place during the first quarter of 2006 concerning the sole remaining open issue relating to state income tax rates used in calculating the granted rate increase. In March 2006, the Kentucky Commission issued an Order resolving this issue in KU's favor consistent with the original rate increase order.

KU believes no improprieties have occurred in its communications with the Kentucky Commission and has cooperated with the proceedings before the AG and the Kentucky Commission. KU is currently unable to predict whether there will be any remaining actions or consequences as a result of the AG's report or investigation.

Regulatory Assets and Liabilities

The following regulatory assets and liabilities were included in the balance sheets as of December 31:

(in millions)	2006	2005
ARO	$ 22	$ 20
MISO exit	20	-
FAC	16	12
Unamortized loss on bonds	10	11
ECR	10	4
VDT costs	-	3
Other	5	8
Subtotal	83	58
Pension and postretirement benefits	64	-
Total regulatory assets	$ 147	$ 58
Accumulated cost of removal of utility plant	$ 297	$ 281
Deferred income taxes-net	27	23
Other	6	11
Total regulatory liabilities	$ 330	$ 315

KU does not currently earn a rate of return on the FAC regulatory asset, which is a separate recovery mechanism with recovery within twelve months. No return is earned on the pension and postretirement benefits regulatory asset which represents the changes in funded status of the plans that the Company will seek recovery of in future proceedings with the Kentucky and Virginia Commissions. No return is currently earned on the ARO asset. This regulatory asset will be offset against the associated regulatory liability, ARO asset and ARO liability at the time the underlying asset is retired. The MISO exit amount represents the costs relating to the withdrawal from MISO membership. KU expects to seek recovery of this asset in future proceedings with the Kentucky and Virginia Commissions. KU currently earns a rate of return on the remaining regulatory assets. Other regulatory assets include the merger surcredit and deferred storm costs. Other regulatory liabilities include DSM and MISO Schedule 10. See Note 1, Summary of Significant Accounting Policies.

Pension and Postretirement Benefits. KU adopted SFAS No. 158 in 2006. This statement requires employers to recognize the over-funded or under-funded status of a defined benefit pension and postretirement plan as an asset or liability in the balance sheet and to recognize through comprehensive income the changes in the funded status in the year in which the changes occur. Under SFAS No. 71, KU can defer recoverable costs that would otherwise be charged to expense or equity by non-regulated entities. Current rate recovery in Kentucky and Virginia is based on SFAS No. 87 and SFAS No. 106, both of which were amended by SFAS No. 158. Regulators have been clear and consistent with their historical treatment of such rate recovery, therefore, KU has recorded a regulatory asset representing the probable recovery of the portion of the change in funded status of the pension and postretirement plans that is expected to be recovered. The regulatory asset will be adjusted annually as prior service cost and actuarial gains and losses are recognized in net periodic benefit cost.

ARO. A summary of KU's net ARO assets, regulatory assets, liabilities and cost of removal established under FIN 47 and SFAS No. 143, *Accounting for Asset Retirement Obligations*, follows:

(in millions)	ARO Net Assets	ARO Liabilities	Regulatory Assets	Regulatory Liabilities	Accumulated Cost of Removal	Cost of Removal Depreciation
As of December 31, 2004	$ 7	$ (21)	$ 13	$ (1)	$ 2	$ -
FIN 47 net asset additions	1	(5)	4	-	-	-
ARO accretion	-	(1)	1	-	-	-
ARO depreciation	(2)	-	2	-	-	-
Cost of removal depreciation	-	-	-	(1)	-	1
As of December 31, 2005	6	(27)	20	(2)	2	1
ARO accretion	-	(1)	1	-	-	-
ARO depreciation	(1)	-	1	-	-	-
As of December 31, 2006	$ 5	$ (28)	$ 22	$ (2)	$ 2	$ 1

Removal costs incurred in 2005 and 2006 and cost of removal depreciation and FIN 47 net asset additions during 2006 are all less than $1 million.

Pursuant to regulatory treatment prescribed under SFAS No. 71, an offsetting regulatory credit was recorded in depreciation and amortization in the income statement of $2 million in 2006 and $3 million in 2005 for the ARO accretion and depreciation expense. KU AROs are primarily related to the final retirement of assets associated with generating units. For assets associated with AROs, the removal cost accrued through depreciation under regulatory accounting is established as a regulatory asset or liability pursuant to regulatory treatment prescribed under SFAS No. 71. For the years ended December 31, 2006 and 2005, KU recorded less than $1 million of depreciation expense related to the cost of removal of ARO related assets. An offsetting regulatory liability was established pursuant to regulatory treatment prescribed under SFAS No. 71.

KU transmission and distribution lines largely operate under perpetual property easement agreements which do not generally require restoration upon removal of the property. Therefore, under SFAS No. 143, no material asset retirement obligations are recorded for transmission and distribution assets.

Unamortized Loss on Bonds. The costs of early extinguishment of debt, including call premiums, legal and other expenses, and any unamortized balance of debt expense are amortized over the life of either replacement debt (in the case of refinancing) or the original life of the extinguished debt.

MISO Exit. Following receipt of applicable FERC, Kentucky Commission and other regulatory orders, KU withdrew from the MISO effective September 1, 2006. Specific proceedings regarding the costs and benefits of the MISO and exit matters had been underway since July 2003. Since the exit from the MISO, KU has been operating under a FERC-approved open access-transmission tariff. KU now contracts with the Tennessee Valley Authority to act as its transmission reliability coordinator and Southwest Power Pool, Inc. to function as its independent transmission operator, pursuant to FERC requirements.

KU and the MISO have agreed upon overall calculation methods for the contractual exit fee to be paid by the Company following its withdrawal. In October 2006, KU paid approximately $20 million to the MISO pursuant to an invoice regarding the exit fee and made related FERC compliance filings. The Company's payment of this exit fee amount was with reservation of its rights to contest the amount, or components thereof, following a continuing review of its calculation and supporting documentation. In December 2006, KU provided notice to the MISO of its disagreement with the calculation of the exit fee. KU and the MISO continue to discuss the specifics of the exit fee calculation. The outcome of these discussions and the eventual settlement of the disputed amount cannot be estimated at this time. Orders of the Kentucky Commission approving the Company's exit from the MISO have authorized the establishment of a regulatory asset for the exit fee, subject to adjustment for possible future MISO credits, and a regulatory liability for certain revenues associated with former MISO Schedule 10 charges, which may continue to be collected via base rates. The treatment of the regulatory asset and liability will be determined in KU's next rate case, however, the Company historically has received approval to recover or refund regulatory assets and liabilities.

ECR. Kentucky law permits KU to recover the costs of complying with the Federal Clean Air Act, including a return of operating expenses, and a return of and on capital invested, through the ECR mechanism. The amount of the regulatory asset or liability is the amount that has been under- or over-recovered due to timing or adjustments to the mechanism.

In April 2006, the Kentucky Commission initiated six-month and two-year reviews of KU's environmental surcharge. A final order was received in January 2007, approving the charges and credits billed through the ECR during the review period as well as approving billing adjustments, a roll-in to base rates, revisions to the monthly surcharge filing and a rate of return on capital.

In June 2004, the Kentucky Commission issued an Order approving a settlement agreement that, among other things, revised the rate of return for KU's post-1994 plan. The Order also approved the elimination of KU's 1994 Plan from its ECR billing mechanism, with all remaining costs associated with that plan to be included in their entirety in base rates.

In December 2004, KU filed an application with the Kentucky Commission for approval of a CCN to construct new SO_2 control technology (FGDs) at the Ghent and Brown stations and to amend its compliance plan to allow recovery of costs associated with new and additional environmental compliance facilities. The estimated capital cost of the additional facilities over the next three years is approximately $670 million, of which approximately $630 million is related to the FGDs at Ghent and Brown. Hearings in these cases occurred in May 2005 and final orders were issued in June 2005, granting approval of the CCN and amendments to KU's compliance plan.

In June 2006, KU filed an application for a CCN to construct a SCR at the Ghent station and to amend its ECR plan with the Kentucky Commission seeking approval to recover investments in environmental upgrades at the Company's generating facilities. The estimated capital cost of the upgrades for the years 2007 through 2009 is approximately $295 million, of which $175 million is for the Air Quality Control System at TC2 and $95 million for Ghent's Unit 2 SCR. A final Order was issued by the Kentucky Commission in December 2006 approving all expenditures and investments as submitted.

Merger Surcredit. As part of the LG&E Energy merger with KU Energy Corporation in 1998, KU estimated non-fuel savings over a ten-year period following the merger. Costs to achieve these savings were deferred and amortized over a five-year period pursuant to regulatory orders. In approving the merger, the Kentucky Commission adopted KU's proposal to reduce its retail customers' bills based on one-half of the estimated merger-related savings, net of deferred and amortized amounts, over a five-year period. The surcredit mechanism provides that 50% of the net non-fuel cost savings estimated to be achieved from the merger be provided to ratepayers through a monthly bill credit, and 50% be retained by KU over a five-year period. In that same order, the Kentucky Commission required KU, after the end of the five-year period, to present a plan for sharing with ratepayers the then-projected non-fuel savings associated with the merger. KU submitted this filing in January 2003, proposing to continue to share with ratepayers, on a 50%/50% basis, the estimated fifth-year gross level of non-fuel savings associated with the merger. In October 2003, the Kentucky Commission issued an Order approving a settlement agreement reached with the parties in the case. KU's merger surcredit will remain in place for another five-year term beginning July 1, 2003, and the merger savings will continue to be shared 50% with ratepayers and 50% with shareholders.

VDT. In December 2001, the Kentucky Commission issued an Order approving a settlement agreement allowing KU to set up a regulatory asset of $54 million for the workforce reduction costs and begin amortizing it over a five-year period starting in April 2001. Some employees rescinded their participation in the voluntary enhanced severance program which, along with the non-recurring charge of $7 million for FERC and Virginia jurisdictions, thereby decreased the original charge to the regulatory asset from $64 million to $54 million. The Order reduced revenues by approximately $11 million through a surcredit on bills to ratepayers over the same five-year period, reflecting a sharing (40% to the ratepayers and 60% to KU) of savings as stipulated by KU, net of amortization costs of the workforce reduction. The five-year VDT amortization period expired in March 2006.

As part of the settlement agreement in the rate case, in September 2005, KU filed with the Kentucky Commission a plan for the future ratemaking treatment of the VDT surcredit and costs. In February 2006, the AG, KIUC and KU reached a settlement agreement on the future ratemaking treatment of the VDT surcredits and costs and subsequently submitted a joint motion to the Kentucky Commission to approve the unanimous settlement agreement. Under the terms of the settlement agreement, the VDT surcredit will continue at the current level until such time as KU files for a change in base rates. The Kentucky Commission issued an Order in March 2006, approving the settlement agreement.

FAC. KU's retail rates contain an FAC, whereby increases or decreases in the cost of fuel for generation are reflected in the rates charged to retail customers. The FAC allows the Company to adjust customers' accounts for the difference between the fuel cost component of base rates and the actual fuel cost, including transportation costs. Refunds to customers occur if the actual costs are below the embedded cost component. Additional charges to customers occur if the actual costs exceed the embedded cost component. The amount of the regulatory asset or liability is the amount that has been under- or over-recovered due to timing or adjustments to the mechanism.

In January 2003, the Kentucky Commission reviewed KU's FAC for the six month period ended October 31, 2001. The Kentucky Commission ordered KU to reduce its fuel costs for purposes of calculating its FAC by less than $1 million. At issue was the purchase of approximately 102,000 tons of coal from Western Kentucky Energy Corp., a non-regulated affiliate, for use at KU's Ghent facility. The Kentucky Commission further ordered that an independent audit be conducted to examine operational and management aspects of both KU's and LG&E's fuel procurement functions. The final report was issued in February 2004. The report's recommendations related to documentation and process improvements. Management Audit Action Plans were agreed upon by KU and the Kentucky Commission Staff in the second quarter of 2004. KU filed its first Audit Progress Report with the Kentucky Commission Staff in November 2004. The second Audit Progress Report was filed in May 2005. The third Audit Progress Report was filed in December 2005. In January 2006, the Kentucky Commission staff informed KU and LG&E that reporting on all of the original recommendations, but one, has been concluded. KU filed another Audit Progress Report on the remaining open recommendation in August 2006.

The Kentucky Commission requires public hearings at six-month intervals to examine past fuel adjustments, and at two-year intervals to review past operations of the fuel clause and transfer of the then current fuel adjustment charge or credit to the base charges. In July 2006, the Kentucky Commission initiated a six-month review of the FAC for KU for the period of November 1, 2005 through April 30, 2006. The Kentucky Commission issued an Order in November 2006 approving the charges and credits billed through the FAC during the review period.

KU also employs an FAC mechanism for Virginia customers that uses an average fuel cost factor based primarily on projected fuel costs. The fuel cost factor may be adjusted annually for over or under collections of fuel costs from the previous year. In February 2006, KU filed an application with the Virginia Commission seeking approval of an increase of approximately $6 million in its fuel cost factor to reflect higher fuel costs incurred during 2005, and anticipated to be incurred in 2006. The Virginia Commission approved KU's request in April 2006. An FAC filing seeking an approval of an additional increase in KU's fuel cost factor to reflect higher fuel costs was made with the Virginia Commission in February 2007.

In December 2006, the Kentucky Commission initiated a two-year review of KU's past operations of the fuel clause and transfer of fuel costs from the FAC to base rates. KU anticipates Kentucky Commission approval of the charges and credits billed and the fuel procurement practices of KU during the second quarter of 2007.

DSM. KU's rates contain a DSM provision. The provision includes a rate mechanism that provides for concurrent recovery of DSM costs and provides an incentive for implementing DSM programs. The provision allows KU to recover revenues from lost sales associated with the DSM programs based on program plan engineering estimates and post-implementation evaluations.

Deferred Storm Costs. Based on an Order from the Kentucky Commission in September 2004, KU reclassified from maintenance expense to a regulatory asset, $4 million related to costs not reimbursed from the 2003 ice storm. These costs will be amortized through June 2009. KU earns a return of these amortized costs, which are included in KU's jurisdictional operating expenses.

Accumulated Cost of Removal of Utility Plant. As of December 31, 2006 and 2005, KU has segregated the cost of removal, embedded in accumulated depreciation, of $297 million and $281 million, respectively, in accordance with FERC Order No. 631. This cost of removal component is for assets that do not have a legal ARO under SFAS No. 143. For reporting purposes in the balance sheets, KU has presented this cost of removal as a regulatory liability pursuant to SFAS No. 71.

Deferred Income Taxes-Net. Deferred income taxes represent the future income tax effects of recognizing the regulatory assets and liabilities in the income statement. Deferred income taxes are recognized at currently enacted tax rates for all material temporary differences between the financial reporting and income tax bases of assets and liabilities.

<u>Other Regulatory Matters</u>

Utility Competition in Virginia. The Commonwealth of Virginia passed the Virginia Electric Utility Restructuring Act in 1999. This act gave Virginia customers the ability to choose their electric supplier. Rates are capped at current levels through December 2010. The Virginia Commission will continue to require each Virginia utility to make annual filings of either a base rate change or an Annual Informational Filing consisting of a set of standard financial schedules. The Virginia Commission Staff will issue a Staff Report regarding the individual utility's financial performance during the historic 12-month period. The Staff Report can lead to an adjustment in rates, but through December 2010, rates are subject to the capped rate period and essentially "frozen". In March 2007, the Virginia General Assembly adopted legislation which will end the cap on rates at the end of 2008, rather than through December 2010, and end customer choice for most consumers in the applicable regions of the state. Thereafter, a hybrid model of regulation would apply in Virginia, whereby utility rates would be reviewed every two years and a utility's rate of return on equity would be based upon the average of the rates of return for other regional utilities, with certain caps, floors or adjustments. As currently drafted, the legislation maintains an existing exemption from restructuring, allowing KU's Virginia service territory to continue under prior traditional utility regulation. KU continues to analyze the potential effects of such legislation on the future rates and operations relating to its Virginia service territory and cannot estimate the impact, if any, at this time.

Regional Reliability Council. KU has changed its regional reliability council membership from the Reliability First Corporation to the Southeastern Electric Reliability Council, effective January 1, 2007. Regional reliability councils are industry consortiums that promote, coordinate and ensure the reliability of the bulk electric supply systems in North America.

TC2 CCN Application. A CCN application for construction of the new, base-load, coal fired unit TC2, which will be jointly-owned by KU and LG&E, was filed with the Kentucky Commission in December 2004, and initial CCN applications for three transmission lines were filed in early 2005, with further applications submitted in December 2005. The proposed air permit was filed with the Kentucky Division for Air Quality in December 2004. In November 2005, the Kentucky Commission approved the application to expand the Trimble County generating station. Kentucky Commission approval for one transmission line CCN was granted in September 2005, and a ruling that a second transmission line was not subject to the CCN process was received in February 2006. The Kentucky Commission granted approval for the remaining transmission line CCN in May 2006. In August 2006, KU obtained dismissal of a judicial review of such CCN approval by certain property owners. A further appeal of such dismissal was thereafter filed, which action remains pending. The transmission lines are also subject to routine regulatory filings and the right-of-way acquisition process. In November 2005, the Kentucky Division for Air Quality issued the final air permit, which was challenged via a request for remand in December 2005 by three environmental advocacy groups, including the Sierra Club. Administrative proceedings with respect to the challenge continued throughout 2006. A ruling may occur during the first half of 2007.

Ghent FGD Inquiry. In October 2006, the Kentucky Commission commenced an inquiry into elements of KU's planned construction of one of its three new FGD's at the Ghent generating station. The proceeding requested, and KU provided, additional information regarding configuration details, expenditures and the proposed construction sequence applicable to future construction phases of the Ghent FGD project. In January 2007, the Kentucky Commission issued an Order completing its inquiry in the matter and confirming its approval of KU's construction plan. The Order also provided general guidance for jurisdictional utilities regarding applicable information and data requirements for future CCN applications and subsequent proceedings.

Market-Based Rate Authority. Beginning in April 2004, the FERC initiated proceedings to modify its methods used to assess generation market power and has established more stringent interim market screen tests. During 2005, in connection with KU's tri-annual market-based rate tariff renewals, the FERC continued to contend that KU failed such market screens in certain regions. KU disputed this contention.

In July 2006, the FERC issued an Order in KU's market-based rate proceeding accepting KU's further proposal to address certain market power issues the FERC had claimed would arise upon an exit from the MISO. In particular, KU received permission to sell power at market-based rates at the interface of control areas in which they may be deemed to have market power, subject to a restriction that such power not be collusively re-sold back into such control areas. However, restrictions exist on sales by KU of power at market-based rates in the KU/LG&E and Big Rivers Electric Corporation control areas. Certain general FERC proceedings continue with respect to market-based rate matters, and KU's market-based rate authority is subject to such future developments. KU cannot predict the ultimate impact of the current or potential mitigation mechanisms on its future wholesale power sales.

FERC Audit Results. In July 2006, the FERC issued a final report under a routine audit that its Office of Enforcement (formerly its Office of Market Oversight and Investigations) had conducted regarding the compliance of E.ON U.S. and subsidiaries, including KU, under the FERC's standards of conduct and codes of conduct requirements, as well as other areas. The final report contained certain findings calling for improvements in E.ON U.S. and subsidiaries' structures, policies and procedures relating to transmission, generation dispatch, energy marketing and other practices. E.ON U.S. and subsidiaries have agreed to certain corrective actions and have submitted procedures related to such corrective actions to the FERC. The corrective actions are in the nature of organizational and operational improvements as described above and are not expected to have a material adverse impact on the Company's results of operations or financial condition.

IRP. Integrated resource planning regulations in Kentucky require major utilities to make triennial IRP filings with the Kentucky Commission. In April 2005, KU and LG&E filed their 2005 joint IRP with the Kentucky Commission. The IRP provides historical and projected demand, resource and financial data, and other operating performance and system information. The AG and the KIUC were granted intervention in the IRP proceeding. The Kentucky Commission issued its staff report with no substantive issues noted and closed the case by Order in February 2006.

PUHCA 2005. E.ON, KU's ultimate parent, is a registered holding company under PUHCA 2005. E.ON, its utility subsidiaries, including KU, and certain of its non-utility subsidiaries are subject to extensive regulation by the FERC with respect to numerous matters, including: electric utility facilities and operations, wholesale sales of power and related transactions, accounting practices, issuances and sales of securities, acquisitions and sales of utility properties, payments of dividends out of capital and surplus, financial matters and inter-system sales of non-power goods and services. KU believes that it has adequate authority (including financing authority) under existing FERC orders and regulations to conduct its business and will seek additional authorization when necessary.

EPAct 2005. The EPAct 2005 was enacted in August 2005. Among other matters, this comprehensive legislation contains provisions mandating improved electric reliability standards and performance; providing economic and other incentives relating to transmission, pollution control and renewable generation assets; increasing funding for clean coal generation incentives; repealing PUHCA 1935; enacting PUHCA 2005 and expanding FERC jurisdiction over public utility holding companies and related matters via the Federal Power Act and PUHCA 2005.

The FERC was directed by the EPAct 2005 to adopt rules to address many areas previously regulated by the other agencies under other statutes, including PUHCA 1935. The FERC is in various stages of rulemaking on these issues and KU is monitoring these rulemaking activities and actively participating in these and other rulemaking proceedings. KU is still evaluating the potential impacts of the EPAct 2005 and the associated rulemakings and cannot predict what impact the EPAct 2005, and any such rulemakings, will have on its operations or financial position.

In February 2006, the Kentucky Commission initiated an administrative proceeding to consider the requirements of the EPAct 2005, Subtitle E Section 1252, Smart Metering, which concerns time-based metering and demand response, and Section 1254, Interconnections. EPAct 2005 requires each state regulatory authority to conduct a formal investigation and issue a decision on whether or not it is appropriate to implement certain Section 1252, Smart Metering standards within eighteen months after the enactment of EPAct 2005 and to commence consideration of Section 1254, Interconnection standards within one year after the enactment of EPAct 2005. The Kentucky Commission held a public hearing in July 2006 in this proceeding with all Kentucky jurisdictional electric utilities. In December 2006, the Kentucky Commission issued an Order in this proceeding indicating that the EPAct 2005 Section 1252, Smart Metering and Section 1254, Interconnection standards should not be adopted. However, all five Kentucky Commission jurisdictional utilities are required to file real-time pricing pilot programs for their larger commercial and industrial customers. KU will develop a real-time pricing pilot for large industrial and commercial customers and file the details of the real-time pricing pilot with the Kentucky Commission in April 2007.

Note 3 - Financial Instruments

The cost and estimated fair values of KU's non-trading financial instruments as of December 31 follow:

	2006		2005	
(in millions)	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt (including current portion)	$360	$360	$363	$363
Long-term debt from affiliate (including current portion)	$483	$487	$383	$382
Interest-rate swaps-asset	$ -	$ -	$ 1	$ 1

All of the above valuations reflect prices quoted by exchanges except for the swaps and intercompany loans. The fair values of the swaps and intercompany loans reflect price quotes from dealers or amounts calculated using accepted pricing models. The fair values of cash and cash equivalents, accounts receivable, cash surrender value of key man life insurance, accounts payable and notes payable are substantially the same as their carrying values.

Interest Rate Swaps (hedging derivatives). KU uses over-the-counter interest rate swaps to hedge exposure to market fluctuations in certain of its debt instruments. Pursuant to Company policy, use of these financial instruments is intended to mitigate risk, earnings and cash flow volatility and is not speculative in nature. Management has designated all of the interest rate swaps as hedge instruments. Financial instruments designated as fair value hedges and the underlying hedged items are periodically marked to market with the resulting net gains and losses recorded directly into net income. Upon termination of any fair value hedge, the resulting gain or loss is recorded into net income. Financial instruments designated as cash flow hedges have resulting gains and losses recorded within other comprehensive income and stockholders' equity.

KU was party to an interest rate swap agreement with a notional amount of $53 million as of December 31, 2006 and 2005. Under this swap agreement, KU paid variable rates based on the London Interbank Offer Rate averaging 7.44% and 6.41% at December 31, 2006 and 2005, respectively, and received fixed rates averaging 7.92% at December 31, 2006 and 2005. The swap agreement in effect at December 31, 2006 has been designated as a fair value hedge and matures in 2007. The fair value designation was assigned because the underlying fixed rate debt has a firm future commitment. For 2006 and 2005, the effect of marking these financial instruments and the underlying debt to market resulted in pre-tax gains of less than $1 million recorded in interest expense. The interest rate swap was terminated in February 2007 when the underlying debt was defeased.

Interest rate swaps hedge interest rate risk on the underlying debt under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, in addition to swaps being marked to market, the item being hedged must also be marked to market, consequently at December 31, 2006 and 2005, KU's debt reflects a mark-to-market adjustment of $1 million and $2 million, respectively.

Energy Risk Management Activities (non-hedging derivatives). KU conducts energy trading and risk management activities to maximize the value of power sales from physical assets it owns. Energy trading activities are principally forward financial transactions to hedge price risk and are accounted for on a mark-to-market basis in accordance with SFAS No. 133, as amended. Prior to the MISO establishing its Day 2 energy market in April 2005, wholesale forward transactions were primarily physically settled and thus were treated as *normal sales under SFAS No. 133, as amended, and were not marked to market.*

The table below summarizes KU's energy trading and risk management activities:

(in millions)	2006	2005
Fair value of contracts at beginning of period, net asset	$ 1	$ -
Fair value of contracts when entered into during the period	3	1
Contracts realized or otherwise settled during the period	(6)	-
Changes in fair values due to changes in assumptions	3	-
Fair value of contracts at end if period, net asset	$ 1	$ 1

No changes to valuation techniques for energy trading and risk management activities occurred during 2006 or 2005. Changes in market pricing, interest rate and volatility assumptions were made during both years. All contracts outstanding at December 31, 2006 and 2005, have a maturity of less than one year and are valued using prices actively quoted for proposed or executed transactions or quoted by brokers.

KU maintains policies intended to minimize credit risk and revalues credit exposures daily to monitor compliance with those policies. At December 31, 2006, 100% of the trading and risk management commitments were with counterparties rated BBB-/Baa3 equivalent or better.

KU hedges the price volatility of its forecasted electric off-system sales with the sales of market-traded electric forward contracts for periods of less than one year. These electric forward sales have been designated as cash flow hedges and are not speculative in nature. Gains or losses on these instruments, to the extent that the hedging relationship has been effective, are deferred in other comprehensive income. Gains and losses resulting from ineffectiveness are shown in the statements of income in other income-net. Upon completion of the underlying hedge transaction, the amount recorded in other comprehensive income is recorded in earnings. No material pre-tax gains and losses resulted from these cash flow hedges in 2006 and 2005.

Note 4 - Concentrations of Credit and Other Risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed to perform as contracted. Concentrations of credit risk (whether on- or off-balance sheet) relate to groups of customers or counterparties that have similar economic or industry characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

KU's customer receivables and revenues arise from deliveries of electricity to approximately 501,000 customers in over 600 communities and adjacent suburban and rural areas in 77 counties in central, southeastern and western Kentucky, to approximately 30,000 customers in five counties in southwestern Virginia and 5 customers in Tennessee. For the years ended December 31, 2006 and 2005, 100% of total utility revenue was derived from electric operations.

Effective August 1, 2006, KU and its employees represented by the IBEW Local 2100 entered into a new three-year collective bargaining agreement. The new agreement provides for negotiated increases or changes to wages, benefits or other provisions and for annual wage re-openers. KU and its employees represented by the USWA Local 9447-01 entered into a three-year collective bargaining agreement effective August 2005 with authorized annual wage reopeners. The employees represented by these two bargaining units comprise approximately 16% of KU's workforce at December 31, 2006.

Note 5 - Pension and Other Postretirement Benefit Plans

KU has both funded and unfunded non-contributory defined benefit pension plans and other postretirement benefit plans that together cover substantially all of its employees. The healthcare plans are contributory with participants' contributions adjusted annually. KU uses December 31 as the measurement date for its plans.

Obligations and Funded Status. The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of assets over the two-year period ending December 31, 2006, and a statement of the funded status as of December 31 for KU's sponsored defined benefit plans:

(in millions)	Pension Benefits		Other Postretirement Benefits	
	2006	2005	2006	2005
Change in benefit obligation				
Benefit obligation at beginning of year	$ 318	$ 291	$ 95	$ 100
Service cost	6	5	2	2
Interest cost	17	16	5	5
Benefits paid, net of retiree contributions	(19)	(20)	(5)	(5)
Actuarial (gain) or loss and other	(19)	26	(9)	(7)
Benefit obligation at end of year	$ 303	$ 318	$ 88	$ 95
Change in plan assets				
Fair value of plan assets at beginning of year	$ 247	$ 248	$ 9	$ 6
Actual return on plan assets	26	21	1	1
Employer contributions	-	-	7	7
Benefits paid, net of retiree contributions	(19)	(20)	-	(5)
Administrative expenses	(1)	(2)	(5)	-
Fair value of plan assets at end of year	$ 253	$ 247	$ 12	$ 9
Funded status at end of year	$ (50)	$ (71)	$ (76)	$ (86)

Amounts Recognized in Statement of Financial Position. The following tables provide the amounts recognized in the balance sheet and information for plans with benefit obligations in excess of plan assets as of December 31:

(in millions)	Pension Benefits 2006	Pension Benefits 2005	Other Postretirement Benefits 2006	Other Postretirement Benefits 2005
Prior to the application of SFAS No. 158:				
Accrued benefit liability	$ (4)	$ (22)	$ (71)	$ (70)
Intangible asset	6	7	-	-
Accumulated other comprehensive income	7	32	-	-
After the application of SFAS No. 158:				
Regulatory assets	59	-	5	-
Accrued benefit liability	(50)	(22)	(76)	(70)

The following table shows the calculation of the accrued benefit liability at December 31:

(in millions)	Pension Benefits 2006	Pension Benefits 2005	Other Postretirement Benefits 2006	Other Postretirement Benefits 2005
Funded status	$ (50)	$ (71)	$ (76)	$ (86)
Unrecognized prior service costs	N/A	-	N/A	1
Unrecognized actuarial (gain) loss	N/A	81	N/A	7
Unrecognized transition obligation	N/A	-	N/A	8
Other comprehensive income	N/A	(32)	N/A	-
Accrued benefit liability	$ (50)	$ (22)	$ (76)	$ (70)

Additional year-end information for plans with accumulated benefit obligations in excess of plan assets:

(in millions)	Pension Benefits 2006	Pension Benefits 2005	Other Postretirement Benefits 2006	Other Postretirement Benefits 2005
Benefit obligation	$ 303	$ 318	$ 88	$ 95
Accumulated benefit obligation	258	270	-	-
Fair value of plan assets	253	247	12	9

Components of Net Periodic Benefit Cost. The following table provides the components of net periodic benefit cost for the plans:

(in millions)	Pension Benefits 2006	Pension Benefits 2005	Other Postretirement Benefits 2006	Other Postretirement Benefits 2005
Service cost	$ 6	$ 5	$ 2	$ 2
Interest cost	17	16	5	5
Expected return on plan assets	(20)	(19)	(1)	(1)
Amortization of prior service costs	1	1	1	1
Amortization of actuarial loss	4	2	-	-
Amortization of transitional obligation	-	-	1	1
Benefit cost at end of year	$ 8	$ 5	$ 8	$ 8

The assumptions used in the measurement of KU's pension benefit obligation are shown in the following table:

	2006	2005
Weighted-average assumptions as of December 31:		
Discount rate	5.96%	5.50%
Rate of compensation increase	5.25%	5.25%

The discount rate is based on the November Mercer Pension Discount Yield Curve, adjusted by the basis point change in the Moody's Corporate Aa Bond Rate in December.

The assumptions used in the measurement of KU's net periodic benefit cost are shown in the following table:

	2006	2005
Discount rate	5.50%	5.75%
Expected long-term return on plan assets	8.25%	8.25%
Rate of compensation increase	5.25%	4.50%

To develop the expected long-term rate of return on assets assumption, KU considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

The following describes the effects on pension benefits by changing the major actuarial assumptions discussed above:

- A 1% change in the assumed discount rate could have an approximate $32 million positive or negative impact to the 2006 accumulated benefit obligation and an approximate $43 million positive or negative impact to the 2006 projected benefit obligation.
- A 25 basis point change in the expected rate of return on assets would have an approximate $1 million positive or negative impact on 2006 pension expense.

Assumed Healthcare Cost Trend Rates. For measurement purposes, a 10% annual increase in the per capita cost of covered healthcare benefits was assumed for 2006. The rate was assumed to decrease gradually to 5% by 2015 and remain at that level thereafter.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. A 1% change in assumed healthcare cost trend rates would have resulted in an increase or decrease of less than $1 million on the 2006 total of service and interest costs components and an increase or decrease of $5 million in year-end 2006 postretirement benefit obligations.

Expected Future Benefit Payments and Medicare Subsidy Receipts. The following list provides the amount of expected future benefit payments, which reflect expected future service and the estimated gross amount of medicare subsidy receipts:

(in millions)	Pension Plans	Other Postretirement Benefits	Medicare Subsidy Receipts
2007	$ 19	$7	$ -
2008	18	7	(1)
2009	18	7	(1)
2010	17	8	(1)
2011	17	8	(1)
2012-16	87	40	(3)

Plan Assets. The following table shows KU's weighted-average asset allocation by asset category at December 31:

	Target Range	2006	2005
Pension Plans:			
Equity securities	45% - 75%	61%	57%
Debt securities	30% - 50%	39%	42%
Other	0% - 10%	0%	1%
Totals		100%	100%

The investment policy of the pension plans was developed in conjunction with financial consultants, investment advisors and legal counsel. The goal of the investment policy is to preserve the capital of the fund and maximize investment earnings. The return objective is to exceed the benchmark return for the policy index comprised of the following: Russell 3000 Index, MSCI-EAFE Index, Lehman Aggregate and Lehman Long Duration Gov/Corporate Bond Index in proportions equal to the targeted asset allocation.

Evaluation of performance focuses on a long-term investment time horizon of at least three to five years or a complete market cycle. The assets of the pension plans are broadly diversified within different asset classes (equities, fixed income securities and cash equivalents).

To minimize the risk of large losses in a single asset class, no more than 5% of the portfolio will be invested in the securities of any one issuer with the exclusion of the U.S. government and its agencies. The equity portion of the fund is diversified among the market's various subsections to diversify risk, maximize returns and avoid undue exposure to any single economic sector, industry group or individual security. The equity subsectors include, but are not limited to, growth, value, small capitalization and international.

In addition, the overall fixed income portfolio may have an average weighted duration, or interest rate sensitivity which is within +/- 20% of the duration of the overall fixed income benchmark. Foreign bonds in the aggregate shall not exceed 10% of the total fund. The portfolio may include a limited investment of up to 20% in below investment grade securities provided that the overall average portfolio quality remains "AA" or better. The below investment grade securities include, but are not limited to, medium-term notes, corporate debt, non-dollar and emerging market debt and asset backed securities. The cash investments should be in securities that either are of short maturities (not to exceed 180 days) or readily marketable with modest risk.

Derivative securities are permitted only to improve the portfolio's risk/return profile, to modify the portfolio's duration or to reduce transaction costs and must be used in conjunction with underlying physical assets in the portfolio. Derivative securities that involve speculation, leverage, interest rate anticipation, or any undue risk whatsoever are not deemed appropriate investments.

The investment objective for the postretirement benefit plan is to provide current income consistent with stability of principal and liquidity while maintaining a stable net asset value of $1.00 per share. The postretirement funds are invested in a prime cash money market fund that invests primarily in a portfolio of short-term, high-quality fixed income securities issued by banks, corporations and the U.S. government.

Contributions. KU did not make a contribution to the pension plan in 2005 or 2006, but did make a contribution of $13 million in January 2007. After this payment, KU's pension plan assets are in excess of the December 31, 2006 accumulated benefit obligation. KU does not expect to make any further contributions in 2007. See Note 13, Subsequent Events.

In addition, KU made contributions to the other postretirement benefit plans of approximately $7 million in 2006 and 2005. In 2007, KU anticipates making voluntary contributions to fund the Voluntary Employee Beneficiary Association (VEBA) trusts to match the annual postretirement expense and funding the 401(h) plan up to the maximum amount allowed by law.

Pension Legislation. The Pension Protection Act of 2006 was enacted in August 2006. The new rules are generally effective for plan years beginning after 2008. Among other matters, this comprehensive legislation contains provisions applicable to defined benefit plans which generally (i) mandate 100% funding of current liabilities within seven years; (ii) increase tax-deduction levels regarding contributions; (iii) revise certain actuarial assumptions, such as mortality tables and discount rates; and (iv) raise federal insurance premiums and other fees for under-funded and distressed plans. The legislation also contains similar provisions relating to defined-contribution plans and qualified and non-qualified executive pension plans and other matters. KU continues to examine the potential impacts of the Pension Protection Act of 2006. KU's $13 million contribution in January 2007 resulted in assets that are in excess of the December 31, 2006 accumulated benefit obligation.

Thrift Savings Plans. KU has a thrift savings plan under section 401(k) of the Internal Revenue Code. Under the plan, eligible employees may defer and contribute to the plan a portion of current compensation in order to provide future retirement benefits. KU makes contributions to the plan by matching a portion of the employee contributions. The costs of this matching were approximately $2 million for 2006 and 2005.

Note 6 - Income Taxes

Components of income tax expense are shown in the table below:

(in millions)		2006	2005
Current	- federal	$ 51	$ 57
	- state	11	11
Deferred	- federal – net	-	(2)
	- state – net	1	-
Investment tax credit-deferred		12	-
Amortization of investment tax credit		(1)	(2)
Total income tax expense		$ 74	$ 64

In June 2006, KU and LG&E filed a joint application with the Department of Energy requesting certification to be eligible for investment tax credits applicable to the construction of TC2. The EPAct 2005 added Section 48A to the Internal Revenue Code, which provides for an investment tax credit to promote the commercialization of advanced coal technologies that will generate electricity in an environmentally responsible manner. KU's and LG&E's application requested up to a maximum amount of "advanced coal project" credit allowed per taxpayer, or $125 million, based on an estimate of 15% of projected qualifying TC2 expenditures.

In November 2006, the Department of Energy and the Internal Revenue Service announced that KU and LG&E were selected to receive the tax credit. KU's portion of the tax credit will be approximately $101 million over the construction period of TC2. This tax credit will be amortized to income over the life of the related property. In 2006, based on eligible construction expenditures incurred in 2006, KU recorded a federal investment tax credit, decreasing current federal income taxes in 2006 by $12 million.

H. R. 4520, known as the "American Jobs Creation Act of 2004" allows electric utilities to take a deduction of up to 3% of their qualified production activities income starting in 2005. This deduction reduced KU's effective tax rate by less than 1% for 2006.

Components of net deferred tax liabilities included in the balance sheet are shown below:

(in millions)	2006	2005
Deferred tax liabilities:		
Depreciation and other plant-related items	$291	$301
Regulatory assets and other	37	26
Total deferred tax liabilities	328	327
Deferred tax assets:		
Income taxes due to customers	10	9
Pensions and related benefits	11	23
Liabilities and other	23	21
Total deferred tax assets	44	53
Net deferred income tax liability	$284	$274

A reconciliation of differences between the statutory U.S. federal income tax rate and KU's effective income tax rate follows:

	2006	2005
Statutory federal income tax rate	35.0%	35.0%
State income taxes, net of federal benefit	3.9	3.9
Reduction of income tax accruals	(0.5)	(2.7)
EEI undistributed earnings adjustment	-	1.8
EEI dividend	(3.4)	-
Amortization of investment tax credit	(0.5)	(1.0)
Other differences	(1.8)	(0.6)
Effective income tax rate	32.7%	36.4%

Other differences primarily relate to excess deferred taxes which reflect the benefits of deferred taxes reversing at tax rates that differ from statutory rates and various other permanent differences.

The EEI dividend for 2006 reflects tax benefits associated with the receipt of dividends from KU's investment in EEI. KU recognized additional deferred income tax expense in the third quarter of 2005 ($3 million) related to the undistributed earnings of its EEI unconsolidated investment. Subsequent to an EEI management decision regarding changes in the distribution of EEI's previous earnings, KU elected to provide deferred taxes for all book and tax temporary differences in this investment.

In September 2005, KU received notice from the Congressional Joint Committee on Taxation approving the Internal Revenue Service's audit of KU's income tax returns for the periods December 1999 through December 2003. As a result of resolving numerous tax matters during these periods, KU reduced income tax accruals by $5 million during 2005.

Kentucky House Bill 272, also known as "Kentucky's Tax Modernization Plan", was signed into law in March 2005. This bill contains a number of changes in Kentucky's tax system, including the reduction of the Corporate income tax rate from 8.25% to 7% effective January 1, 2005, and a further reduction to 6% effective January 1, 2007. As a result of the income tax rate change, KU's deferred tax reserve amount will exceed its actual deferred tax liability attributable to existing temporary differences, since the new statutory rates are lower than the rates were when the deferred tax liability originated. This excess amount is referred to as excess deferred income taxes. In June 2005 and December 2006, KU received approval from the Kentucky Commission to establish and amortize a regulatory liability ($11 million) for its net excess deferred income tax balances. KU will amortize its depreciation-related excess deferred income tax balances under the average rate assumption method. The average rate assumption method matches the amortization of the excess deferred income taxes with the life of the timing differences to which they relate. Excess deferred income tax balances related to non-depreciation timing differences were expensed in 2005 and 2006 due to their immaterial amount.

KU expects to have adequate levels of taxable income to realize its recorded deferred tax assets.

Note 7 - Long-Term Debt

As of December 31, 2006 and 2005, long-term debt and the current portion of long-term debt consist primarily of first mortgage bonds, pollution control bonds and long-term loans from affiliated companies as summarized below.

(in millions)	Stated Interest Rates	Maturities	Principal Amounts
Outstanding at December 31, 2006:			
Noncurrent portion	Variable – 6.33%	2010-2036	$702
Current portion	Variable – 7.92%	2007-2032	$141
Outstanding at December 31, 2005:			
Noncurrent portion	Variable – 7.92%	2007-2035	$623
Current portion	Variable – 5.99%	2006-2032	$123

Under the provisions for KU's variable-rate pollution control bonds, Series 10, 12, 13, 14 and 15, the bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events, causing the bonds to be classified as current portion of long-term debt in the balance sheets. The average annualized interest rate for these bonds during 2006 and 2005 was 3.56% and 2.55%, respectively.

Pollution control series bonds are obligations of KU issued in connection with tax-exempt pollution control revenue bonds issued by various governmental entities, principally counties in Kentucky. A loan agreement obligates KU to make debt service payments to the county that equate to the debt service due from the county on the related pollution control revenue bonds. Until a series of financing transactions completed during February 2007, the county's debt was also secured by an equal amount of KU's first mortgage bonds that were pledged to the trustee for the pollution control revenue bonds, and that match the terms and conditions of the county's debt, but require no payment of principal and interest unless KU defaults on the loan agreement.

Interest rate swaps are used to hedge KU's underlying debt obligations. These swaps hedge specific debt issuances and, consistent with management's designation, are accorded hedge accounting treatment. The swaps effectively convert fixed rate obligations on KU's first mortgage bonds Series P to variable-rate obligations. As of December 31, 2006 and 2005, KU had one remaining swap with a notional value of $53 million. This swap was terminated in February 2007, when the underlying bond was defeased. See Note 3, Financial Instruments.

Redemptions and maturities of long-term debt for 2006 and 2005 are summarized below:

($ in millions) Year	Description	Principal Amount	Rate	Secured/ Unsecured	Maturity
2006	First mortgage bonds	$36	5.99%	Secured	Jan 2006
2005	First mortgage bonds	$50	7.55%	Secured	Jun 2025
2005	Due to Fidelia	$75	2.29%	Secured	Dec 2005

Issuances of long-term debt for 2006 and 2005 are summarized below:

($ in millions) Year	Description	Principal Amount	Rate	Secured/ Unsecured	Maturity
2006	Due to Fidelia	$50	5.675%	Unsecured	Oct 2016
2006	Due to Fidelia	$50	6.33%	Unsecured	Jun 2036
2006	Pollution control bonds	$17	Variable	Secured	Jun 2036
2006	Pollution control bonds	$17	Variable	Secured	Jun 2036
2005	Pollution control bonds	$13	Variable	Secured	Jun 2035
2005	Pollution control bonds	$13	Variable	Secured	Jun 2035
2005	Due to Fidelia	$50	4.735%	Unsecured	Jul 2015
2005	Due to Fidelia	$75	5.36%	Unsecured	Dec 2015

In May 2005, KU repaid a $27 million loan against the cash surrender value of life insurance policies.

In October 2005, KU redeemed all of its outstanding shares of preferred stock for $41 million. KU paid $101 per share for the 4.75% Series and $102.939 per share for the 6.53% Series.

In February 2007, KU completed a series of financial transactions impacting its periodic reporting requirements. The $54 million Pollution Control Series 10 bond was refinanced and replaced with a new unsecured tax-exempt bond of the same amount maturing in 2034. The $53 million Series P bond was defeased and replaced with an intercompany loan totaling $53 million from Fidelia. In conjunction with the defeasance, the Company terminated the related interest rate swap. Fidelia also agreed to eliminate the second lien on its two secured loans. Pursuant to the terms of the remaining tax-exempt bonds, the first mortgage bonds were cancelled and the underlying lien on substantially all of KU's assets was released following the completion of these steps. KU no longer has any secured debt and is no longer subject to periodic reporting under the Securities Exchange Act of 1934. See Note 13, Subsequent Events.

Long-term debt maturities for KU are shown in the following table:

(in millions)	
2007	$ 53
2008-09	-
2010	33
2011	-
Thereafter	757 (a)
Total	$843

(a) Includes long-term debt of $87 million classified as current liabilities because these bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events. Maturity dates for these bonds range from 2024 to 2032. KU does not expect to pay these amounts in 2007.

Note 8 - Notes Payable and Other Short-Term Obligations

KU participates in an intercompany money pool agreement wherein E.ON U.S. and/or LG&E make funds available to KU at market-based rates (based on an index of highly rated commercial paper issues) up to $400 million.

($ in millions)	Total Money Pool Available	Amount Outstanding	Balance Available	Average Interest Rate
December 31, 2006	$400	$97	$303	5.25%
December 31, 2005	$400	$70	$330	4.21%

As of December 31, 2006 and 2005, E.ON U.S. maintained a revolving credit facility totaling $200 million with an affiliated company, E.ON North America, Inc., to ensure funding availability for the money pool. The balance is as follows:

($ in millions)	Total Available	Amount Outstanding	Balance Available	Average Interest Rate
December 31, 2006	$200	$102	$98	5.49%
December 31, 2005	$200	$105	$95	4.49%

Note 9 - Commitments and Contingencies

Operating Leases. KU leases office space, office equipment and vehicles and accounts for these leases as operating leases. In addition, KU reimburses LG&E for a portion of the lease expense paid by LG&E for KU's usage of office space leased by LG&E. Total lease expense was $6 million and $3 million for 2006 and 2005, respectively. The future minimum annual lease payments for operating leases for years subsequent to December 31, 2006, are shown in the following table:

(in millions)	
2007	$ 6
2008	5
2009	3
2010	2
2011	2
Thereafter	5
Total	$23

Owensboro Contract Litigation. In May 2004, the City of Owensboro, Kentucky and OMU commenced a suit now removed to the U.S. District Court for the Western District of Kentucky, against KU concerning a long-term power supply contract (the "OMU Agreement") with KU. The dispute involves interpretational differences regarding issues under the OMU Agreement, including various payments or charges between KU and OMU and rights concerning excess power, termination and emissions allowances. The complaint seeks in excess of $6 million in damages in connection with one of its claims for periods prior to 2004, plus damages in an unspecified amount for later-occurring periods on that claim and for other claims. OMU has additionally requested injunctive and other relief, including a declaration that KU is in material breach of the contract. KU has filed an answer in that court denying the OMU claims and presenting counterclaims and amended such filing in January 2007, to include further counterclaims alleging additional damages. During 2005, the FERC declined KU's application to exercise exclusive jurisdiction on matters. In July 2005, the district court resolved a summary judgment motion made by KU in OMU's favor, ruling that a contractual provision grants OMU the ability to terminate the contract without cause upon four years' prior notice, for which ruling KU retains certain rights to appeal. At this time, the district court case is in the discovery stage and currently a trial date of January 2008 has been scheduled. In May 2006, OMU issued a notification of its intent to terminate the OMU agreement contract in May 2010, without cause, absent any earlier relief which may be permitted by the proceeding.

Sale and Leaseback Transaction. KU is a participant in a sale and leaseback transaction involving its 62% interest in two jointly-owned CTs at KU's E.W. Brown generating station (Units 6 and 7). Commencing in December 1999, KU and LG&E entered into a tax-efficient, 18-year lease of the CTs. KU and LG&E have provided funds to fully defease the lease, and have executed an irrevocable notice to exercise an early purchase option contained in the lease after 15.5 years. The financial statement treatment of this transaction is no different than if KU had retained its ownership. The leasing transaction was entered into following receipt of required state and federal regulatory approvals.

In case of default under the lease, KU is obligated to pay to the lessor its share of certain fees or amounts. Primary events of default include loss or destruction of the CTs, failure to insure or maintain the CTs and unwinding of the transaction due to governmental actions. No events of default currently exist with respect to the lease. Upon any termination of the lease, whether by default or expiration of its term, title to the CTs reverts jointly to KU and LG&E.

At December 31, 2006, the maximum aggregate amount of default fees or amounts was $9 million, of which KU would be responsible for 62% (approximately $6 million). KU has made arrangements with E.ON U.S., via guarantee and regulatory commitment, for E.ON U.S. to pay KU's full portion of any default fees or amounts.

Letter of Credit. KU has provided a letter of credit totaling less than $1 million to support certain obligations related to workers' compensation.

Purchased Power. KU has purchased power arrangements with OMU and OVEC. Under the OMU agreement, which could last through January 1, 2020, KU purchases all of the output of an approximately 400-Mw coal-fired generating station not required by OMU. The amount of purchased power available to KU during 2007-2010, which is expected to be approximately 8% of KU's total Kwh native load energy requirements, is dependent upon a number of factors including the OMU units' availability, maintenance schedules, fuel costs and OMU requirements. Payments are based on the total costs of the station allocated per terms of the OMU agreement. Included in the total costs is KU's proportionate share of debt service requirements on $266 million of OMU bonds outstanding at December 31, 2006. The debt service is allocated to KU based on its annual allocated share of capacity, which averaged approximately 41% in 2006. KU does not guarantee the OMU bonds, or any requirements therein, in the event of default by OMU.

KU has a contract for purchased power with OVEC for various Mw capacities. KU has an investment of 2.5% ownership in OVEC's common stock, which is accounted for on the cost method of accounting. KU's share of OVEC's output is 2.5%, approximately 55 Mw of generation capacity. Future obligations for power purchases are shown in the following table:

(in millions)	
2007	$ 22
2008	24
2009	23
2010	25
2011	25
Thereafter	306
Total	$425

Construction Program. KU had approximately $1.1 billion of commitments in connection with its construction program at December 31, 2006.

In June 2006, KU and LG&E entered into a construction contract regarding the TC2 project. The contract is generally in the form of a lump-sum, turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may serve to increase or decrease the ultimate construction price paid or payable to the contractor. The contract also contains standard representations, covenants, indemnities, termination and other provisions for arrangements of this type, including termination for convenience or for cause rights.

Environmental Matters. KU's operations are subject to a number of environmental laws and regulations in each of the jurisdictions in which it operates, governing, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety.

Clean Air Act Requirements The Clean Air Act establishes a comprehensive set of programs aimed at protecting and improving air quality in the United States by, among other things, controlling stationary sources of air emissions such as power plants. While the general regulatory framework for these programs is established at the federal level, most of the programs are implemented and administered by the states under the oversight of the EPA. The key Clean Air Act programs relevant to KU's business operations are described below.

Ambient Air Quality. The Clean Air Act requires the EPA to periodically review the available scientific data for six criteria pollutants and establish concentration levels in the ambient air sufficient to protect the public health and welfare with an extra margin for safety. These concentration levels are known as national ambient air quality standards ("NAAQS"). Each state must identify "nonattainment areas" within its boundaries that fail to comply with the NAAQS and develop a SIP to bring such nonattainment areas into compliance. If a state fails to develop an adequate plan, the EPA must develop and implement a plan. As the EPA increases the stringency of the NAAQS through its periodic reviews, the attainment status of various areas may change, thereby triggering additional emission reduction obligations under revised SIPs aimed to achieve attainment.

In 1997, the EPA established new NAAQS for ozone and fine particulates that required additional reductions in SO_2 and NOx emissions from power plants. In 1998, the EPA issued its final "NOx SIP Call" rule requiring reductions in NOx emissions of approximately 85 percent from 1990 levels in order to mitigate ozone transport from the midwestern U.S. to the northeastern U.S. To implement the new federal requirements, in 2002, Kentucky amended its SIP to require electric generating units to reduce their NO_x emissions to 0.15 pounds weight per MMBtu on a company-wide basis. In 2005, the EPA issued the CAIR which requires additional SO_2 emission reductions of 70 percent and NOx emission reductions of 65 percent from 2003 levels. The CAIR provides for a two-phase cap and trade program, with initial reductions of NOx and SO_2 emissions due by 2009 and 2010, respectively, and final reductions due by 2015. The final rule is currently under challenge in a number of federal court proceedings. In 2006, Kentucky proposed to amend its SIP to adopt state requirements similar to those under the federal CAIR. Depending on the level of action determined necessary to bring local non-attainment areas into compliance with the new ozone and fine particulate standards, KU's power plants are potentially subject to additional reductions in SO_2 and NOx emissions. KU's weighted-average company-wide emission rate for SO_2 in 2006 was approximately 1.25 lbs./MMBtu of heat input, with every generating unit below its emission limit established by the Kentucky Division for Air Quality.

Hazardous Air Pollutants. As provided in the 1990 amendments to the Clean Air Act, the EPA investigated hazardous air pollutant emissions from electric utilities and submitted a report to Congress identifying mercury emissions from coal-fired power plants as warranting further study. In 2005, the EPA issued the CAMR establishing mercury standards for new power plants and requiring all states to issue new SIPs including mercury requirements for existing power plants. The EPA issued a model rule which provides for a two-phase cap and trade program with initial reductions due by 2010 and final reductions due by 2018. The CAMR provides for reductions of 70 percent from 2003 levels. The EPA closely integrated the CAMR and CAIR programs to ensure that the 2010 mercury reduction targets will be achieved as a "co-benefit" of the controls installed for purposes of compliance with the CAIR. The final rule is also currently under challenge in the federal courts. In 2006, Kentucky proposed to amend its SIP to adopt state requirements similar to those under the federal CAMR. In addition, in 2005 and 2006, state and local air agencies in Kentucky have proposed or adopted rules aimed at regulating additional hazardous air pollutants from sources including power plants. To the extent those rules are final, they are not expected to have a material impact on KU's power plant operations.

Acid Rain Program. The 1990 amendments to the Clean Air Act imposed a two-phased cap and trade program to reduce SO_2 emissions from power plants that were thought to contribute to "acid rain" conditions in the northeastern U.S. The 1990 amendments also contained requirements for power plants to reduce NOx emissions through the use of available combustion controls.

Regional Haze. The Clean Air Act also includes visibility goals for certain federally designated areas, including national parks, and requires states to submit SIPs that will demonstrate reasonable progress toward preventing future impairment and remedying any existing impairment of visibility in those areas. In 2005, the EPA issued its CAVR detailing how the Clean Air Act's best available retrofit technology ("BART") requirements will be applied to facilities, including power plants, built between 1962 and 1974 that emit certain levels of visibility impairing pollutants. Under the final rule, as the CAIR will result in more visibility improvement than BART, states are allowed to substitute CAIR requirements in their regional haze SIPs in lieu of controls that would otherwise be required by BART. The final rule has been challenged in the courts.

Installation of Pollution Controls. Many of the programs under the Clean Air Act utilize cap and trade mechanisms that require a company to hold sufficient emissions allowances to cover its authorized emissions on a company-wide basis and do not require installation of pollution controls on every generating unit. Under cap and trade programs, companies are free to focus their pollution control efforts on plants where such controls are particularly efficient and utilize the resulting emission allowances for smaller plants where such controls are not cost effective. KU met its Phase I SO_2 requirements primarily through installation of FGD equipment on Ghent Unit 1. KU's combined strategy for its Phase II SO_2 requirements, which commenced in 2000, include the installation of additional FGD equipment, as well as using accumulated emissions allowances and fuel switching to defer certain additional capital expenditures. In order to achieve the NOx emission reductions mandated by the NOx SIP Call, KU installed additional NOx controls, including SCR technology, during the 2000 to 2006 time period at a cost of $215 million. In 2001, the Kentucky Commission granted recovery in principal of these costs incurred by KU under its periodic environmental surcharge review mechanisms.

In order to achieve the emissions reductions mandated by the CAIR and CAMR, KU expects to incur additional capital expenditures totaling $1.0 billion during the 2007 through 2009 time period for pollution controls including FGD and SCR and incur additional operating and maintenance costs in operating such controls. In 2005, the Kentucky Commission granted recovery in principal of these costs incurred by KU under its periodic environmental surcharge review mechanisms. KU believes its costs in reducing SO_2, NOx and mercury emissions to be comparable to those of similarly situated utilities with like generation assets. KU's compliance plans are subject to many factors including developments in the emission allowance and fuels markets, future legislative and regulatory enactments, legal proceedings and advances in clean air technology. KU will continue to monitor these developments to ensure that its environmental obligations are met in the most efficient and cost-effective manner.

Potential GHG Controls. In 2005, the Kyoto Protocol for reducing GHG emissions took effect, obligating 37 industrialized countries to undertake substantial reductions in GHG emissions. The U.S. has not ratified the Kyoto Protocol and there are currently no mandatory GHG emission reduction requirements at the federal level. Legislation mandating GHG reductions has been introduced in the Congress, but no federal legislation has been enacted to date. In the absence of a program at the federal level, various states have adopted their own GHG emission reduction programs. Such programs have been adopted in various states including 11 northeastern U.S. states under the Regional GHG Initiative program and California. Substantial efforts to pass federal GHG legislation are ongoing. In addition, litigation is currently pending before various courts to determine whether the EPA and the states have the authority to regulate GHG emissions under existing law. KU is monitoring ongoing efforts to enact GHG reduction requirements at the state and federal level. KU is unable to predict whether mandatory GHG reduction requirements will ultimately be enacted or to determine the reduction targets and deadlines that would be applicable under such programs. As a Company with significant coal-fired generating assets, KU could be substantially impacted by programs requiring mandatory reductions in GHG emissions, although the precise impact on the operations of KU cannot be determined prior to the enactment of such programs.

General Environmental Proceedings. In April 2006, the EPA sent correspondence to KU constituting a possible notice of violation of the Clean Air Act's new source review rules relating to 1997 work on a boiler and turbine at KU's E.W. Brown generating station. In December 2006, the EPA issued a second notice of violation relating to potential heat input permit threshold matters at the unit. During 2006, KU completed certain data responses to the EPA in these proceedings and discussions with the EPA are continuing. In March 2007, the EPA indicated that more formal enforcement action or proceedings may be possible in this matter. KU is not able to estimate the outcome or potential effects of these matters. See Note 13, Subsequent Events.

In January 2005, approximately 1,000 gallons of fuel oil leaked from a cracked weld in a storage tank at KU's Green River generating station. KU commenced immediate spill containment, recovery and remediation actions and has received satisfactory inspections from state regulators to date. The cost related to the cleanup of the oil spill was less than $1 million and no penalties or fines are anticipated.

KU has recently settled certain environmental matters. During 2005 and 2006, final judicial and administrative approvals were received regarding a consent decree relating to the October 1999 leak of approximately 38,000 gallons of diesel fuel (of which 34,000 gallons were recovered) from an underground pipeline at KU's E.W. Brown Station. Under the terms of the settlement, KU paid a civil penalty in 2006 and has agreed to construct a supplemental environmental project and maintain the project for ten years, each at a cost of less than $1 million. During 2006 final judicial and administrative approval were received regarding a settlement associated with a former transformer scrap-yard which had been the subject of April 2002 correspondence to KU and other potentially responsible parties. Under the terms of the settlement, the parties bore aggregate cleanup costs of approximately $2 million, of which KU's share was less than $1 million, which was paid in December 2006.

From time to time, KU appears before the EPA, various state or local regulatory agencies and state and federal courts regarding matters involving compliance with applicable environmental laws and regulations. Such matters include liability under the Comprehensive Environmental Response, Compensation and Liability Act for cleanup at various off-site waste sites and ongoing claims regarding GHG emissions from KU's generating stations. Based on analysis to date, the resolution of such matters is not expected to have a material impact on the operations of KU.

Note 10 - Jointly Owned Electric Utility Plant

KU and LG&E have begun construction of a jointly owned unit at the Trimble County site. KU and LG&E own undivided 60.75% and 14.25% interests, respectively in TC2. Of the remaining 25% of TC2, IMEA owns a 12.12% undivided interest and IMPA owns a 12.88% undivided interest. Each company is responsible for its proportionate share of capital cost during construction, and fuel, operation and maintenance cost when TC2 begins operation, which is expected to occur in 2010.

	TC2				
	LG&E	KU	IMPA	IMEA	Total
Ownership interest	14.25%	60.75%	12.88%	12.12%	100%
Mw capacity	107	455	97	91	750

(in millions)	LG&E	KU
Construction work in progress	$25	$96

KU and LG&E jointly own the following CTs and related equipment:

($ in millions)	KU				LG&E				Total			
Ownership Percentage	Mw Capacity	($) Cost	($) Depre- ciation	($) Net Book Value	Mw Capacity	($) Cost	($) Depre- ciation	($) Net Book Value	Mw Capacity	($) Cost	($) Depre- ciation	($) Net Book Value
KU 47%, LG&E 53% (1)	129	51	(10)	41	146	58	(10)	48	275	109	(20)	89
KU 62%, LG&E 38% (2)	190	72	(12)	60	118	46	(8)	38	308	118	(20)	98
KU 71%, LG&E 29% (3)	228	80	(12)	68	92	32	(4)	28	320	112	(16)	96
KU 63%, LG&E 37% (4)	404	137	(12)	125	236	79	(8)	71	640	216	(20)	196
KU 71%, LG&E 29% (5)	n/a	9	(1)	8	n/a	3	(0)	3	n/a	12	(1)	11

(1) Comprised of Paddy's Run 13 and E W Brown 5 In addition to the above jointly owned utility plant, there is an inlet air cooling system attributable to Unit 5 and Units 8-11 at the E W Brown facility This inlet air cooling system is not jointly owned, however it is used to increase production on the units to which it relates, resulting in an additional 88Mw of capacity for KU

(2) Comprised of units 6 and 7 at the E W Brown facility

(3) Comprised of units 5 and 6 at the Trimble County facility

(4) Comprised of CT Substation 7-10 and units 7, 8, 9 and 10 at the Trimble County facility

(5) Comprised of CT Substation 5 and 6 and CT Pipeline at the Trimble County facility

Both KU's and LG&E's participating share of direct expenses of the joint fuel plants is included in the corresponding operating expenses on its respective income statement (e.g., fuel, maintenance of plant, other operating expense).

Note 11 - Related Party Transactions

KU, subsidiaries of E.ON U.S. and other subsidiaries of E.ON engage in related party transactions. Transactions between KU and E.ON U.S. subsidiaries are eliminated upon consolidation of E.ON U.S. Transactions between KU and E.ON subsidiaries are eliminated upon consolidation of E.ON. These transactions are generally performed at cost and are in accordance with the FERC regulations under PUHCA 2005 and the applicable Kentucky Commission and Virginia Commission regulations. The significant related party transactions are disclosed below.

Electric Purchases

KU and LG&E purchase energy from each other in order to effectively manage the load of their retail and off-system customers. These sales and purchases are included in the statements of income as operating revenues and purchased power operating expense. KU intercompany electric revenues and purchased power expense for the years ended December 31 were as follows:

(in millions)	2006	2005
Electric operating revenues from LG&E	$77	$96
Purchased power from LG&E	99	92

Interest Charges

See Note 8, Notes Payable and Other Short-Term Obligations, for details of intercompany borrowing arrangements. Intercompany agreements do not require interest payments for receivables related to services provided when settled within 30 days.

KU's intercompany interest income and expense for the years ended December 31 were as follows:

(in millions)	2006	2005
Interest on money pool loans	$ 3	$ 1
Interest on Fidelia loans	21	15

Other Intercompany Billings

E.ON U.S. Services provides KU with a variety of centralized administrative, management and support services. These charges include payroll taxes paid by E.ON U.S. on behalf of KU, labor and burdens of E.ON U.S. Services employees performing services for KU and vouchers paid by E.ON U.S. Services on behalf of KU. The cost of these services are directly charged to KU, or for general costs which cannot be directly attributed, charged based on predetermined allocation factors, including the following ratios: number of customers, total assets, revenues, number of employees and other statistical information. These costs are charged on an actual cost basis.

In addition, KU and LG&E provide services to each other and to E.ON U.S. Services. Billings between KU and LG&E relate to labor and overheads associated with union employees performing work for the other utility, charges related to jointly-owned CTs and other miscellaneous charges. Billings from KU to E.ON U.S. Services relate to information technology-related services provided by KU employees, cash received by E.ON U.S. Services on behalf of KU and services provided by KU to other non-regulated businesses which are paid through E.ON U.S. Services.

Intercompany billings to and from KU for the years ended December 31 were as follows:

(in millions)	2006	2005
E.ON U.S. Services billings to KU	$353	$185
KU billings to LG&E	56	29
LG&E billings to KU	53	101
KU billings to E.ON U.S. Services	23	7

Note 12 – Accumulated Other Comprehensive Income

Accumulated other comprehensive income (loss) consisted of the following:

(in millions)	Minimum Pension Liability Adjustment	Pre-Tax	Income Taxes	Net
Balance at December 31, 2004	$ (22)	$ (22)	$ 9	$(13)
Minimum pension liability adjustment	(10)	(10)	4	(6)
Balance at December 31, 2005	(32)	(32)	13	(19)
Minimum pension liability adjustment	32	32	(13)	19
Balance at December 31, 2006	$ -	$ -	$ -	$ -

Note 13 – Subsequent Events

On January 16, 2007, KU made a discretionary contribution to the pension plan in the amount of $13 million. After this payment, KU's pension plan assets are in excess of the December 31, 2006, accumulated benefit obligation.

On January 31, 2007, KU received an Order from the Kentucky Commission approving the charges and credits billed through the ECR during the review period as well as approving billing adjustments, a roll-in to base rates, revisions to the monthly surcharge filing and a rate of return on capital.

On January 31, 2007, KU received an Order from the Kentucky Commission closing the investigation into KU's Ghent FGD construction with no changes to KU's proposed revised construction plans.

In February 2007, KU completed a series of financial transactions impacting its periodic reporting requirements. The $54 million Pollution Control Series 10 bond was refinanced and replaced with a new unsecured tax-exempt bond of the same amount maturing in 2034. The $53 million Series P bond was defeased and replaced with an intercompany loan totaling $53 million from Fidelia. The Company terminated the related interest swap and agreed with Fidelia to eliminate the second lien on its two secured loans. Pursuant to the terms of the remaining tax-exempt bonds, the first mortgage bonds were cancelled and the underlying lien on KU's assets was released following completion of these steps. KU no longer has any secured debt and, having deregistered applicable securities with the SEC effective March 1, 2007, is no longer subject to periodic reporting under the Securities Exchange Act of 1934.

On February 9, 2007, KU filed with the Kentucky Commission an application for approval of a green energy rider. This application details KU's plans to offer its customers a "green energy" program that contributes funds to the maintenance and growth of renewable energy in Kentucky and contiguous states. An order is expected during the second quarter of 2007.

On February 23, 2007, KU made an FAC filing with the Virginia Commission seeking approval of an additional increase in KU's fuel cost factor to reflect higher fuel costs.

Tyrone generating units 1 and 2 were retired in March 2007, as a result of on-going life assessment studies. These units were mothballed in September 2006, and represented 58 Mw of the total 129 Mw capacity at Tyrone generating station.

On March 12, 2007, the Department of Justice filed a complaint in federal court in Kentucky in connection with the prior EPA notices of violation concerning new source review aspects of the Clean Air Act at the E. W. Brown generating station. The complaint seeks civil penalties, remedial measures, and injunctive relief. KU is not able to estimate the outcome or potential effects of these matters. For additional information, see Note 9, Commitments and Contingencies.

Report of Independent Registered Public Accounting Firm

To the Shareholder of Kentucky Utilities Company:

In our opinion, the accompanying balance sheets and the related statements of capitalization, income, retained earnings, cash flows and comprehensive income present fairly, in all material respects, the financial position of Kentucky Utilities Company at December 31, 2006 and December 31, 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, Kentucky Utilities Company changed the manner in which it accounts for defined benefit pension and other postretirement benefit plans as of December 31, 2006.

/s/ PricewaterhouseCoopers LLP
Louisville, Kentucky
February 8, 2007

2008 - 1st Quarter Financial Statements and Additional Information

Kentucky Utilities Company

Financial Statements and Additional Information

(Unaudited)

As of March 31, 2008 and 2007

INDEX OF ABBREVIATIONS

ARO	Asset Retirement Obligation
BART	Best Available Retrofit Technology
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
CAVR	Clean Air Visibility Rule
CCN	Certificate of Public Convenience and Necessity
Clean Air Act	The Clean Air Act, as amended in 1990
Company	KU
DSM	Demand Side Management
ECR	Environmental Cost Recovery
EEI	Electric Energy, Inc.
E.ON	E.ON AG
E.ON U.S.	E.ON U.S. LLC. (formerly LG&E Energy LLC and LG&E Energy Corp.)
E.ON U.S. Services	E.ON U.S. Services Inc. (formerly LG&E Energy Services Inc.)
EPA	U.S. Environmental Protection Agency
EPAct 2005	Energy Policy Act of 2005
EUSIC	E.ON US Investments Corp.
FAC	Fuel Adjustment Clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FGD	Flue Gas Desulfurization
Fidelia	Fidelia Corporation (an E.ON affiliate)
FIN	FASB Interpretation
GHG	Greenhouse Gas
IRS	Internal Revenue Service
Kentucky Commission	Kentucky Public Service Commission
KU	Kentucky Utilities Company
kWh	Kilowatt Hours
LG&E	Louisville Gas and Electric Company
MISO	Midwest Independent Transmission System Operator, Inc.
MMBtu	Million British Thermal Units
Moody's	Moody's Investor Services, Inc.
NAAQS	National Ambient Air Quality Standards
NOV	Notice of Violation
NOx	Nitrogen Oxide
OMU	Owensboro Municipal Utilities
PUHCA 2005	Public Utility Holding Company Act of 2005
RRO	Regional Reliability Organization
S&P	Standard & Poor's Rating Service
SCR	Selective Catalytic Reduction
SERC	SERC Reliability Corporation
SFAS	Statement of Financial Accounting Standards
SIP	State Implementation Plan
SO_2	Sulfur Dioxide
TC2	Trimble County Unit 2
Virginia Commission	Virginia State Corporation Commission

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Financial Statements (Unaudited)

Kentucky Utilities Company
Statements of Income
(Unaudited)
(Millions of $)

	Three Months Ended March 31,	
	2008	2007
OPERATING REVENUES:		
Total operating revenues	$ 352	$ 316
OPERATING EXPENSES:		
Fuel for electric generation	123	109
Power purchased	56	45
Other operation and maintenance expenses	66	59
Depreciation and amortization	32	28
Total operating expenses	277	241
OPERATING INCOME	75	75
Other expense (income) - net	(9)	(6)
Interest expense (Notes 3 and 6)	4	5
Interest expense to affiliated companies (Note 8)	12	7
INCOME BEFORE INCOME TAXES	68	69
Federal and state income taxes (Note 5)	22	24
NET INCOME	$ 46	$ 45

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

Statements of Retained Earnings
(Unaudited)
(Millions of $)

	Three Months Ended March 31,	
	2008	2007
Balance at beginning of period	$1,037	$ 870
Net income	46	45
Balance at end of period	$1,083	$ 915

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

Kentucky Utilities Company
Balance Sheets
(Unaudited)
(Millions of $)

ASSETS	March 31, 2008	December 31, 2007
Current assets:		
Cash and cash equivalents	$ -	$ -
Restricted cash	6	11
Accounts receivable – less reserves of $2 million as of March 31, 2008 and December 31, 2007	162	172
Accounts receivable from affiliated companies (Note 8)	1	17
Materials and supplies:		
Fuel (predominantly coal)	37	42
Other materials and supplies	34	34
Prepayments and other current assets	4	12
Total current assets	244	288
Other property and investments	29	29
Utility plant:		
At original cost	5,100	4,939
Less: reserve for depreciation	1,648	1,622
Net utility plant	3,452	3,317
Deferred debits and other assets:		
Regulatory assets (Note 2):		
Pension and postretirement benefits	28	28
Other	78	86
Cash surrender value of key man life insurance	37	37
Other assets	12	11
Total deferred debits and other assets	155	162
Total assets	3,880	$ 3,796

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

Kentucky Utilities Company
Balance Sheets (cont.)
(Unaudited)
(Millions of $)

LIABILITIES AND EQUITY	March 31, 2008	December 31, 2007
Current liabilities:		
Current portion of long-term debt (Note 6)	$ 33	$ 33
Notes payable to affiliated companies (Notes 6 and 8)	50	23
Accounts payable	146	160
Accounts payable to affiliated companies (Note 8)	29	48
Customer deposits	20	20
Accrued income taxes	19	-
Other current liabilities	22	28
Total current liabilities	319	312
Long-term debt:		
Long-term debt (Note 6)	300	300
Long-term debt to affiliated company (Notes 6 and 8)	931	931
Total long-term debt	1,231	1,231
Deferred credits and other liabilities:		
Accumulated deferred income taxes (Note 5)	281	285
Accumulated provision for pensions and related benefits (Note 4)	84	83
Investment tax credit (Note 5)	58	55
Asset retirement obligation	31	30
Regulatory liabilities (Note 2):		
Accumulated cost of removal of utility plant	314	310
Deferred income taxes - net	21	22
Other	12	10
Other liabilities	23	23
Total deferred credits and other liabilities	824	818
Common equity:		
Common stock, without par value –		
Authorized 80,000,000 shares, outstanding 37,817,878 shares	308	308
Additional paid-in capital	115	90
Retained earnings	1,062	1,016
Undistributed subsidiary earnings	21	21
Total retained earnings	1,083	1,037
Total common equity	1,506	1,435
Total liabilities and equity	$ 3,880	$ 3,796

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

Kentucky Utilities Company
Statements of Cash Flows
(Unaudited)
(Millions of $)

	For the Three Months Ended March 31, 2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 46	$ 45
Items not requiring cash currently:		
Depreciation and amortization	32	28
Investment tax credit	3	10
Other	(4)	(3)
Changes in current assets and liabilities:		
Accounts receivable	26	33
Material and supplies	5	10
Accounts payable	(10)	(2)
Accrued income taxes	19	7
Prepayments and other current assets	8	7
Other current liabilities	(7)	(1)
Pension and postretirement funding	1	(13)
Fuel adjustment clause receivable, net	11	(6)
Other	(3)	(2)
Net cash provided by operating activities	127	113
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction expenditures	(184)	(125)
Change in restricted cash	5	2
Net cash used for investing activities	(179)	(123)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Retirement of first mortgage bonds (Note 6)	-	(107)
Issuance of pollution control bonds	-	54
Additional paid-in capital	25	-
Long-term borrowings from affiliated company (Note 8)	-	128
Short-term borrowings from affiliated company (Note 6)	291	211
Repayment of short-term borrowings from affiliated company (Note 6)	(264)	(276)
Net cash provided by in financing activities	52	10
CHANGE IN CASH AND CASH EQUIVALENTS	-	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	-	6
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ -	$ 6

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

Kentucky Utilities Company
Notes to Financial Statements
(Unaudited)

Note 1 - General

The unaudited financial statements include the accounts of the Company. KU's common stock is wholly-owned by E.ON U.S., an indirect wholly-owned subsidiary of E.ON. In the opinion of management, the unaudited interim financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of financial position, results of operations, retained earnings and cash flows for the periods indicated. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted, although the Company believes that the disclosures are adequate to make the information presented not misleading. These unaudited financial statements and notes should be read in conjunction with the Company's annual report for the year ended December 31, 2007, including management's discussion and analysis and the audited financial statements and notes therein.

Certain reclassification entries have been made to the previous years' financial statements to conform to the 2008 presentation with no impact on net assets, liabilities and capitalization or previously reported net income and cash flows.

RECENT ACCOUNTING PRONOUNCEMENTS

SFAS No. 161

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133,* which is effective for fiscal years, and interim periods within those fiscal years, beginning on or after November 15, 2008. The objective of this statement is to enhance the current disclosure framework in FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities, as amended.* The Company is currently evaluating the impact of adoption of SFAS No. 161 on its statements of operations, financial position and cash flows.

SFAS No. 160

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements,* which is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The objective of this statement is to improve the relevance, comparability and transparency of financial information in a reporting entity's consolidated financial statements. The Company expects the adoption of SFAS No. 160 to have no impact on its statements of operations, financial position and cash flows.

SFAS No. 159

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115.* SFAS No. 159 permits entities to choose to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis (the fair value option). Unrealized gains and losses on items for which the fair value option has been elected are to be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. SFAS No. 159 was adopted effective January 1, 2008 and had no impact on the statements of operations, financial position and cash flows.

SFAS No. 157

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which, except as described below, is effective for fiscal years beginning after November 15, 2007. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 does not expand the application of fair value accounting to new circumstances. In February 2008, the FASB issued FASB Staff Position 157-2, *Effective Date of FASB Statement No. 157*, which delays the effective date of SFAS No. 157 for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. SFAS No. 157 was adopted effective January 1, 2008, except as it applies to those nonfinancial assets and liabilities, and had no impact on the statements of operations, financial position and cash flows, however, the Company will provide additional disclosures relating to its financial derivatives, AROs and pension assets, as required, in 2008.

Note 2 - Rates and Regulatory Matters

For a description of each line item of regulatory assets and liabilities, reference is made to KU's Annual Report, Note 2 of the financial statements, for the year ended December 31, 2007.

The following regulatory assets and liabilities were included in KU's Balance Sheets:

Kentucky Utilities Company
(unaudited)

(in millions)	March 31, 2008	December 31, 2007
ARO	$ 25	$ 24
Unamortized loss on bonds	10	10
MISO exit	19	20
FAC	5	17
ECR	14	11
Other	5	4
Subtotal	78	86
Pension and postretirement benefits	28	28
Total regulatory assets	$ 106	$ 114
Accumulated cost of removal of utility plant	$ 314	$ 310
Deferred income taxes – net	21	22
Other	12	10
Total regulatory liabilities	$ 347	$ 342

KU does not currently earn a rate of return on the FAC regulatory asset, which is a separate recovery mechanism with recovery within twelve months. No return is earned on the pension and postretirement benefits regulatory asset which represents the changes in funded status of the plans. The Company will seek recovery in future proceedings with the Kentucky and Virginia Commissions. No return is currently earned on the ARO asset. This regulatory asset will be offset against the associated regulatory liability, ARO asset and ARO liability at the time the underlying asset is retired. The MISO exit amount represents the costs relating to the withdrawal from MISO membership. KU will seek recovery of this asset in future proceedings with the Kentucky and Virginia Commissions. KU currently earns a rate of return on the remaining regulatory assets. Other regulatory assets include the merger surcredit and deferred storm costs. Other regulatory liabilities include DSM and MISO costs currently included in base rates that will be netted against costs of withdrawing from the MISO in the next rate case.

MISO Exit. KU and the MISO have agreed upon overall calculation methods for the contractual exit fee to be paid by the Company following its withdrawal. In October 2006, KU paid approximately $20 million to the MISO pursuant to an invoice regarding the exit fee and made related FERC compliance filings. The Company's payment of this exit fee amount was with reservation of its rights to contest the amount, or components thereof, following a continuing review of its calculation and supporting documentation. KU and the MISO resolved their dispute regarding the calculation of the exit fee and, in November 2007, filed an application with the FERC for approval of a recalculation agreement. In March 2008, the FERC approved the parties' recalculation of the exit fee, and the approved agreement provided KU with an immediate recovery of $1 million and will provide an estimated $3 million over the next eight years for credits realized from other payments the MISO will receive, plus interest. Orders of the Kentucky Commission approving the Company's exit from the MISO have authorized the establishment of a regulatory asset for the exit fee, subject to adjustment for possible future MISO credits, and a regulatory liability for certain revenues associated with former MISO administrative charges, which may continue to be collected via base rates. The treatment of the regulatory asset and liability will be determined in KU's next rate case, however, the Company historically has received approval to recover and refund regulatory assets and liabilities.

FAC. In January 2008, the Kentucky Commission initiated a routine examination of KU's FAC for the six-month period May 1, 2007 through October 31, 2007. A public hearing was held in March 2008. An order is anticipated in the third quarter of 2008.

In August 2007, the Kentucky Commission initiated a routine examination of KU's FAC for the six-month period of November 1, 2006 through April 30, 2007. A public hearing was held in October 2007. The Kentucky Commission issued an Order in January 2008, approving the charges and credits billed through the FAC during the review period.

KU also employs an FAC mechanism for Virginia customers using an average fuel cost factor based primarily on projected fuel costs. The factor may be adjusted annually for over-or-under collections of fuel costs from the prior year. In February 2008, KU filed an application with the Virginia Commission seeking approval of a decrease in its fuel cost factor applicable during the billing period April 2008 through March 2009. The Virginia Commission allowed the new rates to be in effect for the April 2008, customer billings. In April 2008, the Virginia Commission Staff recommended a change to the fuel factor KU filed in its application. The recommended change, which KU has agreed to, would result in a decrease of 0.482 cents/kWh and will become effective beginning in June 2008 pending Virginia Commission approval. A public hearing was held in May 2008, and an order is anticipated in the second quarter of 2008.

ECR. In September 2007, the Kentucky Commission initiated six-month and two-year reviews for periods ending October 31, 2006 and April 30, 2007, respectively, of KU's environmental surcharge. All parties to the case submitted requests with the Kentucky Commission to waive rights to a hearing on this matter. The Kentucky Commission issued final Orders in March 2008, approving the charges and credits billed through the ECR during the review period, as well as approving billing adjustments, roll-in adjustments to base rates, revisions to the monthly surcharge filing and the rates of return on capital.

Other Regulatory Matters

TC2 CCN Application and Transmission Matters. A CCN application for construction of the new base-load, coal fired unit known as TC2, which will be jointly owned by KU and LG&E, together with the Illinois Municipal Electric Agency and the Indiana Municipal Power Agency, was approved by the Kentucky Commission in November 2005, and was never appealed.

Initial CCN applications for two transmission lines associated with the TC2 unit were approved in September 2005 and May 2006. One of those CCNs, for a line running from Jefferson County into Hardin County, was brought up for review to the Franklin Circuit Court by a group of landowners. In August 2006, KU, LG&E and the Kentucky Commission obtained dismissal of that action, on grounds that the landowners had failed to comply with the statutory procedures governing the action for review. That dismissal was appealed by the landowners to the Kentucky Court of Appeals, and in December 2007, that Court reversed the lower court's dismissal and remanded the challenge of the CCN to the Franklin Circuit Court for further proceedings. KU, LG&E and the Kentucky Commission filed for reconsideration of the appellate court's ruling, but those requests were denied in April 2008. KU and LG&E will file a motion for discretionary review with the Kentucky Supreme Court in May 2008, asking that Court to hear the matter and, ultimately, to reverse the Court of Appeals and uphold the Franklin Circuit Court's dismissal.

The referenced transmission lines are also subject to routine regulatory filings and require the acquisition of easements. In April 2008, in proceedings involving the condemnation of an easement for a portion of the Jefferson County to Hardin County transmission line (all rights of way for the other line have been acquired), a Meade County, Kentucky circuit court judge issued a ruling upholding the objections of two co-owners of the property crossed by the easement and dismissed that eminent domain proceeding pending the completion of the CCN appeal described above. KU and LG&E have filed responsive pleadings, including a motion to vacate that decision by the trial court and a procedural request with the Court of Appeals seeking expedited review on a petition to direct the circuit court to proceed with the eminent domain litigation. Additional condemnation proceedings involving other parcels of property to support this same transmission line are also pending in neighboring Hardin County, and three landowners there have now sought dismissal of certain of those proceedings in Hardin County, on the same grounds cited by the Meade County court. KU and LG&E have opposed those efforts to dismiss, and are awaiting ruling by the Hardin County Circuit Court.

Merger Surcredit. In December 2007, KU submitted to the Kentucky Commission its plan to allow the merger surcredit to terminate as scheduled on June 30, 2008. The Kentucky Commission issued a procedural schedule for this proceeding in March 2008, with data discovery to be completed in May 2008. A public hearing is scheduled in May 2008, and an order is expected by the end of the second quarter of 2008.

DSM. In July 2007, KU and LG&E filed an application with the Kentucky Commission requesting an order approving enhanced versions of the existing DSM programs along with the addition of several new cost effective programs. The total annual budget for these programs is approximately $26 million, an increase over the previous annual costs of approximately $10 million. In March 2008, the Kentucky Commission issued an Order approving the application, with minor modifications. KU and LG&E filed revised tariffs in April 2008, under authority of this Order.

Mandatory Reliability Standards. As a result of the EPAct 2005, certain formerly voluntary reliability standards became mandatory in June 2007, and authority was delegated to various RROs by the Electric Reliability Organization, which was authorized by the FERC to enforce compliance with such standards, including promulgating new standards. Failure to comply with mandatory reliability standards can subject a registered entity to sanctions, including potential fines of up to $1 million per day, as well as non-monetary penalties, depending upon the circumstances of the violation. KU is a member of the SERC, which acts as KU's RRO. The SERC is currently assessing KU's compliance with certain existing mitigation plans resulting from a prior RRO's audit of various reliability standards, and KU and SERC are in discussions regarding potential settlement, further mitigation steps or other resolution actions regarding these items. While KU believes itself to be in substantial compliance with the mandatory reliability standards, KU cannot predict the outcome of the current SERC proceeding or of other analysis which may be conducted regarding compliance with particular reliability standards.

Depreciation Study. In December 2007, KU filed a depreciation study with the Kentucky Commission as required by a previous Order. An adjustment to the depreciation rates is dependent on an order being received by the Kentucky Commission, the timing of which cannot currently be determined. KU also filed the depreciation study with the Virginia Commission, but has not requested formal review and approval of the depreciation rates from the Virginia Commission. Such a review will take place either during KU's next base rate case in Virginia or when KU makes a formal application to the Virginia Commission for approval of the proposed rates.

Brownfield Development Rider Tariff. In March 2008, KU and LG&E received Kentucky Commission approval for a Brownfield Development Rider, which offers a discounted rate to electric customers who meet certain usage and location requirements, including taking new service at a brownfield site, as certified by the appropriate Kentucky state agency. The rider would permit special contracts with such customers which provide for a series of declining partial rate discounts over an initial five year period of a longer service arrangement. The tariff is intended to promote local economic redevelopment and efficient usage of utility resources by aiding potential reuse of vacant brownfield sites.

Real-Time Pricing. In December 2006, the Kentucky Commission issued an Order indicating that the EPAct 2005 Section 1252, Smart Metering and Section 1254, Interconnection standards should not be adopted. However, five Kentucky Commission jurisdictional utilities were required to file real-time pricing pilot programs for their large commercial and industrial customers. KU developed a real-time pricing pilot for large industrial and commercial customers and filed the details of the plan with the Kentucky Commission in April 2007. Data discovery concluded in July 2007, and no parties to the case requested a hearing. In February 2008, the Kentucky Commission issued an Order approving the real-time pricing pilot program proposed by KU, for implementation within approximately eight months, for its large commercial and industrial customers.

Utility Competition in Virginia. The Commonwealth of Virginia passed the Virginia Electric Utility Restructuring Act in 1999. This act gave Virginia customers the ability to choose their electric supplier. Rates are capped at current levels through December 2010. In April 2007, Virginia passed legislation terminating this competitive market and commencing re-regulation of utility rates in Virginia. The new act will end the cap on rates at the end of 2008, rather than through December 2010, and end customer choice for most consumers in the applicable regions of the state. Thereafter, a hybrid model of regulation is expected to apply in Virginia, whereby utility rates would be reviewed every two years and a utility's rate of return on equity shall not be set lower than the average of the rates of return for other regional utilities, with certain caps, floors or adjustments. The legislation was effective in July 2007, and also includes a 10% nonbinding goal for renewable power generation by 2022, as well as incentives for new generation, including renewables. Under the legislation, KU retains an existing exemption from customer choice and other restructuring activities as applicable to KU's limited service territory in Virginia. However, subject to future developments, KU may or may not undertake such a rate proceeding in the first six months of 2009 based on calendar year 2008 financial data under the hybrid model of regulation, or make biennial rate filings with the Virginia Commission thereafter.

Note 3 - Financial Instruments

Effective January 1, 2008, KU adopted the required provisions of SFAS No. 157, excluding the exceptions related to nonfinancial assets and liabilities, which will be adopted effective January 1, 2009, consistent with FASB Staff Position 157-2.

Energy Trading and Risk Management Activities (non-hedging derivatives). KU conducts energy trading and risk management activities to maximize the value of power sales from physical assets it owns. Energy trading activities are principally forward financial transactions to hedge price risk and are accounted for on a mark-to-market basis in accordance with SFAS No. 133, as amended.

The table below summarizes KU's energy trading and risk management activities for the three months ended March 31, 2007:

(in millions)	
Fair value of contracts at beginning of period, net asset	$ 1
Unrealized gains and losses recognized at contract inception during the period	-
Realized gains and losses recognized during the period	-
Changes in fair values attributable to changes in valuation techniques and assumptions	(2)
Other unrealized gains and losses and changes in fair values	-
Fair value of contracts at end of period, net (liability) asset	$ (1)

No changes to valuation techniques for energy trading and risk management activities occurred during 2008 or 2007. Changes in market pricing, interest rate and volatility assumptions were made during both years. All contracts outstanding at March 31, 2007, had a maturity of less than one year. There were no contracts outstanding at March 31, 2008. All amounts for 2008 are less than $1 million. Energy trading and risk management contracts are valued using Level 1, prices actively quoted for proposed or executed transactions or quoted by brokers.

Note 4 - Pension and Other Postretirement Benefit Plans

The following table provides the components of net periodic benefit cost for pension and other benefit plans for the three months ended March 31:

	Pension Benefits		Other Postretirement Benefits	
(in millions)	2008	2007	2008	2007
Service cost	$ 1	$ 2	$ -	$ 1
Interest cost	5	6	1	1
Expected return on plan assets	(5)	(7)	-	-
Amortization of actuarial loss	-	1	-	-
Benefit cost year-to-date	$ 1	$ 2	$ 1	$ 2

Net periodic benefit costs incurred by employees of KU are reflected in both utility plant on the balance sheet and in operating expense on the income statement. The above costs do not include allocations of net periodic benefit costs from affiliates whose employees provide services to KU.

The pension plans are funded in accordance with all applicable requirements of the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code. In March 2008, KU made contributions to other postretirement benefit plans of approximately $1 million. KU anticipates making further voluntary contributions in 2008 to fund the Voluntary Employee Beneficiary Association trusts to match the annual postretirement expense and funding the postretirement medical account under the pension plan up to the maximum amount allowed by law.

Note 5 - Income Taxes

A United States consolidated income tax return is filed by E.ON U.S.'s direct parent, EUSIC, for each tax period. Each subsidiary of the consolidated tax group, including KU, will calculate its separate income tax for the tax period. The resulting separate-return tax cost or benefit will be paid to or received from the parent company or its designee. KU also files income tax returns in various state jurisdictions. With few exceptions, KU is no longer subject to U.S. federal income tax examinations for years before 2004. Statutes of limitations related to 2004 and later returns are still open. Tax years 2005, 2006 and 2007 are under audit by the IRS with the 2007 return being examined under an IRS pilot program named "Compliance Assurance Process". This program accelerates the IRS's review to the actual calendar year applicable to the return and ends 90 days after the return is filed.

KU adopted the provisions of FIN 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of SFAS No. 109,* effective January 1, 2007. At the date of adoption, KU had less than $1 million of unrecognized tax benefits, primarily related to federal income taxes. If recognized, the less than $1 million of unrecognized tax benefits would reduce the effective income tax rate.

Possible amounts of uncertain tax positions for KU that may decrease within the next 12 months total less than $1 million, and are based on the expiration of statutes during 2008.

KU, upon adoption of FIN 48, adopted a new financial statement classification for interest and penalties. Prior to the adoption of FIN 48, KU recorded interest and penalties for income taxes on the income statement in income tax expense and in the taxes accrued balance sheet account, net of tax. Upon adoption of FIN 48, interest is recorded as interest expense and penalties are recorded as operating expenses on the income statement and accrued expenses in the balance sheets, on a pre-tax basis. The interest accrued is based on IRS and Kentucky Department of Revenue large corporate interest rates for underpayment of taxes.

The amount KU recognized as interest accrued related to unrecognized tax benefits in interest expense in operating expenses was less than $1 million at March 31, 2008 and March 31, 2007. At the date of adoption, KU accrued less than $1 million in interest expense on uncertain tax positions. No penalties were accrued by KU upon adoption of FIN 48, or through March 31, 2008.

In June 2006, KU and LG&E filed a joint application with the U.S. Department of Energy ("DOE") requesting certification to be eligible for investment tax credits applicable to the construction of TC2. In November 2006, the DOE and the IRS announced that KU and LG&E were selected to receive the tax credit. A final IRS certification required to obtain the investment tax credit was received in August 2007. In September 2007, KU received an Order from the Kentucky Commission approving the accounting of the investment tax credit. KU's portion of the TC2 tax credit will be approximately $100 million over the construction period and will be amortized to income over the life of the related property beginning when the facility is placed in service. Based on eligible construction expenditures incurred, KU recorded investment tax credits of $3 million and $10 million during the three months ended March 31, 2008 and March 31, 2007, respectively, decreasing current federal income taxes.

In March 2008, certain groups filed suit in federal court in North Carolina against the DOE and IRS claiming the investment tax credit program was violative of certain environmental laws and demanded relief, including suspension or termination of the program. KU is monitoring, but is not currently a party to, this proceeding and is not able to predict the ultimate outcome of this matter.

Note 6 – Short-Term and Long-Term Debt

KU's long-term debt includes $33 million classified as current liabilities because these bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events. These bonds include Carroll County Series 2002 A and B, Muhlenberg County Series 2002 A and Mercer County Series 2002 A. These bonds mature in 2032. KU does not expect to pay these amounts in 2008. The average annualized interest rate for these bonds during the three months ended March 31, 2008, was 2.30%.

During June 2007, KU entered into a short-term bilateral line of credit facility totaling $35 million. There was no outstanding balance under this facility at March 31, 2008. During the third quarter of 2007, KU extended the maturity date of this facility through June 2012.

Pollution control series bonds are obligations of KU issued in connection with tax-exempt pollution control revenue bonds issued by various governmental entities, principally counties in Kentucky. A loan agreement obligates KU to make debt service payments to the county that equate to the debt service due from the county on the related pollution control revenue bonds. Until a series of financing transactions was completed during February 2007, the county's debt was also secured by an equal amount of KU's first mortgage bonds that were pledged to the trustee for the pollution control revenue bonds that match the terms and conditions of the county's debt, but require no payment of principal and interest unless KU defaults on the loan agreement. Proceeds from bond issuances for environmental equipment (primarily related to the installation of FGDs) are held in trust pending expenditure for qualifying assets. At March 31, 2008 and December 31, 2007, KU had $6 million and $11 million, respectively, of bond proceeds in trust, included in restricted cash in the balance sheets.

Several of the KU pollution control bonds are insured by monoline bond insurers whose ratings have been under pressure due to exposures relating to insurance of sub-prime mortgages. At March 31, 2008, KU had an aggregate $333 million of outstanding pollution control indebtedness, of which $300 million is in the form of insured auction rate securities wherein interest rates are reset either weekly or every 35 days via an auction process. Beginning in late 2007, the interest rates on these insured bonds began to increase due to investor concerns about the creditworthiness of the bond insurers. In 2008, interest rates have continued to increase, and the Company has experienced "failed auctions" when there are insufficient bids for the bonds. When there is a failed auction, the interest rate is set pursuant to a formula stipulated in the indenture, which can be as high as 15%. During the three months ended March 31, 2008 and March 31, 2007, the average rate on the auction rate bonds was 4.82% and 3.66%, respectively. The instruments governing these auction rate bonds permit KU to convert the bonds to other interest rate modes, such as various short-term variable rates, long-term fixed rates or intermediate-term fixed rates that are reset infrequently. In the first quarter of 2008, the ratings of the Carroll County 2004 Series A bonds were downgraded from AAA to AA and subsequently to A and then to BBB+ by S&P and from Aaa to A2 by Moody's, and the Carroll County 2006 Series C bonds were downgraded from Aaa to A2 by Moody's and from AAA to A- by S&P due to downgrades of the bond insurer. In February 2008, KU issued a notice to bondholders of its intention to convert the Carroll County 2007 Series A bonds and the Trimble County 2007 Series A bonds from the auction rate mode to a fixed interest rate mode, as permitted under the loan documents. The conversion was completed in April 2008, and the new rates on the bonds are 5.75% and 6.00%, respectively. In March 2008, KU issued notices to bondholders of its intention to convert the Carroll County 2006 Series C bonds and the Mercer County 2000 Series A bonds from the auction rate mode to a weekly interest rate mode, as permitted under the loan documents. The Carroll County conversion was completed in April 2008, and the Mercer County conversion was completed in May 2008. In connection with these conversions, KU purchased the bonds from the remarketing agent. KU will hold some or all of such bonds until a later date, at which time KU may refinance or further convert such bonds. Uncertainty in markets relating to auction rate securities or steps KU has taken or may take to mitigate such uncertainty, such as additional conversion, subsequent restructuring or redemption and refinancing, could result in KU incurring increased interest expense, transaction expenses or other costs and fees or experiencing reduced liquidity relating to existing or future pollution control financing structures. See Note 9, Subsequent Events.

KU participates in an intercompany money pool agreement wherein E.ON U.S. and/or LG&E make funds available to KU at market-based rates (based on highly rated commercial paper issues) of up to $400 million. Details of the balances were as follows:

($ in millions)	Total Money Pool Available	Amount Outstanding	Balance Available	Average Interest Rate
March 31, 2008	$400	$ 50	$350	3.08%
December 31, 2007	$400	$ 23	$377	4.75%

E.ON U.S. maintains a revolving credit facility totaling $311 million at March 31, 2008 and $150 million at December 31, 2007, with an affiliated company, E.ON North America, Inc., to ensure funding availability for the money pool. The balance is as follows:

($ in millions)	Total Available	Amount Outstanding	Balance Available	Average Interest Rate
March 31, 2008	$311	$94	$217	3.36%
December 31, 2007	$150	$62	$ 88	4.97%

There were no redemptions or issuances of long-term debt year-to-date through March 31, 2008.

Note 7 - Commitments and Contingencies

Except as may be discussed in this quarterly report (including Note 2), material changes have not occurred in the current status of various commitments or contingent liabilities from that discussed in KU's Annual Report for the year ended December 31, 2007 (including in Notes 2 and 9 to the financial statements of KU contained therein). See the above-referenced notes in KU's Annual Report regarding such commitments or contingencies.

Owensboro Contract Litigation. In May 2004, the City of Owensboro, Kentucky and OMU commenced a suit now removed to the U.S. District Court for the Western District of Kentucky, against KU concerning a long-term power supply contract (the "OMU Agreement") with KU. The dispute involves interpretational differences regarding issues under the OMU Agreement, including various payments or charges between KU and OMU and rights concerning excess power, termination and emissions allowances. The complaint seeks in excess of $6 million in damages in connection with one of its claims for periods prior to 2004, plus damages in an unspecified amount for later-occurring periods on that claim and for other claims. OMU has additionally requested injunctive and other relief, including a declaration that KU is in material breach of the contract. KU has filed an answer in this proceeding denying the OMU claims and presenting counterclaims and amended such filing in January 2007, to include further counterclaims alleging additional damages. During 2005, the FERC declined KU's application to exercise exclusive jurisdiction on matters. In July 2005, the district court resolved a summary judgment motion made by KU in OMU's favor, ruling that a contractual provision grants OMU the ability to terminate the contract without cause upon four years' prior notice, for which ruling KU retains certain rights to appeal. A motion to reconsider that ruling is presently pending before the Court. The parties are continuing various discovery proceedings, as well as settlement negotiations. A trial date has been set for October 2008. In May 2006, OMU issued a notification of its intent to terminate the OMU agreement contract in May 2010, without cause, absent any earlier relief which may be permitted by the proceeding. The Company is currently unable to determine the final outcome of this matter.

Construction Program. KU had approximately $440 million of commitments in connection with its construction program at March 31, 2008.

In June 2006, KU and LG&E entered into a construction contract regarding the TC2 project. The contract is generally in the form of a lump-sum, turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may serve to increase or decrease the ultimate construction price paid or payable to the contractor. The contract also contains standard representations, covenants, indemnities, termination and other provisions for arrangements of this type, including termination for convenience or for cause rights.

TC2 Air Permit. The Sierra Club and other environmental groups filed a petition challenging the air permit issued for the TC2 baseload generating unit which was issued by the Kentucky Division for Air Quality in November 2005. The filing of the challenge did not stay the permit, so the Company was free to proceed with construction during the pendancy of the action. In June 2007, the state hearing officer assigned to the matter recommended upholding the air permit with minor revisions. In September 2007, the Secretary of the Kentucky Environmental and Public Protection Cabinet issued a final Order approving the hearing officer's recommendation and upholding the permit. In September 2007, KU administratively applied for a permit revision to reflect minor design changes. In October 2007, the environmental groups submitted comments objecting to the draft permit revisions and, in part, attempting to reassert general objections to the generating unit. In January 2008, the Kentucky Division for Air Quality issued a final permit revision. The environmental groups did not appeal the final Order upholding the permit or file a petition challenging the permit revision by the applicable deadlines. However, in October 2007, the environmental groups filed a lawsuit in federal court seeking an order for the EPA to grant or deny their pending petition for the EPA to "veto" the state air permit. The Company is currently unable to determine the final outcome of this matter or the impact of an unfavorable determination upon the Company's financial condition or results of operations.

Environmental Matters. KU's operations are subject to a number of environmental laws and regulations in each of the jurisdictions in which it operates, governing, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety.

Clean Air Act Requirements. The Clean Air Act establishes a comprehensive set of programs aimed at protecting and improving air quality in the United States by, among other things, controlling stationary sources of air emissions such as power plants. While the general regulatory framework for these programs is established at the federal level, most of the programs are implemented and administered by the states under the oversight of the EPA. The key Clean Air Act programs relevant to KU's business operations are described below.

Ambient Air Quality. The Clean Air Act requires the EPA to periodically review the available scientific data for six criteria pollutants and establish concentration levels in the ambient air sufficient to protect the public health and welfare with an extra margin for safety. These concentration levels are known as NAAQS. Each state must identify "nonattainment areas" within its boundaries that fail to comply with the NAAQS and develop a SIP to bring such nonattainment areas into compliance. If a state fails to develop an adequate plan, the EPA must develop and implement a plan. As the EPA increases the stringency of the NAAQS through its periodic reviews, the attainment status of various areas may change, thereby triggering additional emission reduction obligations under revised SIPs aimed to achieve attainment.

In 1997, the EPA established new NAAQS for ozone and fine particulates that required additional reductions in SO_2 and NOx emissions from power plants. In 1998, the EPA issued its final "NOx SIP Call" rule requiring reductions in NOx emissions of approximately 85% from 1990 levels in order to mitigate ozone transport from the midwestern U.S. to the northeastern U.S. To implement the new federal requirements, Kentucky amended its SIP in 2002 to require electric generating units to reduce their NOx emissions to 0.15 pounds weight per MMBtu on a company-wide basis. In 2005, the EPA issued the CAIR which requires additional SO_2 emission reductions of 70% and NOx emission reductions of 65% from 2003 levels. The CAIR provides for a two-phase cap and trade program, with initial reductions of NOx and SO_2 emissions due by 2009 and 2010, respectively, and final reductions due by 2015. The final rule is currently under challenge. In 2006, Kentucky proposed to amend its SIP to adopt state requirements similar to those under the federal CAIR. Depending on the level of action determined necessary to bring local nonattainment areas into compliance with the new ozone and fine particulate standards, KU's power plants are potentially subject to additional reductions in SO_2 and NOx emissions. KU's weighted-average company-wide emission rate for SO_2 in the first quarter of 2008 was approximately 1.32 lbs./MMBtu of heat input, with every generating unit below its emission limit established by the Kentucky Division for Air Quality. In March 2008, the EPA issued a revised NAAQS for ozone, which contains a more stringent standard than that contained in the previous regulation. At present, LG&E is unable to determine what, if any, additional requirements may be imposed to achieve compliance with the new ozone standard.

Hazardous Air Pollutants. As provided in the 1990 amendments to the Clean Air Act, the EPA investigated hazardous air pollutant emissions from electric utilities and submitted a report to Congress identifying mercury emissions from coal-fired power plants as warranting further study. In 2005, the EPA issued the CAMR establishing mercury standards for new power plants and requiring all states to issue new SIPs including mercury requirements for existing power plants. The EPA issued a model rule which provides for a two-phase cap and trade program with initial reductions due by 2010 and final reductions due by 2018. The CAMR provides for reductions of 70% from 2003 levels. The EPA closely integrated the CAMR and CAIR programs to ensure that the 2010 mercury reduction targets would be achieved as a "co-benefit" of the controls installed for purposes of compliance with the CAIR. In February 2008, a federal appellate court issued a decision vacating the CAMR, but the EPA and other parties have filed a motion for rehearing. Depending on the final outcome of the pending appeal, the CAMR could be superceded by new mercury reduction rules with different or more stringent requirements. In 2006, Kentucky proposed to amend its SIP to adopt state requirements similar to those under the federal CAMR, but those state requirements are likely to be revised to reflect the outcome of the challenge to the CAMR at the federal level.

Acid Rain Program. The 1990 amendments to the Clean Air Act imposed a two-phased cap and trade program to reduce SO_2 emissions from power plants that were thought to contribute to "acid rain" conditions in the northeastern U.S. The 1990 amendments also contained requirements for power plants to reduce NOx emissions through the use of available combustion controls.

Regional Haze. The Clean Air Act also includes visibility goals for certain federally designated areas, including national parks, and requires states to submit SIPs that will demonstrate reasonable progress toward preventing future impairment and remedying any existing impairment of visibility in those areas. In 2005, the EPA issued its CAVR detailing how the Clean Air Act's BART requirements will be applied to facilities, including power plants, built between 1962 and 1974 that emit certain levels of visibility impairing pollutants. Under the final rule, as the CAIR will result in more visibility improvement than BART, states are allowed to substitute CAIR requirements in their regional haze SIPs in lieu of controls that would otherwise be required by BART. The final rule has been challenged in the courts.

Installation of Pollution Controls. Many of the programs under the Clean Air Act utilize cap and trade mechanisms that require a company to hold sufficient emissions allowances to cover its authorized emissions on a company-wide basis and do not require installation of pollution controls on every generating unit. Under cap and trade programs, companies are free to focus their pollution control efforts on plants where such controls are particularly efficient and utilize the resulting emission allowances for smaller plants where such controls are not cost effective. KU met its Phase I SO_2 requirements primarily through installation of FGD equipment on Ghent Unit 1. KU's strategy for its Phase II SO_2 requirements, which commenced in 2000, includes the installation of additional FGD equipment, as well as using accumulated emission allowances and fuel switching to defer certain additional capital expenditures. In order to achieve the NOx emission reductions and associated obligations, KU installed additional NOx controls, including SCR technology, during the 2000 to 2007 time period at a cost of $220 million. In 2001, the Kentucky Commission granted approval to recover the costs incurred by KU for these projects through the environmental surcharge mechanism. Such monthly recovery is subject to periodic review by the Kentucky Commission.

In order to achieve the emissions reductions mandated by the CAIR, KU expects to incur additional capital expenditures totaling approximately $675 million during the 2008 through 2010 time period for pollution controls, including FGD and SCR equipment, and additional operating and maintenance costs in operating such controls. In 2005, the Kentucky Commission granted approval to recover the costs incurred by KU for these projects through the ECR mechanism. Such monthly recovery is subject to periodic review by the Kentucky Commission. KU believes its costs in reducing SO_2, NOx and mercury emissions to be comparable to those of similarly situated utilities with like generation assets. KU's compliance plans are subject to many factors including developments in the emission allowance and fuels markets, future legislative and regulatory enactments, legal proceedings and advances in clean air technology. KU will continue to monitor these developments to ensure that its environmental obligations are met in the most efficient and cost-effective manner.

Potential GHG Controls. In 2005, the Kyoto Protocol for reducing GHG emissions took effect, obligating 37 industrialized countries to undertake substantial reductions in GHG emissions. The U.S. has not ratified the Kyoto Protocol and there are currently no mandatory GHG emission reduction requirements at the federal level. Legislation mandating GHG reductions has been introduced in the Congress, but no federal legislation has been enacted to date. In the absence of a program at the federal level, various states have adopted their own GHG emission reduction programs. Such programs have been adopted in various states including 11 northeastern U.S. states and the District of Columbia under the Regional GHG Initiative program and California. Substantial efforts to pass federal GHG legislation are ongoing. In April 2007, the U.S. Supreme Court ruled that the EPA has the authority to regulate GHG under the Clean Air Act. KU is monitoring ongoing efforts to enact GHG reduction requirements at the state and federal level and is assessing potential impacts of such programs and strategies to mitigate those impacts. KU is unable to predict whether mandatory GHG reduction requirements will ultimately be enacted. As a Company with significant coal-fired generating assets, KU could be substantially impacted by programs requiring mandatory reductions in GHG emissions, although the precise impact on the operations of KU, including the reduction targets and deadlines that would be applicable, cannot be determined prior to the enactment of such programs.

Brown New Source Review Litigation In April 2006, the EPA issued an NOV alleging that KU had violated certain provisions of the Clean Air Act's new source review rules relating to work performed in 1997, on a boiler and turbine at KU's E.W. Brown generating station. In December 2006, the EPA issued a second NOV alleging the Company had exceeded heat input values in violation of the air permit for the unit. In March 2007, the U.S. Department of Justice filed a complaint in federal court in Kentucky alleging the same violations specified in the prior NOVs. The complaint seeks civil penalties, including potential per-day fines, remedial measures and injunctive relief. In April 2007, KU filed an answer in the civil suit denying the allegations. In July 2007, the court entered a schedule providing for a July 2009 date for trial. The parties are currently proceeding with discovery while concurrently discussing settlement. A $2 million accrual has been recorded based on the current status of those discussions, however, KU cannot determine the overall outcome or potential effects of these matters, including whether substantial fines, penalties or remedial measures may result.

Section 114 Requests In August 2007, the EPA issued administrative information requests under Section 114 of the Clean Air Act requesting new source review-related data regarding certain projects undertaken at LG&E's Mill Creek 4 and Trimble County 1 generating units and KU's Ghent 2 generating unit. The Companies have complied with the information requests and are not able to predict further proceedings in this matter at this time.

Ghent Opacity NOV In September 2007, the EPA issued an NOV alleging that KU had violated certain provisions of the Clean Air Act's operating rules relating to opacity during June and July of 2007 at Units 1 and 3 of KU's Ghent generating station. The parties have conducted an initial meeting on this matter. KU is not able to estimate the outcome or potential effects of these matters, including whether substantial fines, penalties or remedial measures may result.

General Environmental Proceedings. From time to time, KU appears before the EPA, various state or local regulatory agencies and state and federal courts regarding matters involving compliance with applicable environmental laws and regulations. Such matters include liability under the Comprehensive Environmental Response, Compensation and Liability Act for cleanup at various off-site waste sites and ongoing claims regarding GHG emissions from KU's generating stations. Based on analysis to date, the resolution of these matters is not expected to have a material impact on the operations of KU.

Note 8 - Related Party Transactions

KU, subsidiaries of E.ON U.S. and subsidiaries of E.ON engage in related party transactions. Transactions between KU and E.ON U.S. subsidiaries are eliminated upon consolidation of E.ON U.S. Transactions between KU and E.ON subsidiaries are eliminated upon consolidation of E.ON. These transactions are generally performed at cost and are in accordance with the FERC regulations under PUHCA 2005 and the applicable Kentucky Commission and Virginia Commission regulations. The significant related party transactions are disclosed below.

Electric Purchases

KU and LG&E purchase energy from each other in order to effectively manage the load of their retail and wholesale customers. These sales and purchases are included in the statements of income as operating revenues and purchased power operating expense. KU intercompany electric revenues and purchased power expense for the three months ended March 31, were as follows:

(in millions)	2008	2007
Electric operating revenues from LG&E	$14	$18
Purchased power from LG&E	27	30

Interest Charges

See Note 6, Short-Term and Long-Term Debt, for details of intercompany borrowing arrangements. Intercompany agreements do not require interest payments for receivables related to services provided when settled within 30 days.

KU's intercompany interest expense for the three months ended March 31, was as follows:

(in millions)	2008	2007
Interest on money pool loans	$ -	$ 1
Interest on Fidelia loans	13	7

Other Intercompany Billings

E.ON U.S. Services provides KU with a variety of centralized administrative, management and support services. These charges include payroll taxes paid by E.ON U.S. on behalf of KU, labor and burdens of E.ON U.S. Services employees performing services for KU and vouchers paid by E.ON U.S. Services on behalf of KU. The cost of these services is directly charged to KU, or for general costs which cannot be directly attributed, charged based on predetermined allocation factors, including the following ratios: number of customers, total assets, revenues, number of employees and other statistical information. These costs are charged on an actual cost basis.

In addition, KU and LG&E provide services to each other and to E.ON U.S. Services. Billings between KU and LG&E relate to labor and overheads associated with union employees performing work for the other utility, charges related to jointly-owned combustion turbines and other miscellaneous charges. Billings from KU to E.ON U.S. Services relate to cash received by E.ON U.S. Services on behalf of KU, primarily tax settlements, and other payments made by KU on behalf of other non-regulated businesses which are paid through E.ON U.S. Services.

Intercompany billings to and from KU for the three months ended March 31, were as follows:

(in millions)	2008	2007
E.ON U.S. Services billings to KU	$39	$170
KU billings to LG&E	23	14
LG&E billings to KU	1	10
KU billings to E.ON U.S. Services	1	2

Note 9 – Subsequent Events

On April 16, 2008, the Carroll County 2006 Series C bonds converted from an auction rate mode to a weekly interest rate mode. In connection with the conversion, KU purchased the bonds from the remarketing agent.

On May 1, 2008, the Mercer County 2000 Series A bonds converted from an auction rate mode to a weekly interest rate mode. In connection with the conversion, KU purchased the bonds from the remarketing agent.

Management's Discussion and Analysis of Financial Condition and Results of Operations

General

The following discussion and analysis by management focuses on those factors that had a material effect on KU's financial results of operations and financial condition during the three month period ended March 31, 2008, and should be read in connection with the financial statements and notes thereto.

Some of the following discussion may contain forward-looking statements that are subject to certain risks, uncertainties and assumptions. Such forward-looking statements are intended to be identified in this document by the words "anticipate," "expect," "estimate," "objective," "possible," "potential" and similar expressions. Actual results may vary materially. Factors that could cause actual results to differ materially include: general economic conditions; business and competitive conditions in the energy industry; changes in federal or state legislation; unusual weather; actions by state or federal regulatory agencies; and other factors described from time to time in the Company's reports, including the Annual Report for the year ended December 31, 2007.

Executive Summary

Business

KU, incorporated in Kentucky in 1912 and in Virginia in 1991, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. As of December 31, 2007, KU provided electricity to approximately 506,000 customers in 77 counties in central, southeastern and western Kentucky, to approximately 30,000 customers in 5 counties in southwestern Virginia and 5 customers in Tennessee. KU's service area covers approximately 6,600 square miles. KU's coal-fired electric generating plants produce most of KU's electricity. The remainder is generated by a hydroelectric power plant and natural gas and oil fueled combustion turbines. In Virginia, KU operates under the name Old Dominion Power Company. KU also sells wholesale electric energy to 12 municipalities.

KU is a wholly-owned subsidiary of E.ON U.S., an indirect wholly-owned subsidiary of E.ON, a German corporation, making KU an indirect wholly-owned subsidiary of E.ON. KU's affiliate, LG&E, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy and the distribution of natural gas in Kentucky.

Environmental Matters

Protection of the environment is a major priority for KU. Federal, state and local regulatory agencies have issued KU permits for various activities subject to air quality, water quality and waste management laws and regulations. *See Note 7 of Notes to Financial Statements for more information.*

Results of Operations

The electric utility business is affected by seasonal temperatures. As a result, operating revenues (and associated operating expenses) are not generated evenly throughout the year.

Net Income

Net income for the three months ended March 31, 2008, increased $1 million compared to the same period in 2007. The increase was primarily the result of increased electric revenues ($36 million), increased other income ($3 million) and decreased income taxes ($2 million), partially offset by increased operating expenses ($36 million) and increased interest expense, including interest expense to affiliated companies ($4 million).

Revenues

Revenues in the three months ended March 31, 2008, increased $36 million primarily due to:

- Increased fuel costs ($17 million) billed to customers through the FAC due to higher fuel costs (coal and natural gas) and higher transportation costs
- Increased ECR surcharge ($14 million) due to increased recoverable capital spending
- Increased sales volumes delivered ($8 million) resulting from an 8% increase in heating degree days in the first quarter of 2008 as compared to the same period in 2007
- Decreased wholesale and transmission revenues ($3 million) due to decreased power available for wholesale sales as a result of higher native load demand and lower transmission rates

Expenses

Fuel for electric generation comprises a large component of total operating expenses. Increases or decreases in the cost of fuel are reflected in retail rates through the FAC, subject to the approval of the Kentucky Commission, the Virginia Commission and the FERC.

Fuel for electric generation increased $14 million in the three months ended March 31, 2008, primarily due to:

- Increased generation to meet sales ($9 million), due to 8% more heating degree days
- Increased spot market pricing for coal/natural gas generation ($5 million) due to mine safety compliance costs and higher transportation costs

Purchased power expense increased $11 million in the three months ended March 31, 2008, primarily due to:

- Increased cost per mWh of purchases ($17 million) due to increased third party purchases and higher fuel prices
- Decreased volumes purchased ($6 million) due to increased internal generation as a result of higher native load demand

Other operation and maintenance expenses increased $7 million in the three months ended March 31, 2008, primarily due to increased other operation expenses ($4 million) and increased maintenance expenses ($3 million).

Other operation expenses increased $4 million in the three months ended March 31, 2008, primarily due to:

- Increased generation, transmission and distribution expenses, including labor for storm restoration ($2 million)
- Increased outside services ($1 million)
- Increased expense for uncollectible accounts ($1 million)

Maintenance expenses increased $3 million in the three months ended March 31, 2008, primarily due to increased contractor and overtime labor expense for storm restoration

Interest expense, including interest expense to affiliated companies, increased $4 million in the three months ended March 31, 2008, primarily due to:

- Increased interest expense to affiliated companies ($5 million) due to increased affiliate borrowings
- Decreased interest expense ($1 million) due to the refinancing of First Mortgage bonds with loans from Fidelia and defeasance of pollution control bonds ($2 million), partially offset by higher interest rates on auction rate pollution control bonds ($1 million)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Effective Rate		
Statutory federal income tax rate	35.0%	35.0%
State income taxes net of federal benefit	3.1	3.7
Amortization of investment tax credits	(0.1)	(0.1)
EEI Dividend	(3.5)	(2.5)
Other differences	(2.1)	(1.3)
Effective income tax rate	32.4%	34.8%

The effective income tax rate decreased for the three months ended March 31, 2008 compared to the three months ended March 31, 2007, due primarily to an increase in dividends received from EEI, a decrease in Other Differences due to an increase in Section 199, Manufacturing deduction and a decrease in state income taxes net of federal benefit due to an increase in state coal credits.

Liquidity and Capital Resources

KU uses net cash generated from its operations and external financing (including financing from affiliates) to fund construction of plant and equipment and the payment of dividends. KU believes that such sources of funds will be sufficient to meet the needs of its business in the foreseeable future.

Operating Activities

Cash provided by operations was $127 million and $113 million for the three months ended March 31, 2008 and 2007, respectively.

The 2008 increase of $14 million was primarily the result of increases in cash due to changes in:

- FAC receivable, net ($17 million)
- Pension and postretirement funding ($14 million) due to higher pension funding in 2007
- Accrued income taxes ($12 million)
- Prepayments and other current assets ($1 million)

These increases were partially offset by cash provided by changes in:

- Accounts payable ($8 million)
- Accounts receivable ($7 million)
- Other current liabilities ($6 million)
- Materials and supplies ($5 million)
- Earnings, net of non-cash items ($3 million)
- Other ($1 million)

Investing Activities

The primary use of funds for investing activities continues to be for capital expenditures. Capital expenditures were $184 million and $125 million in the three months ended March 31, 2008 and 2007, respectively. Net cash used for investing activities increased $56 million in the three months ended March 31, 2008, compared to 2007 primarily due to increased capital expenditures of $59 million. Restricted cash increased $3 million and represents the escrowed proceeds of the Pollution Control Bonds issued which are disbursed as qualifying costs are incurred.

Financing Activities

Net cash inflows from financing activities were $52 million and $10 million in the three months ended March 31, 2008 and 2007, respectively.

See Note 6 of Notes to Financial Statements for information of redemptions, maturities and issuances of long-term debt.

Future Capital Requirements

KU expects its capital expenditures for the three year period ending December 31, 2010, to total approximately $1,465 million, consisting primarily of construction estimates for installation of FGDs on Ghent and Brown units totaling approximately $425 million, construction of TC2 totaling approximately $360 million, the Brown ash pond totaling approximately $40 million, a customer care system totaling approximately $25 million and on-going construction related to generation and distribution assets.

Future capital requirements may be affected in varying degrees by factors such as electric energy demand load growth, changes in construction expenditure levels, rate actions by regulatory agencies, new legislation, market entry of competing electric power generators, changes in commodity prices and labor rates, changes in environmental regulations and other regulatory requirements. KU anticipates funding future capital requirements through operating cash flow, debt and/or infusions of capital from its parent.

KU has a variety of funding alternatives available to meet its capital requirements. KU participates in an intercompany money pool agreement wherein E.ON U.S. and/or LG&E make funds of up to $400 million available to KU at market-based rates. Fidelia also provides long-term intercompany funding to KU. See Note 6 of Notes to Financial Statements.

KU's construction program is designed to ensure that there will be adequate capacity and reliability to meet the electric needs of its service area and to comply with environmental regulations. These needs are continually being reassessed and appropriate revisions are made, when necessary, in construction schedules. Future capital requirements may be affected in varying degrees by factors such as electric energy demand load growth, changes in construction expenditure levels, rate actions by regulatory agencies, new legislation, market entry of competing electric power generators, changes in commodity prices and labor rates, changes in environmental regulations and other regulatory requirements. See Note 7 of Notes to Financial Statements for current commitments. KU anticipates funding future capital requirements through operating cash flow, debt and/or infusions of capital from its parent.

Regulatory approvals are required for KU to incur additional debt. The Virginia Commission and the FERC authorize the issuance of short-term debt while the Kentucky Commission, the Virginia Commission and the Tennessee Regulatory Authority authorize the issuance of long-term debt. In

November 2007, KU received a two-year authorization from the FERC to borrow up to $400 million in short-term funds. KU also has authorization from the Virginia Commission that expires at the end of 2009 allowing short-term borrowing of up to $400 million.

KU's debt ratings as of March 31, 2008, were:

	Moody's	S&P
Issuer rating	A2	-
Corporate credit rating	-	BBB+

These ratings reflect the views of Moody's and S&P. A security rating is not a recommendation to buy, sell or hold securities and is subject to revision or withdrawal at any time by the rating agency. See Note 6 of Notes to Financial Statements for a discussion of recent downgrade actions related to the pollution control revenue bonds.

Controls and Procedures

The Company is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process 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. A company's internal control over financial reporting includes those policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; 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 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 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 has assessed the effectiveness of its internal control over financial reporting as of December 31, 2007. In making this assessment, the Company used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control - Integrated Framework . The Company has concluded that, as of December 31, 2007, the Company's internal control over financial reporting was effective based on those criteria. There has been no change in the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2008, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

KU is no longer subject to the internal control and other requirements of the Sarbanes-Oxley Act of 2002 and associated rules (the "Act") and consequently has not issued Management's Report on Internal Controls over Financial Reporting pursuant to Section 404 of the Act.

Legal Proceedings

For a description of the significant legal proceedings involving KU, reference is made to the information under the following captions of KU's Annual Report for the year ended December 31, 2007: Business, Risk Factors, Legal Proceedings, Management's Discussion and Analysis, Financial Statements and Notes to Financial Statements. Reference is also made to the matters described in Notes 2 and 7 of this quarterly report. Except as described in this quarterly report, to date, the proceedings reported in KU's Annual Report have not materially changed.

Other

In the normal course of business, other lawsuits, claims, environmental actions and other governmental proceedings arise against KU. To the extent that damages are assessed in any of these lawsuits, KU believes that its insurance coverage is adequate. Management, after consultation with legal counsel, does not anticipate that liabilities arising out of other currently pending or threatened lawsuits and claims will have a material adverse effect on KU's financial position or results of operations.

2007 - 3rd Quarter Financial Statements and Additional Information

Kentucky Utilities Company

Financial Statements
(Unaudited)

As of September 30, 2007 and 2006

INDEX OF ABBREVIATIONS

ARO	Asset Retirement Obligation
BART	Best Available Retrofit Technology
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
CAVR	Clean Air Visibility Rule
CCN	Certificate of Public Convenience and Necessity
Clean Air Act	The Clean Air Act, as amended in 1990
Company	KU
DOE	U.S. Department of Energy
ECR	Environmental Cost Recovery
E.ON	E.ON AG
E.ON U.S.	E.ON U.S. LLC (formerly LG&E Energy LLC and LG&E Energy Corp.)
E.ON U.S. Services	E.ON U.S. Services Inc. (formerly LG&E Energy Services Inc.)
EPA	U.S. Environmental Protection Agency
EPAct 2005	Energy Policy Act of 2005
EUSIC	E.ON US Investments Corp.
FAC	Fuel Adjustment Clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FGD	Flue Gas Desulfurization
Fidelia	Fidelia Corporation (an E.ON affiliate)
FIN	FASB Interpretation
GHG	Greenhouse Gas
IRS	Internal Revenue Service
Kentucky Commission	Kentucky Public Service Commission
KU	Kentucky Utilities Company
LG&E	Louisville Gas and Electric Company
LIBOR	London Interbank Offer Rate
MISO	Midwest Independent Transmission System Operator, Inc.
MMBtu	Million British Thermal Units
NAAQS	National Ambient Air Quality Standards
NOV	Notice of Violation
NOx	Nitrogen Oxide
OMU	Owensboro Municipal Utilities
PUHCA 2005	Public Utility Holding Company Act of 2005
SCR	Selective Catalytic Reduction
SFAS	Statement of Financial Accounting Standards
SIP	State Implementation Plan
SO_2	Sulfur Dioxide
TC2	Trimble County Unit 2
Virginia Commission	Virginia State Corporation Commission

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Kentucky Utilities Company
Statements of Income
(Unaudited)
(Millions of $)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
OPERATING REVENUES:				
Total operating revenues	$ 345	$ 342	$ 963	$ 911
OPERATING EXPENSES:				
Fuel for electric generation	138	130	354	325
Power purchased	39	49	129	140
Other operation and maintenance expenses	62	63	184	195
Depreciation and amortization	31	29	89	86
Total operating expenses	270	271	756	746
OPERATING INCOME	75	71	207	165
Other expense (income) - net	(7)	(13)	(23)	(26)
Interest expense (Notes 3, 5 and 6)	3	4	11	11
Interest expense to affiliated companies (Note 8)	11	6	29	17
INCOME BEFORE INCOME TAXES	68	74	190	163
Federal and state income taxes (Note 5)	18	25	60	54
NET INCOME	$ 50	$ 49	$ 130	$ 109

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

Kentucky Utilities Company
Statements of Retained Earnings
(Unaudited)
(Millions of $)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Balance at beginning of period	$ 950	$ 778	$ 870	$ 718
Net income	50	49	130	109
Balance at end of period	$ 1,000	$ 827	$ 1,000	$ 827

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

Kentucky Utilities Company
Balance Sheets
(Unaudited)
(Millions of $)

ASSETS	September 30, 2007	December 31, 2006
Current assets:		
Cash and cash equivalents	$ 1	$ 6
Restricted cash (Note 6)	40	23
Accounts receivable – less reserves of $2 million	168	123
Accounts receivable from affiliated companies (Note 8)	6	50
Income tax receivable	-	6
Materials and supplies:		
Fuel (predominantly coal)	49	64
Other materials and supplies	34	34
Prepayments and other current assets	4	7
Total current assets	302	313
Other property and investments	28	25
Utility plant:		
At original cost	4,714	4,168
Less: reserve for depreciation	1,604	1,553
Net utility plant	3,110	2,615
Deferred debits and other assets:		
Regulatory assets (Note 2):		
Pension and postretirement benefits	66	64
Other	111	83
Cash surrender value of key man life insurance	36	35
Other assets	9	8
Total deferred debits and other assets	222	190
Total assets	$ 3,662	$ 3,143

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

Kentucky Utilities Company
Balance Sheets (cont.)
(Unaudited)
(Millions of $)

LIABILITIES AND EQUITY

	September 30, 2007	December 31, 2006
Current liabilities:		
Current portion of long-term debt	$ 33	$ 141
Notes payable to affiliated companies (Note 6 and Note 8)	105	97
Accounts payable	165	83
Accounts payable to affiliated companies (Note 8)	40	87
Customer deposits	19	19
Other current liabilities	27	23
Total current liabilities	389	450
Long-term debt:		
Long-term debt (Note 6)	300	219
Long-term debt to affiliated company (Note 6 and Note 8)	761	483
Total long-term debt	1,061	702
Deferred credits and other liabilities:		
Accumulated deferred income taxes	285	284
Accumulated provision for pensions and related benefits	118	126
Investment tax credit	41	13
Asset retirement obligation	30	28
Regulatory liabilities (Note 2):		
Accumulated cost of removal of utility plant	304	297
Deferred income taxes - net and other	39	33
Other liabilities	17	17
Total deferred credits and other liabilities	834	798
Common equity:		
Common stock, without par value –		
Authorized 80,000,000 shares, outstanding 37,817,878 shares	308	308
Additional paid-in capital	70	15
Retained earnings	981	854
Undistributed subsidiary earnings	19	16
Total retained earnings	1,000	870
Total common equity	1,378	1,193
Total liabilities and equity	$ 3,662	$ 3,143

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

Kentucky Utilities Company
Statements of Cash Flows
(Unaudited)
(Millions of $)

	For the Nine Months Ended September 30, 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 130	$ 109
Items not requiring cash currently:		
Depreciation and amortization	89	86
Deferred income taxes	(2)	1
VDT amortization	-	3
Investment tax credit - net	28	-
Other	2	10
Changes in current assets and liabilities:		
Accounts receivable	(1)	35
Materials and supplies	15	(4)
Other current assets	3	(6)
Accounts payable	(26)	25
Accrued income taxes	9	(13)
Other current liabilities	1	13
Pension funding	(13)	-
Fuel adjustment clause receivable, net	(22)	(24)
MISO exit	-	(20)
Other	(4)	(7)
Net cash provided by operating activities	209	208
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction expenditures	(512)	(236)
Change in restricted cash	(17)	7
Net cash used for investing activities	(529)	(229)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Retirement of bonds (Note 6)	(107)	(36)
Proceeds from issuance of affiliated company debt (Note 6)	502	50
Repayment of debt from affiliated company (Note 6)	(216)	(11)
Issuance of pollution control bonds	81	16
Capital contribution	55	-
Net cash provided by financing activities	315	19
CHANGE IN CASH AND CASH EQUIVALENTS	(5)	(2)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	6	7
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 1	$ 5

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

Kentucky Utilities Company
Notes to Financial Statements
(Unaudited)

Note 1 - General

The unaudited financial statements include the accounts of the Company. KU's common stock is wholly-owned by E.ON U.S., an indirect wholly-owned subsidiary of E.ON. In the opinion of management, the unaudited interim financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of financial position, results of operations, retained earnings and cash flows for the periods indicated. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted, although the Company believes that the disclosures are adequate to make the information presented not misleading. These unaudited financial statements and notes should be read in conjunction with the Company's annual report for the year ended December 31, 2006, including management's discussion and analysis and the audited financial statements and notes therein.

Certain reclassification entries have been made to the previous year's financial statements to conform to the 2007 presentation with no impact on net assets, liabilities and capitalization or previously reported net income and cash flows.

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2006, the FASB issued FIN 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, Accounting for Income Taxes*. FIN 48 clarifies accounting for income taxes to provide improved consistency of criteria used to recognize, derecognize and measure benefits related to income taxes. KU adopted the provisions of FIN 48 effective January 1, 2007. See Note 5, Income Taxes.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115*. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis (the fair value option). Unrealized gains and losses on items for which the fair value option has been elected are to be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. KU will adopt SFAS No. 159 effective January 1, 2008, and expects no impact on its financial statements upon adoption.

Note 2 - Rates and Regulatory Matters

For a description of each line item of regulatory assets and liabilities, reference is made to KU's Annual Report, Note 2 of the financial statements, for the year ended December 31, 2006.

The following regulatory assets and liabilities were included in KU's Balance Sheets:

Kentucky Utilities Company
(unaudited)

(in millions)	September 30, 2007	December 31, 2006
FAC	$ 38	$ 16
ARO	24	22
MISO exit	20	20
ECR	11	10
Unamortized loss on bonds	10	10
Other	8	5
Subtotal	111	83
Pension and postretirement benefits	66	64
Total regulatory assets	$ 177	$ 147
Accumulated cost of removal of utility plant	$304	$ 297
Deferred income taxes – net	29	27
Other	10	6
Total regulatory liabilities	$ 343	$ 330

KU does not currently earn a rate of return on the FAC regulatory asset, which is a separate recovery mechanism with recovery within twelve months. No return is earned on the pension and postretirement benefits regulatory asset which represents the changes in funded status of the plans. The Company will seek recovery of this asset in future proceedings with the Kentucky and Virginia Commissions. No return is currently earned on the ARO asset. This regulatory asset will be offset against the associated regulatory liability, ARO asset and ARO liability at the time the underlying asset is retired. The MISO exit amount represents the costs relating to the withdrawal from MISO membership. KU expects to seek recovery of this asset in future proceedings with the Kentucky and Virginia Commissions. KU currently earns a rate of return on the remaining regulatory assets.

FAC. In December 2006, the Kentucky Commission initiated its periodic two-year review of KU's past operations of the fuel clause and transfer of fuel costs from the FAC to base rates. In March 2007, intervenors representing industrial customers challenged KU's recovery of $5.1 million in aggregate fuel costs KU incurred during a period prior to its exit from the MISO and requested the Kentucky Commission disallow this amount. A public hearing was held in May 2007. Final briefs were filed by the Company and the intervenors in June 2007. In October 2007, the Kentucky Commission issued its Order in this proceeding. The Kentucky Commission findings were that KU incurred no improper fuel cost during the two-year review period and that KU was in compliance with the provisions of Administrative Regulation 807 KAR 5:5056. The Kentucky Commission further approved KU's recommendation for the transfer of fuel cost from the FAC to base rates. In November 2007, the KIUC filed a petition for rehearing, claiming the Kentucky Commission misinterpreted the KIUC's arguments in the proceeding. The Company expects a ruling from the Kentucky Commission by the end of November 2007.

KU also employs an FAC mechanism for Virginia customers using an average fuel cost factor based primarily on projected fuel costs. The factor may be adjusted annually for over- or under- collections of fuel costs from the prior year. In February 2007, KU filed an application with the Virginia Commission seeking approval of an increase of approximately $4 million in its fuel cost factor to reflect higher fuel costs incurred and under collection during 2006, and anticipated higher fuel costs to be incurred in 2007. The Virginia Commission approved KU's request in April 2007.

ECR. Kentucky law permits KU to recover the costs of complying with the Clean Air Act, including a return of operating expenses, and a return of and on capital invested, through the ECR mechanism. The amount of the regulatory asset or liability is the amount that has been under- or over- recovered due to timing or adjustments to the mechanism once approved by the Kentucky Commission.

In September 2007, the Kentucky Commission initiated six-month and two-year reviews of KU's environmental surcharge. These proceedings are expected to be completed in the first quarter of 2008.

In April 2006, the Kentucky Commission initiated six-month and two-year reviews of KU's environmental surcharge. A final Order was received in January 2007, approving the charges and credits billed through the ECR during the review period as well as approving billing adjustments, a roll-in to base rates, revisions to the monthly surcharge filing and the rate of return on capital.

Other Regulatory Matters

Regional Reliability Council. KU has changed its regional reliability council membership from the Reliability First Corporation to the SERC Reliability Corporation, effective January 1, 2007. Regional reliability councils are industry consortiums that promote, coordinate and ensure the reliability of the bulk electric supply systems in North America.

Market-Based Rate Authority. KU has received permission to sell power at market-based rates at the interface of control areas in which they may be deemed to have market power, subject to a restriction that such power not be collusively re-sold back into such control areas. However, restrictions exist on sales by KU of power at market-based rates in the KU/LG&E and Big Rivers Electric Corporation control areas. In June 2007, the FERC issued Order No. 697 implementing certain reforms to market-based rate regulations, including restrictions similar to those previously in place for KU's power sales at control area interfaces. As a condition of receiving and retaining market-based rate authority, KU must comply with affiliate restrictions housed in FERC's Commissions regulation unless otherwise permitted by Commission rule or order.

Real-Time Pricing. In December 2006, the Kentucky Commission issued an administrative order indicating that the EPAct 2005 Section 1252, Smart Metering and Section 1254, Interconnection standards, should not be adopted. However, all five Kentucky Commission jurisdictional utilities are required to file real-time pricing pilot programs for their large commercial and industrial customers. KU has developed a real-time pricing pilot for large industrial and commercial customers and filed the details of the plan with the Kentucky Commission in April 2007.

Utility Re-regulation in Virginia. The Commonwealth of Virginia passed the Virginia Electric Utility Restructuring Act in 1999. This act gave Virginia customers the ability to choose their electric supplier. Rates are capped at current levels through December 2010. In April 2007, Virginia passed legislation terminating this competitive market and commencing re-regulation of utility rates in Virginia. The new act will end the cap on rates at the end of 2008, rather than through December 2010, and end customer choice for most consumers in the applicable regions of the state. Thereafter, a hybrid model of regulation is expected to apply in Virginia, whereby utility rates would be reviewed every two years and a utility's rate of return on equity shall not be set lower than the average of the rates of return for other regional utilities, with certain caps, floors or adjustments. The legislation is effective in July 2007, and also includes a 10% nonbinding goal for renewable power generation by 2022, as well as incentives for new generation, including renewables. Under the legislation KU retains an existing exemption from customer choice and other restructuring activities as applicable to KU's limited service territory in Virginia. However, KU will be subject to a rate proceeding in the first six months of 2009 based on calendar year 2008 financial data under the hybrid model of regulation. Beginning in 2011, KU will make biennial rate filings with the Virginia Commission.

Ghent FGD Inquiry. In October 2006, the Kentucky Commission commenced an inquiry into elements of KU's planned construction of one of its three new FGDs at the Ghent generating station. The proceeding requested, and KU provided, additional information regarding configuration details, expenditures and the proposed construction sequence applicable to future construction phases of the Ghent FGD project. In January 2007, the Kentucky Commission issued an Order completing its inquiry in the matter and confirming its approval of KU's construction plan. The Order also provided general guidance for jurisdictional utilities regarding applicable information and data requirements for future CCN applications and subsequent proceedings.

Note 3 - Financial Instruments

Interest Rate Swaps (hedging derivatives). KU has used over-the-counter interest rate swaps to hedge exposure to market fluctuations in certain of its debt instruments. Pursuant to Company policy, use of these financial instruments is intended to mitigate risk, earnings and cash flow volatility and is not speculative in nature. Management has designated all of the interest rate swaps as hedge instruments. Financial instruments designated as fair value hedges and the underlying hedged items are periodically marked to market with the resulting net gains and losses recorded directly into net income. Upon termination of any fair value hedge, the resulting gain or loss is recorded into net income. Financial instruments designated as cash flow hedges have resulting gains and losses recorded within stockholders' equity.

KU was party to an interest rate swap agreement with a notional amount of $53 million as of December 31, 2006. The interest rate swap was terminated in February 2007, when the underlying debt was defeased. Under this swap agreement, KU paid variable rates based on LIBOR averaging 7.44% and received fixed rates averaging 7.92% in 2007, prior to the termination of the swap. The swap agreement in effect at December 31, 2006, had been designated as a fair value hedge. The fair value designation was assigned because the underlying fixed rate debt had a firm future commitment. For the nine months ended September 30, 2006, the effect of marking these financial instruments and the underlying debt to market resulted in pre-tax gains of less than $1 million recorded in interest expense. There was no activity related to the swap in the third quarter of 2007, due to its termination in February 2007.

Interest rate swaps hedge interest rate risk on the underlying debt. Under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended, in addition to swaps being marked to market, the item being hedged must also be marked to market. Consequently for the year ended December 31, 2006, KU's debt reflects a mark-to-market adjustment of less than $1 million.

Energy Trading and Risk Management Activities (non-hedging derivatives). KU conducts energy trading and risk management activities to maximize the value of power sales from physical assets it owns. Energy trading activities are principally forward financial transactions to hedge price risk and are accounted for on a mark-to-market basis in accordance with SFAS No. 133, as amended.

The table below summarizes KU's energy trading and risk management activities for the nine months ended September 30:

(in millions)	2007	2006
Fair value of contracts at beginning of period, net asset	$ 1	$ 1
Fair value of contracts when entered into during the period	-	2
Contracts realized or otherwise settled during the period	-	(3)
Changes in fair values due to changes in assumptions	(1)	5
Fair value of contracts at end of period, net asset	$ -	$ 5

No changes to valuation techniques for energy trading and risk management activities occurred during 2007 or 2006. Changes in market pricing, interest rate and volatility assumptions were made during both years. All contracts outstanding at September 30, 2007 and 2006, had a maturity of less than one year and were valued using prices actively quoted for proposed or executed transactions or quoted by brokers.

Note 4 - Pension and Other Postretirement Benefit Plans

The following table provides the components of net periodic benefit cost for pension and other postretirement benefit plans:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	Pension Benefits		Other Postretirement Benefits		Pension Benefits		Other Postretirement Benefits	
	2007	2006	2007	2006	2007	2006	2007	2006
(in millions)								
Service cost	$ 2	$ 1	$ -	$ -	$ 5	$ 4	$ 1	$ 1
Interest cost	4	5	1	2	14	12	3	4
Expected return on plan assets	(5)	(5)	-	(1)	(17)	(14)	(1)	(1)
Amortization of prior service costs	-	-	-	1	1	1	-	1
Amortization of actuarial loss	-	1	-	-	1	3	-	-
Amortization of transitional obligation	-	-	-	-	-	-	1	1
Benefit cost	$ 1	$ 2	$ 1	$ 2	$ 4	$ 6	$ 4	$ 6

Net periodic benefit costs incurred by employees of KU are reflected in both utility plant on the balance sheet and in operating expense on the income statement. The above costs do not include allocations of net periodic benefit costs from affiliates whose employees provide services to KU.

The pension plans are funded in accordance with all applicable requirements of the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code. In January 2007, KU made a discretionary contribution to the pension plan in the amount of $13 million. After this payment, KU's pension plan assets are in excess of the December 31, 2006 accumulated benefit obligation. KU does not expect to make any further contributions to the pension plans in 2007. KU made contributions of approximately $4 million to other postretirement benefit plans for the nine months ended September 30, 2007. KU anticipates making further voluntary contributions in 2007 to fund the Voluntary Employee Beneficiary Association trusts to match the annual postretirement expense and funding the postretirement medical account under the pension plan up to the maximum amount allowed by law.

Note 5 - Income Taxes

A United States consolidated income tax return is filed by E.ON U.S.'s direct parent, EUSIC, for each tax period. Each subsidiary of the consolidated tax group, including KU, will calculate its separate income tax for the tax period. The resulting separate-return tax cost or benefit will be paid to or received from the parent company or its designee. KU also files income tax returns in various state jurisdictions. With few exceptions, KU is no longer subject to U.S. federal, state or non-U.S. income tax examinations by tax authorities for years before 2004. Statutes of limitations related to the 2004 and later returns are still open. Tax years 2005, 2006 and 2007 are under audit by the IRS with the 2007 return being examined under an IRS pilot program named "Compliance Assurance Process". This program accelerates the IRS's review to the actual calendar year applicable to the return and ends 90 days after the return is filed.

KU adopted the provisions of FIN 48 effective January 1, 2007. At the date of adopting FIN 48, KU had $2 million of unrecognized tax benefits, primarily related to federal income taxes. If recognized, the entire $2 million of unrecognized tax benefits would reduce the effective tax rate.

Included in other liabilities at September 30, 2007, is less than $1 million of tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Furthermore, possible amounts of uncertain tax positions for KU that may decrease within the next 12 months total $1 million. The estimated amount of the change in uncertain tax position is based on the expiration of statutes during 2007.

KU, upon adoption of FIN 48, adopted a new financial statement classification for interest and penalties. Prior to the adoption of FIN 48, KU recorded interest and penalties for income taxes on the income statement in income tax expense and in the taxes accrued balance sheet account, net of tax. Upon adoption of FIN 48, interest and penalties are recorded as operating expenses on the income statement and accrued expenses in the balance sheet, on a pre-tax basis. The interest accrued is based on federal and state large corporate underpayment interest rates.

The amount KU recognized as interest accrued related to unrecognized tax benefits in interest expense in operating expenses was less than $1 million at both September 30, 2007 and December 31, 2006. No penalties were accrued by KU upon adoption of FIN 48 or through September 30, 2007.

In June 2006, KU and LG&E filed a joint application with the DOE requesting certification to be eligible for investment tax credits applicable to the construction of TC2. In November 2006, the DOE and the IRS announced that KU and LG&E were selected to receive the tax credit. An additional IRS certification required to obtain the investment tax credit was received in August 2007. KU's portion of the tax credit will be approximately $101 million over the construction period of TC2 and will be amortized to income over the life of the related property. In the third quarter of 2007, based on eligible construction expenditures incurred in 2007, KU recorded $10 million of federal investment tax credit. The credit recorded decreased current federal income taxes by $10 million, during the three months ended September 30, 2007, and $30 million for the nine months ended September 30, 2007.

Note 6 – Short-Term and Long-Term Debt

All KU first mortgage bonds were released and terminated in February 2007. Only the tax-exempt pollution control revenue bonds issued by the counties remain. Under the provisions for certain of KU's variable-rate pollution control bonds, the bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events, causing the bonds to be classified as current portion of long-term debt in the balance sheets. The average annualized interest rate for these bonds during the nine months ended September 30, 2007 was 3.78%.

During June 2007, KU entered into a short-term bilateral line of credit facility totaling $35 million. There was no outstanding balance under this facility at September 30, 2007. During the third quarter of 2007, KU extended the maturity date of this facility through June 2012.

Pollution control series bonds are obligations of KU issued in connection with tax-exempt pollution control revenue bonds issued by various governmental entities, principally counties in Kentucky. A loan agreement obligates KU to make debt service payments to the county that equate to the debt service due from the county on the related pollution control revenue bonds. Until a series of financing transactions completed during February 2007, the county's debt had also been secured by an equal amount of KU's first mortgage bonds that were pledged to the trustee for the pollution control revenue bonds, and that matched the terms and conditions of the county's debt, but required no payment of principal and interest unless KU defaulted on the loan agreement. In February 2007, all of KU's first mortgage bonds were released. Proceeds from bond issuances for environmental equipment (primarily related to the installation of FGDs) are held in trust pending expenditure for qualifying assets. At September 30, 2007, KU had approximately $38 million of bond proceeds in trust, included in restricted cash in the balance sheet.

At December 31, 2006, KU had an interest rate swap used to hedge KU's underlying debt obligations. The swap hedged specific debt issuances and, consistent with management's designation, was accorded hedge accounting treatment. The swap effectively converted the fixed rate obligation on KU's first mortgage bond Series P to variable-rate. At December 31, 2006, the remaining swap had a notional value of $53 million. The swap was terminated in February 2007, when the underlying bond was defeased. See Note 3, Financial Instruments.

KU participates in an intercompany money pool agreement wherein E.ON U.S. and/or LG&E make funds available to KU at market-based rates (based on highly rated commercial paper issues) of up to $400 million. Details of the balances are as follows:

($ in millions)	Total Money Pool Available	Amount Outstanding	Balance Available	Average Interest Rate
September 30, 2007	$400	$105	$295	5.62%
December 31, 2006	$400	$ 97	$303	5.25%

E.ON U.S. maintains a revolving credit facility totaling $150 million and $200 million at September 30, 2007 and December 31, 2006, respectively, with an affiliated company, E.ON North America, Inc., to ensure funding availability for the money pool. The balance is as follows:

($ in millions)	Total Available	Amount Outstanding	Balance Available	Average Interest Rate
September 30, 2007	$150	$122	$28	5.45%
December 31, 2006	$200	$102	$98	5.49%

Redemptions of long-term debt year-to-date through September 30, 2007, are summarized below:

Year	Description	Principal Amount (in millions)	Rate	Secured/ Unsecured	Maturity
2007	Pollution control bonds	$54	Variable	Secured	2024
2007	First mortgage bonds	$53	7.92%	Secured	2007

Issuances of long-term debt year-to-date through September 30, 2007, are summarized below:

Year	Description	Principal Amount (in millions)	Rate	Secured/ Unsecured	Maturity
2007	Pollution control bonds	$ 54	Variable	Unsecured	2034
2007	Pollution control bonds	$ 18	Variable	Unsecured	2026
2007	Pollution control bonds	$ 9	Variable	Unsecured	2037
2007	Due to Fidelia	$ 53	5.69%	Unsecured	2022
2007	Due to Fidelia	$ 75	5.86%	Unsecured	2037
2007	Due to Fidelia	$ 50	5.98%	Unsecured	2017
2007	Due to Fidelia	$100	5.96%	Unsecured	2028

KU no longer has any secured debt and is no longer subject to periodic reporting under the Securities Exchange Act of 1934.

In October 2007, KU entered into a long-term borrowing arrangement with Fidelia in principal amount of $70 million.

Note 7 - Commitments and Contingencies

Except as may be discussed in this quarterly report (including Note 2), material changes have not occurred in the current status of various commitments or contingent liabilities from that discussed in KU's Annual Report for the year ended December 31, 2006 (including in Notes 2 and 9 to the financial statements of KU contained therein). See the above-referenced notes in KU's Annual Report regarding such commitments or contingencies.

Owensboro Contract Litigation. In May 2004, the City of Owensboro, Kentucky and OMU commenced a suit now removed to the U.S. District Court for the Western District of Kentucky, against KU concerning a long-term power supply contract (the "OMU Agreement") with KU. The dispute involves interpretational differences regarding issues under the OMU Agreement, including various payments or charges between KU and OMU and rights concerning excess power, termination and emissions allowances. The complaint seeks in excess of $6 million in damages in connection with one of its claims for periods prior to 2004, plus damages in an unspecified amount for later-occurring periods on that claim and for other claims. OMU has additionally requested injunctive and other relief, including a declaration that KU is in material breach of the contract. KU has filed an answer in that court denying the OMU claims and presenting counterclaims and amended such filing in January 2007, to include further counterclaims alleging additional damages. During 2005, the FERC declined KU's application to exercise exclusive jurisdiction on matters. In July 2005, the district court resolved a summary judgment motion made by KU in OMU's favor, ruling that a contractual provision grants OMU the ability to terminate the contract without cause upon four years' prior notice, for which ruling KU retains certain rights to appeal. A motion to reconsider that ruling is presently pending before the Court. The district court case otherwise remains in the discovery stage and currently a trial date of August 2008 has been scheduled. In May 2006, OMU issued a notification of its intent to terminate the OMU agreement contract in May 2010, without cause, absent any earlier relief which may be permitted by the proceeding.

Construction Program. KU had approximately $427 million of commitments in connection with its construction program at September 30, 2007.

In June 2006, KU and LG&E entered into a construction contract regarding the TC2 project. The contract is generally in the form of a lump-sum, turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may serve to increase or decrease the ultimate construction price paid or payable to the contractor. The contract also contains standard representations, covenants, indemnities, termination and other provisions for arrangements of this type, including termination for convenience or for cause rights.

TC2 Air Permit. In December 2005, the Sierra Club and other environmental groups filed a petition challenging the air permit issued for the TC2 baseload generating unit. The filing of the challenge did not stay the permit, so the Company was free to proceed with construction during the pendancy of the action. In June 2007, the state hearing officer assigned to the matter recommended upholding the air permit with minor revisions. In September 2007, the Secretary of the Kentucky Environmental and Public Protection Cabinet issued a final order approving the hearing officer's recommendation and upholding the permit. The Sierra Club did not seek judicial review of the final order. In addition, the Company applied for a permit revision to reflect minor design changes to TC2. In October 2007, the Sierra Club submitted comments to the Cabinet objecting to the draft permit revision and attempting to reassert its previous general objections to the generating unit. The Company is currently unable to predict the ultimate outcome of this matter.

Environmental Matters. KU's operations are subject to a number of environmental laws and regulations in each of the jurisdictions in which it operates, governing, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety.

Clean Air Act Requirements. The Clean Air Act establishes a comprehensive set of programs aimed at protecting and improving air quality in the United States by, among other things, controlling stationary sources of air emissions such as power plants. While the general regulatory framework for these programs is established at the federal level, most of the programs are implemented and administered by the states under the oversight of the EPA. The key Clean Air Act programs relevant to KU's business operations are described below.

Ambient Air Quality. The Clean Air Act requires the EPA to periodically review the available scientific data for six criteria pollutants and establish concentration levels in the ambient air sufficient to protect the public health and welfare with an extra margin for safety. These concentration levels are known as NAAQS. Each state must identify "nonattainment areas" within its boundaries that fail to comply with the NAAQS and develop an SIP to bring such nonattainment areas into compliance. If a state fails to develop an adequate plan, the EPA must develop and implement a plan. As the EPA increases the stringency of the NAAQS through its periodic reviews, the attainment status of various areas may change, thereby triggering additional emission reduction obligations under revised SIPs aimed to achieve attainment.

In 1997, the EPA established new NAAQS for ozone and fine particulates that required additional reductions in SO_2 and NOx emissions from power plants. In 1998, the EPA issued its final "NOx SIP Call" rule requiring reductions in NOx emissions of approximately 85 percent from 1990 levels in order to mitigate ozone transport from the midwestern U.S. to the northeastern U.S. To implement the new federal requirements, in 2002, Kentucky amended its SIP to require electric generating units to reduce their NOx emissions to 0.15 pounds weight per MMBtu on a company-wide basis. In 2005, the EPA issued the CAIR which requires additional SO_2 emission reductions of 70 percent and NOx emission reductions of 65 percent from 2003 levels. The CAIR provides for a two-phase cap and trade program, with initial reductions of NOx and SO_2 emissions due by 2009 and 2010, respectively, and final reductions due by 2015. The final rule is currently under challenge in a number of federal court proceedings. In 2006, Kentucky proposed to amend its SIP to adopt state requirements similar to those under the federal CAIR. Depending on the level of action determined necessary to bring local non-attainment areas into compliance with the new ozone and fine particulate standards, KU's power plants are potentially subject to additional reductions in SO_2 and NOx emissions. KU's weighted-average company-wide emission rate for SO_2 in the third quarter of 2007 was approximately 1.21 lbs./MMBtu of heat input, with every generating unit below its emission limit established by the Kentucky Division for Air Quality.

Hazardous Air Pollutants. As provided in the 1990 amendments to the Clean Air Act, the EPA investigated hazardous air pollutant emissions from electric utilities and submitted a report to Congress identifying mercury emissions from coal-fired power plants as warranting further study. In 2005, the EPA issued the CAMR establishing mercury standards for new power plants and requiring all states to issue new SIPs including mercury requirements for existing power plants. The EPA issued a model rule which provides for a two-phase cap and trade program with initial reductions due by 2010 and final reductions due by 2018. The CAMR provides for reductions of 70 percent from 2003 levels. The EPA closely integrated the CAMR and CAIR programs to ensure that the 2010 mercury reduction targets will be achieved as a "co-benefit" of the controls installed for purposes of compliance with the CAIR. The final rule is also currently under challenge in the federal courts. In 2006, Kentucky proposed to amend its SIP to adopt state requirements similar to those under the federal CAMR. In addition, in 2005 and 2006, state and local air agencies in Kentucky have proposed or adopted rules aimed at regulating additional hazardous air pollutants from sources including power plants. To the extent those rules are final, they are not expected to have a material impact on KU's power plant operations.

Acid Rain Program. The 1990 amendments to the Clean Air Act imposed a two-phased cap and trade program to reduce SO_2 emissions from power plants that were thought to contribute to "acid rain" conditions in the northeastern U.S. The 1990 amendments also contained requirements for power plants to reduce NOx emissions through the use of available combustion controls.

Regional Haze. The Clean Air Act also includes visibility goals for certain federally designated areas, including national parks, and requires states to submit SIPs that will demonstrate reasonable progress toward preventing future impairment and remedying any existing impairment of visibility in those areas.

In 2005, the EPA issued its CAVR detailing how the Clean Air Act's BART requirements will be applied to facilities, including power plants, built between 1962 and 1974 that emit certain levels of visibility impairing pollutants. Under the final rule, because the CAIR will result in more visibility improvement than BART, states are allowed to substitute CAIR requirements in their regional haze SIPs in lieu of controls that would otherwise be required by BART. The final rule has been challenged in the courts.

Installation of Pollution Controls Many of the programs under the Clean Air Act utilize cap and trade mechanisms that require a company to hold sufficient emissions allowances to cover its authorized emissions on a company-wide basis and do not require installation of pollution controls on every generating unit. Under cap and trade programs, companies are free to focus their pollution control efforts on plants where such controls are particularly efficient and utilize the resulting emission allowances for smaller plants where such controls are not cost effective. KU met its Phase I SO_2 requirements primarily through installation of FGD equipment on Ghent Unit 1. KU's combined strategy for its Phase II SO_2 requirements, which commenced in 2000, includes the installation of additional FGD equipment, as well as using accumulated emission allowances and fuel switching to defer certain additional capital expenditures. In order to achieve the NOx emission reductions mandated by the NOx SIP Call, KU installed additional NOx controls, including SCR technology, during the 2000 to 2006 time period, at a cost of $215 million. In 2001, the Kentucky Commission granted recovery in principle of these costs incurred by KU under its periodic environmental surcharge review mechanisms.

In order to achieve the emissions reductions mandated by the CAIR and CAMR, KU expects to incur additional capital expenditures totaling $880 million during the 2007 through 2009 time period for pollution controls including FGD and incur additional operating and maintenance costs in operating such controls. In 2005, the Kentucky Commission granted recovery in principle of these costs incurred by KU under its periodic environmental surcharge review mechanisms. KU believes its costs in reducing SO_2, NOx and mercury emissions to be comparable to those of similarly situated utilities with like generation assets. KU's compliance plans are subject to many factors including developments in the emission allowance and fuels markets, future legislative and regulatory enactments, legal proceedings and advances in clean air technology. KU will continue to monitor these developments to ensure that its environmental obligations are met in the most efficient and cost-effective manner.

Potential GHG Controls In 2005, the Kyoto Protocol for reducing GHG emissions took effect, obligating 37 industrialized countries to undertake substantial reductions in GHG emissions. The U.S. has not ratified the Kyoto Protocol and there are currently no mandatory GHG emission reduction requirements at the federal level. Legislation mandating GHG reductions has been introduced in the Congress, but no federal legislation has been enacted to date. In the absence of a program at the federal level, various states, including 11 northeastern U.S. states under the Regional GHG Initiative program and California, have adopted their own GHG emission reduction programs. Substantial efforts to pass federal GHG legislation are ongoing. A Supreme Court decision has clarified the authority of the EPA to regulate GHG emissions under certain circumstances, and other litigation currently pending before various courts may provide additional clarification of the authority of the EPA and the states. KU is monitoring ongoing efforts to enact GHG reduction requirements at the state and federal level and is assessing potential impacts of such programs and strategies to mitigate those impacts.

KU is unable to predict whether mandatory GHG reduction requirements will ultimately be enacted. As a company with significant coal-fired generating assets, KU could be substantially impacted by programs requiring mandatory reductions in GHG emissions, although the precise impact on the operations of KU, including the reduction targets and deadlines that would be applicable, cannot be determined prior to the enactment of such programs.

Brown New Source Review Litigation In April 2006, the EPA issued an NOV alleging that KU had violated certain provisions of the Clean Air Act's new source review rules relating to work performed in 1997, on a boiler and turbine at KU's E.W. Brown generating station. In December 2006, the EPA issued a second NOV alleging the Company had exceeded heat input values in violation of the air permit for the unit. During 2006, KU provided data responses to the EPA with respect to the allegations in the NOVs. In March 2007, the Department of Justice filed a complaint in federal court in Kentucky alleging the same violations specified in the prior NOVs. The complaint seeks civil penalties, including potential per-day fines, remedial measures and injunctive relief. In April 2007, KU filed an answer in the civil suit denying the allegations. In July 2007, a July 2009 date for trial on the merits was scheduled. The parties continue periodic settlement discussions. KU cannot determine the overall outcome or potential effects of these matters, including whether substantial fines, penalties or remedial construction may result.

Section 114 Requests In August 2007, the EPA issued administrative information requests under Section 114 of the Clean Air Act requesting new source review-related data regarding certain construction and maintenance activities at LG&E's Mill Creek 4 and Trimble County 1 generating units and KU's Ghent 2 generating unit. The Companies are complying with the information requests and are not able to predict further proceedings in this matter at this time.

Ghent Opacity NOV In September, 2007, the EPA issued an NOV alleging that KU had violated certain provisions of the Clean Air Act's operating rules relating to opacity during June and July 2007 at Units 1 and 3 of KU's Ghent generating station. KU is not able to estimate the outcome or potential effects of these matters, including whether substantial fines, penalties or remedial construction may result.

General Environmental Proceedings. From time to time, KU appears before the EPA, various state or local regulatory agencies and state and federal courts regarding matters involving compliance with applicable environmental laws and regulations. Such matters include liability under the Comprehensive Environmental Response, Compensation and Liability Act for cleanup at various off-site waste sites and ongoing claims regarding GHG emissions from KU's generating stations. Based on analysis to date, the resolution of these matters is not expected to have a material impact on the operations of KU.

Note 8 - Related Party Transactions

KU and other subsidiaries of E.ON engage in related party transactions. Transactions between KU and E.ON U.S. subsidiaries are eliminated upon consolidation of E.ON U.S. Transactions between KU and E.ON subsidiaries are eliminated upon consolidation of E.ON. These transactions are generally performed at cost and are in accordance with the FERC regulations under PUHCA 2005 and the applicable Kentucky Commission and Virginia Commission regulations. The significant related party transactions are disclosed below.

Electric Purchases

KU and LG&E purchase energy from each other in order to effectively manage the load of their retail customers and to satisfy off-system sales. These sales and purchases are included in the statements of income as operating revenues and purchased power operating expense. KU intercompany electric revenues and purchased power expense are as follows:

(in millions)	Three Months Ended September 30, 2007	2006	Nine Months Ended September 30, 2007	2006
Electric operating revenues from LG&E	$ 7	$17	$33	$52
Purchased power from LG&E	18	23	71	67

Interest Charges

See Note 6, Short-Term and Long-Term Debt, for details of intercompany borrowing arrangements. Intercompany agreements do not require interest payments for receivables related to services provided when settled within 30 days.

KU's intercompany interest expense is as follows:

(in millions)	Three Months Ended September 30, 2007	2006	Nine Months Ended September 30, 2007	2006
Interest on money pool loans	$2	$1	$ 5	$2
Interest on Fidelia loans	9	5	24	15

Other Intercompany Billings

E.ON U.S. Services provides KU with a variety of centralized administrative, management and support services. These charges include payroll and income taxes paid by E.ON U.S. on behalf of KU, labor and overhead charges of E.ON U.S. Services employees performing services for KU and vouchers paid by E.ON U.S. Services, including fuel purchases, on behalf of KU. The cost of these services are directly charged to KU, or for general costs which cannot be directly attributed, charged based on predetermined allocation factors, including the following ratios: number of customers, total assets, revenues, number of employees and other statistical information. These costs are charged on an actual cost basis.

In addition, KU and LG&E provide services to each other and to E.ON U.S. Services. Billings between KU and LG&E relate to labor and overheads associated with union employees performing work for the other utility, charges related to jointly-owned combustion turbines and other miscellaneous charges. Billings from KU to E.ON U.S. Services relate to cash received by E.ON U.S. Services on behalf of KU, primarily tax settlements.

Intercompany billings to and from KU are as follows:

(in millions)	Three Months Ended September 30, 2007	2006	Nine Months Ended September 30, 2007	2006
E.ON U.S. Services billings to KU	$42	$99	$389	$221
KU billings to LG&E	11	14	33	29
LG&E billings to KU	2	21	35	31
KU billings to E.ON U.S. Services	22	1	24	3

In September 2007, KU received a capital contribution from its common shareholder, E.ON U.S. in the amount of $55 million.

Note 9 - Subsequent Events

On October 25, 2007, KU entered into a long-term borrowing agreement with Fidelia with a principal amount of $70 million, interest rate of 5.71% and a maturity date of October, 25, 2019.

2007 - 2nd Quarter Financial Statements and Additional Information

Kentucky Utilities Company

Financial Statements
(Unaudited)

As of June 30, 2007 and 2006

INDEX OF ABBREVIATIONS

ARO	Asset Retirement Obligation
BART	Best Available Retrofit Technology
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
CAVR	Clean Air Visibility Rule
CCN	Certificate of Public Convenience and Necessity
Clean Air Act	The Clean Air Act, as amended in 1990
Company	KU
ECR	Environmental Cost Recovery
E.ON	E.ON AG
E.ON U.S.	E.ON U.S. LLC (formerly LG&E Energy LLC and LG&E Energy Corp.)
E.ON U.S. Services	E.ON U.S. Services Inc. (formerly LG&E Energy Services Inc.)
EPA	U.S. Environmental Protection Agency
EPAct 2005	Energy Policy Act of 2005
EUSIC	E.ON U.S. Investments Corp.
FAC	Fuel Adjustment Clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FGD	Flue Gas Desulfurization
Fidelia	Fidelia Corporation (an E.ON affiliate)
FIN	FASB Interpretation
GHG	Greenhouse Gas
IRS	Internal Revenue Service
Kentucky Commission	Kentucky Public Service Commission
KU	Kentucky Utilities Company
LG&E	Louisville Gas and Electric Company
LIBOR	London Interbank Offer Rate
MISO	Midwest Independent Transmission System Operator, Inc.
MMBtu	Million British Thermal Units
NAAQS	National Ambient Air Quality Standards
NOV	Notice of Violation
NOx	Nitrogen Oxide
PUHCA 2005	Public Utility Holding Company Act of 2005
SCR	Selective Catalytic Reduction
SFAS	Statement of Financial Accounting Standards
SIP	State Implementation Plan
SO_2	Sulfur Dioxide
TC2	Trimble County Unit 2
Virginia Commission	Virginia State Corporation Commission

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Financial Statements (Unaudited)

Kentucky Utilities Company
Statements of Income
(Unaudited)
(Millions of $)

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
OPERATING REVENUES:				
Total operating revenues	$ 301	$ 276	$ 618	$ 569
OPERATING EXPENSES:				
Fuel for electric generation	107	100	217	195
Power purchased	45	44	90	90
Other operation and maintenance expenses	63	63	121	133
Depreciation and amortization	29	29	58	57
Total operating expenses	244	236	486	475
OPERATING INCOME	57	40	132	94
Other expense (income) - net	(9)	(5)	(15)	(13)
Interest expense (Notes 3, 5 and 6)	3	4	7	7
Interest expense to affiliated companies (Note 8)	10	5	18	11
INCOME BEFORE INCOME TAXES	53	36	122	89
Federal and state income taxes	18	11	42	29
NET INCOME	$ 35	$ 25	$ 80	$ 60

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

Kentucky Utilities Company
Statements of Retained Earnings
(Unaudited)
(Millions of $)

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Balance at beginning of period	$ 915	$ 753	$ 870	$ 718
Net income	35	25	80	60
Balance at end of period	$ 950	$ 778	$ 950	$ 778

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

Kentucky Utilities Company
Balance Sheets
(Unaudited)
(Millions of $)

ASSETS	June 30, 2007	December 31, 2006
Current assets:		
Cash and cash equivalents	$ 6	$ 6
Restricted cash	46	23
Accounts receivable – less reserves of $2 million as of June 30, 2007 and December 31, 2006	133	123
Accounts receivable from affiliated companies (Note 8)	32	50
Income tax receivable	27	6
Materials and supplies:		
Fuel (predominantly coal)	67	64
Other materials and supplies	34	34
Prepayments and other current assets	2	7
Total current assets	347	313
Other property and investments	27	25
Utility plant:		
At original cost	4,488	4,168
Less: reserve for depreciation	1,581	1,553
Net utility plant	2,907	2,615
Deferred debits and other assets:		
Regulatory assets (Note 2):		
Pension and postretirement benefits	66	64
Other	97	83
Cash surrender value of key man life insurance	36	35
Other assets	10	8
Total deferred debits and other assets	209	190
Total assets	$ 3,490	$ 3,143

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

Kentucky Utilities Company
Balance Sheets (cont.)
(Unaudited)
(Millions of $)

LIABILITIES AND EQUITY

	June 30, 2007	December 31, 2006
Current liabilities:		
Current portion of long-term debt	$ 33	$ 141
Notes payable to affiliated companies (Note 6 and Note 8)	140	97
Accounts payable	125	83
Accounts payable to affiliated companies (Note 8)	105	87
Customer deposits	19	19
Other current liabilities	18	23
Total current liabilities	440	450
Long-term debt:		
Long-term debt (Note 6)	300	219
Long-term debt to affiliated company (Note 6)	661	483
Total long-term debt	961	702
Deferred credits and other liabilities:		
Accumulated deferred income taxes	281	284
Accumulated provision for pensions and related benefits	116	126
Investment tax credit	33	13
Asset retirement obligation	29	28
Regulatory liabilities (Note 2):		
Accumulated cost of removal of utility plant	301	297
Deferred income taxes - net and other	38	33
Other liabilities	18	17
Total deferred credits and other liabilities	816	798
Common equity:		
Common stock, without par value –		
Authorized 80,000,000 shares, outstanding 37,817,878 shares	308	308
Additional paid-in capital	15	15
Retained earnings	933	854
Undistributed subsidiary earnings	17	16
Total common equity	1,273	1,193
Total liabilities and equity	$ 3,490	$ 3,143

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

Kentucky Utilities Company
Statements of Cash Flows
(Unaudited)
(Millions of $)

	For the Six Months Ended June 30, 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 80	$ 60
Items not requiring cash currently:		
Depreciation and amortization	58	57
Investment tax credit - net	20	-
Other	(10)	11
Changes in current assets and liabilities:		
Accounts receivable	8	36
Materials and supplies	(3)	(20)
Other changes in current assets	(16)	(7)
Accounts payable	30	(1)
Accrued income taxes	(5)	(13)
Other current liabilities	-	7
Pension funding	(13)	-
Fuel adjustment clause receivable, net	(9)	(15)
Other	1	(4)
Net cash provided by operating activities	141	111
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction expenditures	(313)	(121)
Change in restricted cash	(23)	12
Net cash used for investing activities	(336)	(109)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Retirement of first mortgage bonds (Note 6)	(107)	(36)
Short-term borrowings from affiliated company (Note 6)	108	-
Long-term borrowings from affiliated company (Note 6)	178	50
Repayment of short-term borrowings from affiliated company (Note 6)	(65)	(18)
Issuance of pollution control bonds	81	-
Net cash used for financing activities	195	(4)
CHANGE IN CASH AND CASH EQUIVALENTS	-	(2)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	6	7
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 6	$ 5

The accompanying notes are an integral part of these financial statements

Note 1 - General

The unaudited financial statements include the accounts of the Company. KU's common stock is wholly-owned by E.ON U.S., an indirect wholly-owned subsidiary of E.ON. In the opinion of management, the unaudited interim financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of financial position, results of operations, retained earnings and cash flows for the periods indicated. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted, although the Company believes that the disclosures are adequate to make the information presented not misleading.

See KU's Annual Report for the year ended December 31, 2006, for information relevant to the accompanying financial statements, including information as to the Company's significant accounting policies.

Certain reclassification entries have been made to the previous years' financial statements to conform to the 2007 presentation with no impact on net assets, liabilities and capitalization or previously reported net income and cash flows.

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2006, the FASB issued FIN 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, Accounting for Income Taxes*. FIN 48 clarifies accounting for income taxes to provide improved consistency of criteria used to recognize, derecognize and measure benefits related to income taxes. KU adopted the provisions of FIN 48 effective January 1, 2007. See Note 5, Income Taxes.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115*. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis (the fair value option). Unrealized gains and losses on items for which the fair value option has been elected are to be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. KU will adopt SFAS No. 159 effective January 1, 2008, and expects no impact on its financial statements upon adoption.

Note 2 - Rates and Regulatory Matters

For a description of each line item of regulatory assets and liabilities, reference is made to KU's Annual Report, Note 2 of the financial statements, for the year ended December 31, 2006.

The following regulatory assets and liabilities were included in KU's Balance Sheets:

Kentucky Utilities Company
(unaudited)

(in millions)	June 30, 2007	December 31, 2006
ARO	$ 23	$ 22
Unamortized loss on bonds	10	10
MISO exit	20	20
ECR	10	10
FAC	25	16
Other	9	5
Subtotal	97	83
Pension and postretirement benefits	66	64
Total regulatory assets	$ 163	$ 147
Accumulated cost of removal of utility plant	$ 301	$ 297
Deferred income taxes – net	30	27
Other	8	6
Total regulatory liabilities	$ 339	$ 330

KU does not currently earn a rate of return on the FAC regulatory asset, which is a separate recovery mechanism with recovery within twelve months. No return is earned on the pension and postretirement benefits regulatory asset which represents the changes in funded status of the plans that the Company will seek recovery of in future proceedings with the Kentucky and Virginia Commissions. No return is currently earned on the ARO asset. This regulatory asset will be offset against the associated regulatory liability, ARO asset and ARO liability at the time the underlying asset is retired. The MISO exit amount represents the costs relating to the withdrawal from MISO membership. KU expects to seek recovery of this asset in future proceedings with the Kentucky and Virginia Commissions. KU currently earns a rate of return on the remaining regulatory assets.

ECR. Kentucky law permits KU to recover the costs of complying with the Clean Air Act, including a return of operating expenses, and a return of and on capital invested, through the ECR mechanism. The amount of the regulatory asset or liability is the amount that has been under- or over-recovered due to timing or adjustments to the mechanism once approved by the Kentucky Commission.

In April 2006, the Kentucky Commission initiated six-month and two-year reviews of KU's environmental surcharge. A final Order was received in January 2007, approving the charges and credits billed through the ECR during the review period as well as approving billing adjustments, a roll-in to base rates, revisions to the monthly surcharge filing and the rate of return on capital.

FAC. In December 2006, the Kentucky Commission initiated its periodic two-year review of KU's past operations of the fuel clause and transfer of fuel costs from the FAC to base rates. In March 2007, intervenors representing industrial customers challenged KU's recovery of $5.1 million in aggregate fuel costs KU incurred during a period prior to its exit from the MISO and requested the Kentucky Commission disallow this amount. A public hearing was held in May 2007. Final briefs were filed by the Company and the intervenors in June 2007. A Kentucky Commission decision is expected in the third quarter of 2007.

KU also employs an FAC mechanism for Virginia customers using an average fuel cost factor based primarily on projected fuel costs. The factor may be adjusted annually for over- or under- collections of fuel costs from the prior year. In February 2007, KU filed an application with the Virginia Commission seeking approval of an increase of approximately $4 million in its fuel cost factor to reflect higher fuel costs incurred and under collection during 2006, and anticipated higher fuel costs to be incurred in 2007. The Virginia Commission approved KU's request in April 2007.

Other Regulatory Matters

Regional Reliability Council. KU has changed its regional reliability council membership from the Reliability First Corporation to the SERC Reliability Corporation, effective January 1, 2007. Regional reliability councils are industry consortiums that promote, coordinate and ensure the reliability of the bulk electric supply systems in North America.

Market-Based Rate Authority. KU has received permission to sell power at market-based rates at the interface of control areas in which they may be deemed to have market power, subject to a restriction that such power not be collusively re-sold back into such control areas. However, restrictions exist on sales by KU of power at market-based rates in the KU/LG&E and Big Rivers Electric Corporation control areas. In June 2007, the FERC issued Order No. 697 implementing certain reforms to market-based rate regulations. KU continues to analyze the revised FERC regulations and their impacts, if any, on its market-based rate authority and/or wholesale power sales.

Real-Time Pricing. In December 2006, the Kentucky Commission issued an administrative order indicating that the EPAct 2005 Section 1252, Smart Metering and Section 1254, Interconnection standards, should not be adopted. However, all five Kentucky Commission jurisdictional utilities are required to file real-time pricing pilot programs for their large commercial and industrial customers. KU has developed a real-time pricing pilot for large industrial and commercial customers and filed the details of the plan with the Kentucky Commission in April 2007.

Utility Re-regulation in Virginia. The Commonwealth of Virginia passed the Virginia Electric Utility Restructuring Act in 1999. This act gave Virginia customers the ability to choose their electric supplier. Rates are capped at current levels through December 2010. In April 2007, Virginia passed legislation terminating this competitive market and commencing re-regulation of utility rates in Virginia. The new act will end the cap on rates at the end of 2008, rather than through December 2010, and end customer choice for most consumers in the applicable regions of the state. Thereafter, a hybrid model of regulation is expected to apply in Virginia, whereby utility rates would be reviewed every two years and a utility's rate of return on equity would be based upon the average of the rates of return for other regional utilities, with certain caps, floors or adjustments. The legislation is effective in July 2007, and also includes a 10% nonbinding goal for renewable power generation by 2022, as well as incentives for new generation, including renewables. KU believes the legislation substantially retains an existing exemption from restructuring activities as applicable to KU's limited service territory in Virginia. KU anticipates its operations, following certain filings during 2007 or 2008, which may be required or otherwise appropriate as a result of the new legislation, will remain largely under traditional utility rate regulation.

Ghent FGD Inquiry. In October 2006, the Kentucky Commission commenced an inquiry into elements of KU's planned construction of one of its three new FGDs at the Ghent generating station. The proceeding requested, and KU provided, additional information regarding configuration details, expenditures and the proposed construction sequence applicable to future construction phases of the Ghent FGD project. In January 2007, the Kentucky Commission issued an Order completing its inquiry in the matter and confirming its approval of KU's construction plan. The Order also provided general guidance for jurisdictional utilities regarding applicable information and data requirements for future CCN applications and subsequent proceedings.

Note 3 - Financial Instruments

Interest Rate Swaps (hedging derivatives). KU has used over-the-counter interest rate swaps to hedge exposure to market fluctuations in certain of its debt instruments. Pursuant to Company policy, use of these financial instruments is intended to mitigate risk, earnings and cash flow volatility and is not speculative in nature. Management has designated all of the interest rate swaps as hedge instruments. Financial instruments designated as fair value hedges and the underlying hedged items are periodically marked to market with the resulting net gains and losses recorded directly into net income. Upon termination of any fair value hedge, the resulting gain or loss is recorded into net income. Financial instruments designated as cash flow hedges have resulting gains and losses recorded within other comprehensive income and stockholders' equity.

KU was party to an interest rate swap agreement with a notional amount of $53 million as of December 31, 2006. The interest rate swap was terminated in February 2007, when the underlying debt was defeased. Under this swap agreement, KU paid variable rates based on LIBOR averaging 7.44% and received fixed rates averaging 7.92% in 2007, prior to the termination of the swap. The swap agreement in effect at December 31, 2006, had been designated as a fair value hedge. The fair value designation was assigned because the underlying fixed rate debt had a firm future commitment. For the six months ended June 30, 2006, the effect of marking these financial instruments and the underlying debt to market resulted in pre-tax gains of less than $1 million recorded in interest expense. There was no activity related to the swap in the second quarter of 2007, due to its termination in February 2007.

Interest rate swaps hedge interest rate risk on the underlying debt under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, in addition to swaps being marked to market, the item being hedged must also be marked to market, consequently for the year ended December 31, 2006, KU's debt reflects a mark-to-market adjustment of less than $1 million, this swap was terminated in February 2007.

Energy Trading and Risk Management Activities (non-hedging derivatives). KU conducts energy trading and risk management activities to maximize the value of power sales from physical assets it owns. Energy trading activities are principally forward financial transactions to hedge price risk and are accounted for on a mark-to-market basis in accordance with SFAS No. 133, as amended. Prior to the MISO establishing its Day 2 energy market in April 2005, wholesale forward transactions were primarily physically settled and thus were treated as normal sales under SFAS No. 133, as amended, and were not marked to market.

The table below summarizes KU's energy trading and risk management activities for the six months ended

June 30:

(in millions)	2007	2006
Fair value of contracts at beginning of period, net asset	$ 1	$ 1
Fair value of contracts when entered into during the period	1	1
Contracts realized or otherwise settled during the period	-	(3)
Changes in fair values due to changes in assumptions	(2)	3
Fair value of contracts at end of period, net asset	$ -	$ 2

No changes to valuation techniques for energy trading and risk management activities occurred during 2007 or 2006. Changes in market pricing, interest rate and volatility assumptions were made during both years. All contracts outstanding at June 30, 2007 and 2006, had a maturity of less than one year and were valued using prices actively quoted for proposed or executed transactions or quoted by brokers.

Note 4 - Pension and Other Postretirement Benefit Plans

The following table provides the components of net periodic benefit cost for pension and other postretirement benefit plans:

	Three Months Ended June 30,				Six Months Ended June 30,			
	Pension Benefits		Other Postretirement Benefits		Pension Benefits		Other Postretirement Benefits	
	2007	2006	2007	2006	2007	2006	2007	2006
(in millions)								
Service cost	$ 1	$ 2	$ -	$ -	$ 3	$ 3	$ 1	$ 1
Interest cost	4	4	1	1	10	7	2	2
Expected return on plan assets	(5)	(5)	(1)	-	(12)	(9)	(1)	-
Amortization of prior service costs	1	1	-	-	1	1	-	-
Amortization of actuarial loss	-	1	-	-	1	2	-	-
Amortization of transitional obligation	-	-	1	1	-	-	1	1
Benefit cost	$ 1	$ 3	$ 1	$ 2	$ 3	$ 4	$ 3	$ 4

Net periodic benefit costs incurred by employees of KU are reflected in both utility plant on the balance sheet and in operating expense on the income statement. The above costs do not include allocations of net periodic benefit costs from affiliates whose employees provide services to KU.

The pension plans are funded in accordance with all applicable requirements of the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code. In January 2007, KU made a discretionary contribution to the pension plan in the amount of $13 million. After this payment, KU's pension plan assets are in excess of the December 31, 2006 accumulated benefit obligation. KU does not expect to make any further contributions to the pension plans in 2007. KU made contributions of approximately $1 million to other postretirement benefit plans during each of the first and second quarters of 2007. KU anticipates making further voluntary contributions in 2007 to fund the Voluntary Employee Beneficiary Association trusts to match the annual postretirement expense and funding the postretirement medical account under the pension plan up to the maximum amount allowed by law.

Note 5 - Income Taxes

A United States consolidated income tax return is filed by E.ON U.S.'s direct parent, EUSIC, for each tax period. Each subsidiary of the consolidated tax group, including KU, will calculate its separate income tax for the tax period. The resulting separate-return tax cost or benefit will be paid to or received from the parent company or its designee. KU also files income tax returns in various state jurisdictions. With few exceptions, KU is no longer subject to U.S. federal, state or non-U.S. income tax examinations by tax authorities for years before 2003. Statutes of limitations related to the 2003 and later returns are still open. The 2003 year has been reviewed by the IRS with no proposed changes. Tax years 2005 and 2006 are included with the federal audit of tax year 2007. The 2007 return is being examined under an IRS pilot program named "Compliance Assurance Process". This program accelerates the IRS's review to the actual calendar year applicable to the return and ends 90 days after the return is filed.

KU adopted the provisions of FIN 48 effective January 1, 2007. At the date of adopting FIN 48, KU had $2 million of unrecognized tax benefits, primarily related to federal income taxes. If recognized, the entire $2 million of unrecognized tax benefits would affect the effective tax rate.

Included in other liabilities at June 30, 2007, is less than $1 million of tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Furthermore, possible amounts of uncertain tax positions for KU that may decrease within the next 12 months total $1 million. The estimated amount of the change in uncertain tax position is based on the expiration of statutes during 2007.

KU, upon adoption of FIN 48, adopted a new financial statement classification for interest and penalties. Prior to the adoption of FIN 48, KU recorded interest and penalties for income taxes on the income statement in income tax expense and in the taxes accrued balance sheet account, net of tax. Upon adoption of FIN 48, interest and penalties are recorded as operating expenses on the income statement and accrued expenses in the balance sheet, on a pre-tax basis. The interest accrued is based on federal and state large corporate underpayment interest rates.

The amount KU recognized as interest accrued related to unrecognized tax benefits in interest expense in operating expenses was less than $1 million at June 30, 2007 and December 31, 2006. At the date of adoption, KU accrued less than $1 million in interest expense on uncertain tax positions. No penalties were accrued by KU upon adoption of FIN 48 or through June 30, 2007.

In June 2006, KU and LG&E filed a joint application with the Department of Energy ("DOE") requesting certification to be eligible for investment tax credits applicable to the construction of TC2. In November 2006, the DOE and the IRS announced that KU and LG&E were selected to receive the tax credit. KU's portion of the tax credit will be approximately $101 million over the construction period of TC2. This tax credit will be amortized to income over the life of the related property. In the second quarter of 2007, based on eligible construction expenditures incurred in 2007, KU recorded a federal investment tax credit. The credit decreased current federal income taxes by $10 million, during the three months ended June 30, 2007, and $20 million for the six months ended June 30, 2007.

Note 6 – Short-Term and Long-Term Debt

All KU first mortgage bonds were released and terminated in February 2007. Only the tax-exempt pollution control revenue bonds issued by the counties remain. Under the provisions for certain of KU's variable-rate pollution control bonds, the bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events, causing the bonds to be classified as current portion of long-term debt in the balance sheets. The average annualized interest rate for these bonds during the six months ended June 30, 2007 was 3.74%.

During June 2007, KU entered into a short-term bilateral line of credit facility totaling $35 million. There was no outstanding balance under this facility at June 30, 2007. KU expects to extend this short-term facility for an additional four year term, pending regulatory approval, prior to its expiration in June 2008.

Prior to February 2007, pollution control series bonds were obligations of KU issued in connection with tax-exempt pollution control revenue bonds issued by various governmental entities, principally counties in Kentucky. A loan agreement obligates KU to make debt service payments to the county that equate to the debt service due from the county on the related pollution control revenue bonds. Until a series of financing transactions completed during February 2007, the county's debt had also been secured by an equal amount of KU's first mortgage bonds that were pledged to the trustee for the pollution control revenue bonds, and that matched the terms and conditions of the county's debt, but required no payment of principal and interest unless KU defaulted on the loan agreement. In February 2007, all of KU's first mortgage bonds were released.

At December 31, 2006, KU had an interest rate swap used to hedge KU's underlying debt obligations. The swap hedged specific debt issuances and, consistent with management's designation, was accorded hedge accounting treatment. The swap effectively converted the fixed rate obligation on KU's first mortgage bond Series P to variable-rate. At December 31, 2006, the remaining swap had a notional value of $53 million. The swap was terminated in February 2007, when the underlying bond was defeased. See Note 3, Financial Instruments.

KU participates in an intercompany money pool agreement wherein E.ON U.S. and/or LG&E make funds available to KU at market-based rates (based on highly rated commercial paper issues) of up to $400 million. Details of the balances are as follows:

($ in millions)	Total Money Pool Available	Amount Outstanding	Balance Available	Average Interest Rate
June 30, 2007	$400	$140	$260	5.26%
December 31, 2006	$400	$ 97	$303	5.25%

E.ON U.S. maintained a revolving credit facility totaling $150 million and $200 million at June 30, 2007 and December 31, 2006, respectively, with an affiliated company, E.ON North America, Inc., to ensure funding availability for the money pool. The balance is as follows:

($ in millions)	Total Available	Amount Outstanding	Balance Available	Average Interest Rate
June 30, 2007	$150	$ 69	$81	5.65%
December 31, 2006	$200	$102	$98	5.49%

Redemptions of long-term debt year-to-date through June 30, 2007, are summarized below:

Year	Description	Principal Amount (in millions)	Rate	Secured/ Unsecured	Maturity
2007	Pollution control bonds	$54	Variable	Secured	2024
2007	First mortgage bonds	$53	7.92%	Secured	2007

Issuances of long-term debt year-to-date through June 30, 2007, are summarized below:

Year	Description	Principal Amount (in millions)	Rate	Secured/ Unsecured	Maturity
2007	Pollution control bonds	$54	Variable	Unsecured	2034
2007	Pollution control bonds	$18	Variable	Unsecured	2026
2007	Pollution control bonds	$ 9	Variable	Unsecured	2037
2007	Due to Fidelia	$53	5.69%	Unsecured	2022
2007	Due to Fidelia	$75	5.86%	Unsecured	2037
2007	Due to Fidelia	$50	5.98%	Unsecured	2017

KU no longer has any secured debt and is no longer subject to periodic reporting under the Securities Exchange Act of 1934.

Note 7 - Commitments and Contingencies

Except as may be discussed in this quarterly report (including Note 2), material changes have not occurred in the current status of various commitments or contingent liabilities from that discussed in KU's Annual Report for the year ended December 31, 2006 (including in Notes 2 and 9 to the financial statements of KU contained therein). See the above-referenced notes in KU's Annual Report regarding such commitments or contingencies.

Owensboro Contract Litigation. In May 2004, the City of Owensboro, Kentucky and Owensboro Municipal Utilities ("OMU") commenced a suit now removed to the U.S. District Court for the Western District of Kentucky, against KU concerning a long-term power supply contract (the "OMU Agreement") with KU. The dispute involves interpretational differences regarding issues under the OMU Agreement, including various payments or charges between KU and OMU and rights concerning excess power, termination and emissions allowances. The complaint seeks in excess of $6 million in damages in connection with one of its claims for periods prior to 2004, plus damages in an unspecified amount for later-occurring periods on that claim and for other claims. OMU has additionally requested injunctive and other relief, including a declaration that KU is in material breach of the contract. KU has filed an answer in that court denying the OMU claims and presenting counterclaims and amended such filing in January 2007, to include further counterclaims alleging additional damages. During 2005, the FERC declined KU's application to exercise exclusive jurisdiction on matters. In July 2005, the district court resolved a summary judgment motion made by KU in OMU's favor, ruling that a contractual provision grants OMU the ability to terminate the contract without cause upon four years' prior notice, for which ruling KU retains certain rights to appeal. At this time, the district court case is in the discovery stage and currently a trial date of January 2008 has been scheduled. In May 2006, OMU issued a notification of its intent to terminate the OMU agreement contract in May 2010, without cause, absent any earlier relief which may be permitted by the proceeding.

Construction Program. KU had approximately $1.0 billion of commitments in connection with its construction program at June 30, 2007.

In June 2006, KU and LG&E entered into a construction contract regarding the TC2 project. The contract is generally in the form of a lump-sum, turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may serve to increase or decrease the ultimate construction price paid or payable to the contractor. The contract also contains standard representations, covenants, indemnities, termination and other provisions for arrangements of this type, including termination for convenience or for cause rights.

TC2 Air Permit. In December 2005, the Sierra Club and other environmental groups filed a petition challenging the air permit issued for the TC2 baseload generating unit. The filing of the appeal did not stay the permit, so the Company was free to proceed with construction during the pendancy of the action. In June 2007, the state hearing officer assigned to the matter recommended upholding the air permit with minor revisions. After considering the hearing officer's recommendation and exceptions filed by the parties, the Secretary of the Kentucky Environmental and Public Protection Cabinet is expected to issue a final order with respect to the permit during the fourth quarter of 2007.

Environmental Matters. KU's operations are subject to a number of environmental laws and regulations in each of the jurisdictions in which it operates, governing, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety.

Clean Air Act Requirements. The Clean Air Act establishes a comprehensive set of programs aimed at protecting and improving air quality in the United States by, among other things, controlling stationary sources of air emissions such as power plants. While the general regulatory framework for these programs is established at the federal level, most of the programs are implemented and administered by the states under the oversight of the EPA. The key Clean Air Act programs relevant to KU's business operations are described below.

Ambient Air Quality. The Clean Air Act requires the EPA to periodically review the available scientific data for six criteria pollutants and establish concentration levels in the ambient air sufficient to protect the public health and welfare with an extra margin for safety. These concentration levels are known as NAAQS. Each state must identify "nonattainment areas" within its boundaries that fail to comply with the NAAQS and develop an SIP to bring such nonattainment areas into compliance. If a state fails to develop an adequate plan, the EPA must develop and implement a plan. As the EPA increases the stringency of the NAAQS through its periodic reviews, the attainment status of various areas may change, thereby triggering additional emission reduction obligations under revised SIPs aimed to achieve attainment.

In 1997, the EPA established new NAAQS for ozone and fine particulates that required additional reductions in SO_2 and NOx emissions from power plants. In 1998, the EPA issued its final "NOx SIP Call" rule requiring reductions in NOx emissions of approximately 85 percent from 1990 levels in order to mitigate ozone transport from the midwestern U.S. to the northeastern U.S. To implement the new federal requirements, in 2002, Kentucky amended its SIP to require electric generating units to reduce their NOx emissions to 0.15 pounds weight per MMBtu on a company-wide basis. In 2005, the EPA issued the CAIR which requires additional SO_2 emission reductions of 70 percent and NOx emission reductions of 65 percent from 2003 levels. The CAIR provides for a two-phase cap and trade program, with initial reductions of NOx and SO_2 emissions due by 2009 and 2010, respectively, and final reductions due by 2015. The final rule is currently under challenge in a number of federal court proceedings. In 2006, Kentucky proposed to amend its SIP to adopt state requirements similar to those under the federal CAIR. Depending on the level of action determined necessary to bring local non-attainment areas into compliance with the new ozone and fine particulate standards, KU's power plants are potentially subject to additional reductions in SO_2 and NOx emissions. KU's weighted-average company-wide emission rate for SO_2 in the second quarter of 2007 was approximately 1.29 lbs./MMBtu of heat input, with every generating unit below its emission limit established by the Kentucky Division for Air Quality.

Hazardous Air Pollutants. As provided in the 1990 amendments to the Clean Air Act, the EPA investigated hazardous air pollutant emissions from electric utilities and submitted a report to Congress identifying mercury emissions from coal-fired power plants as warranting further study. In 2005, the EPA issued the CAMR establishing mercury standards for new power plants and requiring all states to issue new SIPs including mercury requirements for existing power plants. The EPA issued a model rule which provides for a two-phase cap and trade program with initial reductions due by 2010 and final reductions due by 2018. The CAMR provides for reductions of 70 percent from 2003 levels. The EPA closely integrated the CAMR and CAIR programs to ensure that the 2010 mercury reduction targets will be achieved as a "co-benefit" of the controls installed for purposes of compliance with the CAIR. The final rule is also currently under challenge in the federal courts. In 2006, Kentucky proposed to amend its SIP to adopt state requirements similar to those under the federal CAMR. In addition, in 2005 and 2006, state and local air agencies in Kentucky have proposed or adopted rules aimed at regulating additional hazardous air pollutants from sources including power plants. To the extent those rules are final, they are not expected to have a material impact on KU's power plant operations.

Acid Rain Program The 1990 amendments to the Clean Air Act imposed a two-phased cap and trade program to reduce SO_2 emissions from power plants that were thought to contribute to "acid rain" conditions in the northeastern U.S. The 1990 amendments also contained requirements for power plants to reduce NOx emissions through the use of available combustion controls.

Regional Haze. The Clean Air Act also includes visibility goals for certain federally designated areas, including national parks, and requires states to submit SIPs that will demonstrate reasonable progress toward preventing future impairment and remedying any existing impairment of visibility in those areas. In 2005, the EPA issued its CAVR detailing how the Clean Air Act's BART requirements will be applied to facilities, including power plants, built between 1962 and 1974 that emit certain levels of visibility impairing pollutants. Under the final rule, because the CAIR will result in more visibility improvement than BART, states are allowed to substitute CAIR requirements in their regional haze SIPs in lieu of controls that would otherwise be required by BART. The final rule has been challenged in the courts.

Installation of Pollution Controls. Many of the programs under the Clean Air Act utilize cap and trade mechanisms that require a company to hold sufficient emissions allowances to cover its authorized emissions on a company-wide basis and do not require installation of pollution controls on every generating unit. Under cap and trade programs, companies are free to focus their pollution control efforts on plants where such controls are particularly efficient and utilize the resulting emission allowances for smaller plants where such controls are not cost effective. KU met its Phase I SO_2 requirements primarily through installation of FGD equipment on Ghent Unit 1. KU's combined strategy for its Phase II SO_2 requirements, which commenced in 2000, includes the installation of additional FGD equipment, as well as using accumulated emission allowances and fuel switching to defer certain additional capital expenditures. In order to achieve the NOx emission reductions mandated by the NOx SIP Call, KU installed additional NOx controls, including SCR technology, during the 2000 to 2006 time period, at a cost of $215 million. In 2001, the Kentucky Commission granted recovery in principle of these costs incurred by KU under its periodic environmental surcharge review mechanisms.

In order to achieve the emissions reductions mandated by the CAIR and CAMR, KU expects to incur additional capital expenditures totaling $1.0 billion during the 2007 through 2009 time period for pollution controls including FGD and SCR and incur additional operating and maintenance costs in operating such controls. In 2005, the Kentucky Commission granted recovery in principle of these costs incurred by KU under its periodic environmental surcharge review mechanisms. KU believes its costs in reducing SO_2, NOx and mercury emissions to be comparable to those of similarly situated utilities with like generation assets. KU's compliance plans are subject to many factors including developments in the emission allowance and fuels markets, future legislative and regulatory enactments, legal proceedings and advances in clean air technology. KU will continue to monitor these developments to ensure that its environmental obligations are met in the most efficient and cost-effective manner.

Potential GHG Controls. In 2005, the Kyoto Protocol for reducing GHG emissions took effect, obligating 37 industrialized countries to undertake substantial reductions in GHG emissions. The U.S. has not ratified the Kyoto Protocol and there are currently no mandatory GHG emission reduction requirements at the federal level. Legislation mandating GHG reductions has been introduced in the Congress, but no federal legislation has been enacted to date. In the absence of a program at the federal level, various states, including 11 northeastern U.S. states under the Regional GHG Initiative program and California, have adopted their own GHG emission reduction programs. Substantial efforts to pass federal GHG legislation are ongoing. A Supreme Court decision has clarified the authority of the EPA to regulate GHG emissions under certain circumstances, and other litigation currently pending before various courts may provide additional clarification of the authority of the EPA and the states. KU is monitoring ongoing efforts to enact GHG reduction requirements at the state and federal level and is assessing potential impacts of such programs and strategies to mitigate those impacts.

KU is unable to predict whether mandatory GHG reduction requirements will ultimately be enacted. As a company with significant coal-fired generating assets, KU could be substantially impacted by programs requiring mandatory reductions in GHG emissions, although the precise impact on the operations of KU, including the reduction targets and deadlines that would be applicable, cannot be determined prior to the enactment of such programs.

Brown New Source Review Litigation. In April 2006, the EPA issued an NOV alleging that KU had violated certain provisions of the Clean Air Act's new source review rules relating to work performed in 1997, on a boiler and turbine at KU's E.W. Brown generating station. In December 2006, the EPA issued a second NOV alleging the Company had exceeded heat input values in violation of the air permit for the unit. During 2006, KU provided data responses to the EPA with respect to the allegations in the NOVs. In March 2007, the Department of Justice filed a complaint in federal court in Kentucky alleging the same violations specified in the prior NOVs. The complaint seeks civil penalties, including potential per-day fines, remedial measures and injunctive relief. In April 2007, KU filed an answer in the civil suit denying the allegations. The parties continue periodic settlement discussions. KU is not able to estimate the outcome or potential effects of these matters, including whether substantial fines, penalties or remedial construction may result.

General Environmental Proceedings. From time to time, KU appears before the EPA, various state or local regulatory agencies and state and federal courts regarding matters involving compliance with applicable environmental laws and regulations. Such matters include liability under the Comprehensive Environmental Response, Compensation and Liability Act for cleanup at various off-site waste sites and ongoing claims regarding GHG emissions from KU's generating stations. Based on analysis to date, the resolution of these matters is not expected to have a material impact on the operations of KU.

Note 8 - Related Party Transactions

KU and other subsidiaries of E.ON engage in related party transactions. Transactions between KU and E.ON U.S. subsidiaries are eliminated upon consolidation of E.ON U.S. Transactions between KU and E.ON subsidiaries are eliminated upon consolidation of E.ON. These transactions are generally performed at cost and are in accordance with the FERC regulations under PUHCA 2005 and the applicable Kentucky Commission and Virginia Commission regulations. The significant related party transactions are disclosed below.

Electric Purchases

KU and LG&E purchase energy from each other in order to effectively manage the load of their retail customers and to satisfy off-system sales. These sales and purchases are included in the statements of income as operating revenues and purchased power operating expense. KU intercompany electric revenues and purchased power expense are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2007	2006	2007	2006
Electric operating revenues from LG&E	$ 8	$17	$26	$36
Purchased power from LG&E	23	22	53	44

Interest Charges

See Note 6, Short-Term and Long-Term Debt, for details of intercompany borrowing arrangements. Intercompany agreements do not require interest payments for receivables related to services provided when settled within 30 days.

KU's intercompany interest expense is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2007	2006	2007	2006
Interest on money pool loans	$2	$1	$ 3	$2
Interest on Fidelia loans	8	4	15	9

Other Intercompany Billings

E.ON U.S. Services provides KU with a variety of centralized administrative, management and support services. These charges include payroll taxes paid by E.ON U.S. on behalf of KU, labor and burdens of E.ON U.S. Services employees performing services for KU and vouchers paid by E.ON U.S. Services on behalf of KU. The cost of these services are directly charged to KU, or for general costs which cannot be directly attributed, charged based on predetermined allocation factors, including the following ratios: number of customers, total assets, revenues, number of employees and other statistical information. These costs are charged on an actual cost basis.

In addition, KU and LG&E provide services to each other and to E.ON U.S. Services. Billings between KU and LG&E relate to labor and overheads associated with union employees performing work for the other utility, charges related to jointly-owned combustion turbines and other miscellaneous charges. Billings from KU to E.ON U.S. Services relate to information technology-related services provided by KU employees, cash received by E.ON U.S. Services on behalf of KU and services provided by KU to other non-regulated businesses which are paid through E.ON U.S. Services.

Intercompany billings to and from KU are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2007	2006	2007	2006
E.ON U.S. Services billings to KU	$210	$78	$380	$120
KU billings to LG&E	8	3	22	15
LG&E billings to KU	23	6	33	10
KU billings to E.ON U.S. Services	33	2	35	3

2007 – 1st Quarter Financial Statements and Additional Information

Kentucky Utilities Company

Financial Statements and Additional Information
(Unaudited)

As of March 31, 2007 and 2006

INDEX OF ABBREVIATIONS

ARO	Asset Retirement Obligation
BART	Best Available Retrofit Technology
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
CAVR	Clean Air Visibility Rule
CCN	Certificate of Public Convenience and Necessity
Clean Air Act	The Clean Air Act, as amended in 1990
Company	KU
DSM	Demand Side Management
ECR	Environmental Cost Recovery
EEI	Electric Energy, Inc.
E.ON	E.ON AG
E.ON U.S.	E.ON U.S. LLC. (formerly LG&E Energy LLC and LG&E Energy Corp.)
E.ON U.S. Services	E.ON U.S. Services Inc. (formerly LG&E Energy Services Inc.)
EPA	U.S. Environmental Protection Agency
EPAct 2005	Energy Policy Act of 2005
EUSIC	E.ON U.S. Investments Corp.
FAC	Fuel Adjustment Clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FGD	Flue Gas Desulfurization
Fidelia	Fidelia Corporation (an E.ON affiliate)
FIN	FASB Interpretation
GHG	Greenhouse Gas
IRS	Internal Revenue Service
Kentucky Commission	Kentucky Public Service Commission
KU	Kentucky Utilities Company
kwh	Kilowatt Hours
LG&E	Louisville Gas and Electric Company
LIBOR	London Interbank Offer Rate
MISO	Midwest Independent Transmission System Operator, Inc.
MMBtu	Million British Thermal Units
Moody's	Moody's Investor Services, Inc.
NAAQS	National Ambient Air Quality Standards
NOV	Notice of Violation
NOx	Nitrogen Oxide
OMU	Owensboro Municipal Utilities
PUHCA 2005	Public Utility Holding Company Act of 2005
S&P	Standard & Poor's Rating Service
SCR	Selective Catalytic Reduction
SFAS	Statement of Financial Accounting Standards
SIP	State Implementation Plan
SO_2	Sulfur Dioxide
TC2	Trimble County Unit 2
Virginia Commission	Virginia State Corporation Commission

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Financial Statements (Unaudited)

Kentucky Utilities Company
Statements of Income
(Unaudited)
(Millions of $)

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
OPERATING REVENUES:		
Total operating revenues	$ 316	$ 293
OPERATING EXPENSES:		
Fuel for electric generation	109	95
Power purchased	45	46
Other operation and maintenance expenses	59	70
Depreciation and amortization	28	28
Total operating expenses	241	239
OPERATING INCOME	75	54
Other expense (income) - net	(6)	(8)
Interest expense (Notes 3 and 6)	5	3
Interest expense to affiliated companies (Note 8)	7	6
INCOME BEFORE INCOME TAXES	69	53
Federal and state income taxes	24	18
NET INCOME	$ 45	$ 35

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

Statements of Retained Earnings
(Unaudited)
(Millions of $)

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Balance at beginning of period	$ 870	$ 718
Net income	45	35
Balance at end of period	$ 915	$ 753

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

Kentucky Utilities Company
Balance Sheets
(Unaudited)
(Millions of $)

ASSETS	March, 31, 2007	December 31, 2006
Current assets:		
Cash and cash equivalents	$ 6	$ 6
Restricted cash	21	23
Accounts receivable – less reserves of $2 million as of March 31, 2007 and December 31, 2006	123	123
Accounts receivable from affiliated companies (Note 8)	17	50
Materials and supplies:		
Fuel (predominantly coal)	55	64
Other materials and supplies	33	34
Prepayments and other current assets	6	13
Total current assets	261	313
Other property and investments	29	25
Utility plant:		
At original cost	4,328	4,168
Less: reserve for depreciation	1,570	1,553
Net utility plant	2,758	2,615
Deferred debits and other assets:		
Regulatory assets (Note 2):		
Pension and postretirement benefits	66	64
Other	86	83
Cash surrender value of key man life insurance	35	35
Other assets	11	8
Total deferred debits and other assets	198	190
Total assets	$ 3,246	$ 3,143

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

Kentucky Utilities Company
Balance Sheets (cont.)
(Unaudited)
(Millions of $)

LIABILITIES AND EQUITY	March, 31, 2007	December 31, 2006
Current liabilities:		
Current portion of long-term debt	$ 33	$ 141
Notes payable to affiliated companies (Note 6 and Note 8)	32	97
Accounts payable	118	83
Accounts payable to affiliated companies (Note 8)	91	87
Customer deposits	19	19
Other current liabilities	29	23
Total current liabilities	322	450
Long-term debt:		
Long-term debt (Note 6)	273	219
Long-term debt to affiliated company (Note 6)	611	483
Total long-term debt	884	702
Deferred credits and other liabilities:		
Accumulated deferred income taxes	283	284
Accumulated provision for pensions and related benefits	115	126
Investment tax credit	23	13
Asset retirement obligation	29	28
Regulatory liabilities (Note 2):		
Accumulated cost of removal of utility plant	301	297
Deferred income taxes - net	26	27
Other	7	6
Other liabilities	18	17
Total deferred credits and other liabilities	802	798
Common equity:		
Common stock, without par value –		
Authorized 80,000,000 shares, outstanding 37,817,878 shares	308	308
Additional paid-in capital	15	15
Retained earnings	898	854
Undistributed subsidiary earnings	17	16
Total common equity	1,238	1,193
Total liabilities and equity	$ 3,246	$ 3,143

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

Kentucky Utilities Company
Statements of Cash Flows
(Unaudited)
(Millions of $)

	For the Three Months Ended March 31, 2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 45	$ 35
Items not requiring cash currently:		
Depreciation and amortization	28	28
VDT amortization	-	3
Investment tax credit - net	10	-
Other	(3)	5
Changes in current assets and liabilities:		
Accounts receivable	33	26
Material and supplies	10	-
Accounts payable	(2)	(33)
Accrued income taxes	7	5
Other current assets	7	2
Pension funding	(13)	-
Fuel adjustment clause receivable, net	(6)	(9)
Other	(3)	(6)
Net cash provided by operating activities	113	56
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction expenditures	(125)	(41)
Change in restricted cash	2	7
Other	-	(1)
Net cash used for investing activities	(123)	(35)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Retirement of first mortgage bonds (Note 6)	(107)	(36)
Issuance of pollution control bonds	54	-
Long-term borrowings from affiliated company (Note 8)	128	13
Repayment of short-term borrowings from affiliated company (Note 6)	(65)	-
Net cash provided by (used) in financing activities	10	(23)
CHANGE IN CASH AND CASH EQUIVALENTS	-	(2)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	6	7
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 6	$ 5

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

Kentucky Utilities Company
Notes to Financial Statements
(Unaudited)

Note 1 - General

The unaudited financial statements include the accounts of the Company. KU's common stock is wholly-owned by E.ON U.S., an indirect wholly-owned subsidiary of E.ON. In the opinion of management, the unaudited interim financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of financial position, results of operations, retained earnings, and cash flows for the periods indicated. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted, although the Company believes that the disclosures are adequate to make the information presented not misleading.

See KU's Annual Report for the year ended December 31, 2006, for information relevant to the accompanying financial statements, including information as to the Company's significant accounting policies.

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2006, the FASB issued FIN 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No 109, Accounting for Income Taxes*. FIN 48 clarifies accounting for income taxes to provide improved consistency of criteria used to recognize, derecognize and measure benefits related to income taxes. KU adopted the provisions of FIN 48 effective January 1, 2007. See Note 5, Income Taxes.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115*. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis (the fair value option). Unrealized gains and losses on items for which the fair value option has been elected are to be recognized in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. KU is currently evaluating the impact of SFAS No. 159, but does not expect its adoption to have a material impact on its statements of operations, financial position and cash flows.

Note 2 - Rates and Regulatory Matters

For a description of each line item of regulatory assets and liabilities, reference is made to KU's Annual Report, Note 2 of the financial statements, for the year ended December 31, 2006.

The following regulatory assets and liabilities were included in KU's Balance Sheets:

Kentucky Utilities Company
(unaudited)

(in millions)	March 31, 2007	December 31, 2006
ARO	$ 22	$ 22
Unamortized loss on bonds	11	10
MISO exit	20	20
ECR	8	10
FAC	22	16
Other	3	5
Subtotal	86	83
Pension and postretirement benefits	66	64
Total regulatory assets	$ 152	$ 147
Accumulated cost of removal of utility plant	$ 301	$ 297
Deferred income taxes – net	26	27
Other	7	6
Total regulatory liabilities	$ 334	$ 330

KU does not currently earn a rate of return on the FAC regulatory asset, which is a separate recovery mechanism with recovery within twelve months. No return is earned on the pension and postretirement benefits regulatory asset which represents the changes in funded status of the plans that the Company will seek recovery of in future proceedings with the Kentucky and Virginia Commissions. No return is currently earned on the ARO asset. This regulatory asset will be offset against the associated regulatory liability, ARO asset and ARO liability at the time the underlying asset is retired. The MISO exit amount represents the costs relating to the withdrawal from MISO membership. KU expects to seek recovery of this asset in future proceedings with the Kentucky and Virginia Commissions. KU currently earns a rate of return on the remaining regulatory assets. Other regulatory assets include the merger surcredit and deferred storm costs. Other regulatory liabilities include DSM and MISO administrative costs currently included in base rates.

ECR. Kentucky law permits KU to recover the costs of complying with the Federal Clean Air Act, including a return of operating expenses, and a return of and on capital invested, through the ECR mechanism. The amount of the regulatory asset or liability is the amount that has been under- or over-recovered due to timing or adjustments to the mechanism once approved by the Kentucky Commission.

In April 2006, the Kentucky Commission initiated six-month and two-year reviews of KU's environmental surcharge. A final Order was received in January 2007, approving the charges and credits billed through the ECR during the review period as well as approving billing adjustments, a roll-in to base rates, revisions to the monthly surcharge filing and the rate of return on capital.

FAC. In December 2006, the Kentucky Commission initiated its periodic two-year review of KU's past operations of the fuel clause and transfer of fuel costs from the FAC to base rates. In March 2007, intervenors representing industrial customers challenged KU's recovery of $5.1 million in aggregate fuel costs KU incurred during a period prior to its exit from the MISO and requested the Kentucky Commission disallow this amount. Remaining proceedings in this matter, including further data requests and appropriate KU responsive filings, are continuing. A public hearing is scheduled in May 2007. A Kentucky Commission decision is expected during mid-2007.

KU also employs an FAC mechanism for Virginia customers using an average fuel cost factor based primarily on projected fuel costs. The factor may be adjusted annually for over-or-under collections of fuel costs from the prior year. In February 2007, KU filed an application with the Virginia Commission seeking approval of an increase of approximately $4 million in its fuel cost factor to reflect higher fuel costs incurred and under collection during 2006, and anticipated higher fuel costs to be incurred in 2007. The Virginia Commission approved KU's request in April 2007. See Note 9, Subsequent Events.

Other Regulatory Matters

Regional Reliability Council. KU has changed its regional reliability council membership from the Reliability First Corporation to the Southeastern Electric Reliability Council, effective January 1, 2007. Regional reliability councils are industry consortiums that promote, coordinate and ensure the reliability of the bulk electric supply systems in North America.

Market-Based Rate Authority. KU has received permission to sell power at market-based rates at the interface of control areas in which they may be deemed to have market power, subject to a restriction that such power not be collusively re-sold back into such control areas. However, restrictions exist on sales by KU of power at market-based rates in the KU/LG&E and Big Rivers Electric Corporation control areas. Certain general FERC proceedings continue with respect to market-based rate matters, and KU's market-based rate authority is subject to such future developments. KU cannot predict the ultimate impact of the current or potential mitigation mechanisms on its future wholesale power sales.

Real-Time Pricing. In December 2006, the Kentucky Commission issued an Order indicating that the EPAct 2005 Section 1252, Smart Metering and Section 1254, Interconnection standards, should not be adopted. However, all five Kentucky Commission jurisdictional utilities are required to file real-time pricing pilot programs for their large commercial and industrial customers. KU has developed a real-time pricing pilot for large industrial and commercial customers and filed the details of the plan with the Kentucky Commission in April 2007.

Utility Re-regulation in Virginia. The Commonwealth of Virginia passed the Virginia Electric Utility Restructuring Act in 1999. This act gave Virginia customers the ability to choose their electric supplier. Rates are capped at current levels through December 2010. In April 2007, Virginia passed legislation terminating this competitive market and commencing re-regulation of utility rates in Virginia. The new act will end the cap on rates at the end of 2008, rather than through December 2010, and end customer choice for most consumers in the applicable regions of the state. Thereafter, a hybrid model of regulation would apply in Virginia, whereby utility rates would be reviewed every two years and a utility's rate of return on equity would be based upon the average of the rates of return for other regional utilities, with certain caps, floors or adjustments. The legislation is effective in July 2007, and also includes a 10% nonbinding goal by 2022 for renewable power generation as well as incentives for new generation, including renewable. KU is examining whether the legislation adequately retains, in whole or in part, an existing exemption from restructuring, allowing KU's Virginia service territory to continue under prior traditional utility regulation. KU continues to analyze the potential effects of such legislation on the future rates and operations relating to its Virginia service territory and cannot estimate the impact, if any, at this time.

Ghent FGD Inquiry. In October 2006, the Kentucky Commission commenced an inquiry into elements of KU's planned construction of one of its three new FGD's at the Ghent generating station. The proceeding requested, and KU provided, additional information regarding configuration details, expenditures and the proposed construction sequence applicable to future construction phases of the Ghent FGD project. In January 2007, the Kentucky Commission issued an Order completing its inquiry in the matter and confirming its approval of KU's construction plan. The Order also provided general guidance for jurisdictional utilities regarding applicable information and data requirements for future CCN applications and subsequent proceedings.

Note 3 - Financial Instruments

Interest Rate Swaps (hedging derivatives). KU has used over-the-counter interest rate swaps to hedge exposure to market fluctuations in certain of its debt instruments. Pursuant to Company policy, use of these financial instruments is intended to mitigate risk, earnings and cash flow volatility and is not speculative in nature. Management has designated all of the interest rate swaps as hedge instruments. Financial instruments designated as fair value hedges and the underlying hedged items are periodically marked to market with the resulting net gains and losses recorded directly into net income. Upon termination of any fair value hedge, the resulting gain or loss is recorded into net income. Financial instruments designated as cash flow hedges have resulting gains and losses recorded within other comprehensive income and stockholders' equity.

KU was party to an interest rate swap agreement with a notional amount of $53 million as of December 31, 2006. The interest rate swap was terminated in February 2007, when the underlying debt was defeased. Under this swap agreement, KU paid variable rates based on LIBOR averaging 7.44% and received fixed rates averaging 7.92% in 2007 prior to the termination of the swap. The swap agreement in effect at December 31, 2006, had been designated as a fair value hedge. The fair value designation was assigned because the underlying fixed rate debt had a firm future commitment. For the three months ended March 31, 2007 and 2006, the effect of marking these financial instruments and the underlying debt to market resulted in pre-tax gains of less than $1 million recorded in interest expense.

Interest rate swaps hedge interest rate risk on the underlying debt under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, in addition to swaps being marked to market, the item being hedged must also be marked to market, consequently for the year ended December 31, 2006, KU's debt reflects a mark-to-market adjustment of less than $1 million, this swap was terminated in February 2007.

Energy Trading and Risk Management Activities (non-hedging derivatives). KU conducts energy trading and risk management activities to maximize the value of power sales from physical assets it owns. Energy trading activities are principally forward financial transactions to hedge price risk and are accounted for on a mark-to-market basis in accordance with SFAS No. 133, as amended. Prior to the MISO establishing its Day 2 energy market in April 2005, wholesale forward transactions were primarily physically settled and thus were treated as normal sales under SFAS No. 133, as amended, and were not marked to market.

The table below summarizes KU's energy trading and risk management activities for the three months ended March 31:

(in millions)	2007	2006
Fair value of contracts at beginning of period, net asset	$ 1	$ 1
Fair value of contracts when entered into during the period	-	1
Contracts realized or otherwise settled during the period	-	(2)
Changes in fair values due to changes in assumptions	(2)	1
Fair value of contracts at end of period, net (liability) asset	$ (1)	$ 1

No changes to valuation techniques for energy trading and risk management activities occurred during 2007 or 2006. Changes in market pricing, interest rate and volatility assumptions were made during both years. All contracts outstanding at March 31, 2007 and 2006, have a maturity of less than one year and are valued using prices actively quoted for proposed or executed transactions or quoted by brokers.

Note 4 - Pension and Other Postretirement Benefit Plans

The following table provides the components of net periodic benefit cost for pension and other benefit plans for the three months ended March 31:

	Pension Benefits		Other Postretirement Benefits	
(in millions)	2007	2006	2007	2006
Service cost	$ 2	$ 1	$ 1	$ 1
Interest Cost	6	3	1	1
Expected return on plan assets	(7)	(4)	-	-
Amortization of actuarial loss	1	1	-	-
Benefit cost year-to-date	$ 2	$ 1	$ 2	$ 2

Net periodic benefit costs incurred by employees of KU are reflected in both utility plant on the balance sheet and in operating expense on the income statement. The above costs do not include allocations of net periodic benefit costs from other affiliates.

The pension plans are funded in accordance with all applicable requirements of the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code. In January 2007, KU made a discretionary contribution to the pension plan in the amount of $13 million. After this payment, KU's pension plan assets are in excess of the December 31, 2006 accumulated benefit obligation. KU does not expect to make any further contributions to the pension plans in 2007. In the first quarter of 2007, KU made contributions to other postretirement benefit plans of approximately $1 million. KU anticipates making further voluntary contributions in 2007 to fund the Voluntary Employee Beneficiary Association (VEBA) trusts to match the annual postretirement expense and funding the 401(h) plan up to the maximum amount allowed by law.

Note 5 - Income Taxes

A United States consolidated income tax return is filed by E.ON U.S.'s direct parent, EUSIC, for each tax period. Each subsidiary of the consolidated tax group, including KU, will calculate its separate income tax for the tax period. The resulting separate-return tax cost or benefit will be paid to or received from the parent company or its designee. KU also files income tax returns in various state jurisdictions. With few exceptions, KU is no longer subject to U.S. federal, state or non-U.S. income tax examinations by tax authorities for years before 2003. The 2003 and 2004 statutes are still open. The 2003 year has been reviewed by the IRS with no proposed changes. Tax years 2005 and 2006 are expected to be included, along with an upcoming federal audit of tax year 2007. The 2007 return will be examined under an IRS pilot program named "Compliance Assurance Process". This program accelerates the IRS's review to the actual calendar year applicable to the return and ends ninety days after the return is filed.

KU adopted the provisions of FIN 48 effective January 1, 2007. At the date of adopting FIN 48, KU had $2 million of unrecognized tax benefits, primarily related to federal income taxes. If recognized, the entire $2 million of unrecognized tax benefits would affect the effective tax rate.

Included in the balance at March 31, 2007, is less than $1 million of tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Furthermore, possible amounts of uncertain tax positions for KU that may decrease within the next 12 months total $1 million. The estimated amount of the change in uncertain tax position is based on the expiration of statutes during 2007.

KU, upon adoption of FIN 48, adopted a new financial statement classification for interest and penalties. Prior to the adoption of FIN 48, KU recorded interest and penalties for income taxes on the income statement in income tax expense and in the taxes accrued balance sheet account, net of tax. Upon adoption of FIN 48, interest and penalties are recorded as operating expenses on the income statement and accrued expenses in the balance sheet, on a pre-tax basis. The interest accrued is based on federal and state large corporate underpayment interest rates.

The amount KU recognized as interest accrued related to unrecognized tax benefits in interest expense in operating expenses was less than $1 million at March 31, 2007 and December 31, 2006. At the date of adoption, KU accrued less than $1 million in interest expense on uncertain tax positions. No penalties were accrued by KU upon adoption of FIN 48 or through March 31, 2007.

In June 2006, KU and LG&E filed a joint application with the Department of Energy ("DOE") requesting certification to be eligible for investment tax credits applicable to the construction of TC2. In November 2006, the DOE and the IRS announced that KU and LG&E were selected to receive the tax credit. KU's portion of the tax credit will be approximately $101 million over the construction period of TC2. This tax credit will be amortized to income over the life of the related property. In the first quarter of 2007, based on eligible construction expenditures incurred in 2007, KU recorded a federal investment tax credit, decreasing current federal income taxes by $10 million.

Note 6 – Short-Term and Long-Term Debt

Under the provisions for KU's variable-rate pollution control bonds, Series 12, 13, 14 and 15, the bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events, causing the bonds to be classified as current portion of long-term debt in the balance sheets. The average annualized interest rate for these bonds during the three months ended March 31, 2007 was 3.73%.

Pollution control series bonds are obligations of KU issued in connection with tax-exempt pollution control revenue bonds issued by various governmental entities, principally counties in Kentucky. A loan agreement obligates KU to make debt service payments to the county that equate to the debt service due from the county on the related pollution control revenue bonds. Until a series of financing transactions completed during February 2007, the county's debt was also secured by an equal amount of KU's first mortgage bonds that were pledged to the trustee for the pollution control revenue bonds, and that match the terms and conditions of the county's debt, but require no payment of principal and interest unless KU defaults on the loan agreement.

At December 31, 2006, KU had an interest rate swap used to hedge KU's underlying debt obligations. The swap hedged specific debt issuances and, consistent with management's designation, was accorded hedge accounting treatment. The swap effectively converted the fixed rate obligation on KU's first mortgage bond Series P to variable-rate. At December 31, 2006, the remaining swap had a notional value of $53 million. The swap was terminated in February 2007, when the underlying bond was defeased. See Note 3, Financial Instruments.

KU participates in an intercompany money pool agreement wherein E.ON U.S. and/or LG&E make funds available to KU at market-based rates (based on highly rated commercial paper issues) of up to $400 million. Details of the balances were as follows:

($ in millions)	Total Money Pool Available	Amount Outstanding	Balance Available	Average Interest Rate
March 31, 2007	$400	$ 32	$368	5.26%
December 31, 2006	$400	$ 97	$303	5.25%

E.ON U.S. maintains a revolving credit facility totaling $150 million and $200 million at March 31, 2007 and December 31, 2006, respectively, with an affiliated company, E.ON North America, Inc., to ensure funding availability for the money pool. The balance is as follows:

($ in millions)	Total Available	Amount Outstanding	Balance Available	Average Interest Rate
March 31, 2007	$150	$137	$13	5.63%
December 31, 2006	$200	$102	$98	5.49%

Redemptions of long-term debt year-to-date through March 31, 2007, are summarized below:

Year	Description	Principal Amount (in millions)	Rate	Secured/ Unsecured	Maturity
2007	Pollution control bonds	$ 54	Variable	Secured	2024
2007	First mortgage bonds	$ 53	7.92%	Secured	2007

Issuances of long-term debt year-to-date through March 31, 2007, are summarized below:

Year	Description	Principal Amount (in millions)	Rate	Secured/ Unsecured	Maturity
2007	Pollution control bonds	$ 54	Variable	Unsecured	2034
2007	Due to Fidelia	$ 53	5.69%	Unsecured	2022
2007	Due to Fidelia	$ 75	5.86%	Unsecured	2037

KU no longer has any secured debt and is no longer subject to periodic reporting under the Securities Exchange Act of 1934.

Note 7 - Commitments and Contingencies

Except as may be discussed in this quarterly report (including Note 2), material changes have not occurred in the current status of various commitments or contingent liabilities from that discussed in KU's Annual Report for the year ended December 31, 2006 (including in Notes 2 and 9 to the financial statements of KU contained therein). See the above-referenced notes in KU's Annual Report regarding such commitments or contingencies.

Owensboro Contract Litigation. In May 2004, the City of Owensboro, Kentucky and OMU commenced a suit now removed to the U.S. District Court for the Western District of Kentucky, against KU concerning a long-term power supply contract (the "OMU Agreement") with KU. The dispute involves interpretational differences regarding issues under the OMU Agreement, including various payments or charges between KU and OMU and rights concerning excess power, termination and emissions allowances. The complaint seeks in excess of $6 million in damages in connection with one of its claims for periods prior to 2004, plus damages in an unspecified amount for later-occurring periods on that claim and for other claims. OMU has additionally requested injunctive and other relief, including a declaration that KU is in material breach of the contract. KU has filed an answer in that court denying the OMU claims and presenting counterclaims and amended such filing in January 2007, to include further counterclaims alleging additional damages. During 2005, the FERC declined KU's application to exercise exclusive jurisdiction on matters. In July 2005, the district court resolved a summary judgment motion made by KU in OMU's favor, ruling that a contractual provision grants OMU the ability to terminate the contract without cause upon four years' prior notice, for which ruling KU retains certain rights to appeal. At this time, the district court case is in the discovery stage and currently a trial date of January 2008, has been scheduled. In May 2006, OMU issued a notification of its intent to terminate the OMU agreement contract in May 2010, without cause, absent any earlier relief which may be permitted by the proceeding.

Construction Program. KU had approximately $1.1 billion of commitments in connection with its construction program at March 31, 2007.

In June 2006, KU and LG&E entered into a construction contract regarding the TC2 project. The contract is generally in the form of a lump-sum, turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may serve to increase or decrease the ultimate construction price paid or payable to the contractor. The contract also contains standard representations, covenants, indemnities, termination and other provisions for arrangements of this type, including termination for convenience or for cause rights.

Environmental Matters. KU's operations are subject to a number of environmental laws and regulations in each of the jurisdictions in which it operates, governing, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety.

Clean Air Act Requirements. The Clean Air Act establishes a comprehensive set of programs aimed at protecting and improving air quality in the United States by, among other things, controlling stationary sources of air emissions such as power plants. While the general regulatory framework for these programs is established at the federal level, most of the programs are implemented and administered by the states under the oversight of the EPA. The key Clean Air Act programs relevant to KU's business operations are described below.

Ambient Air Quality The Clean Air Act requires the EPA to periodically review the available scientific data for six criteria pollutants and establish concentration levels in the ambient air sufficient to protect the public health and welfare with an extra margin for safety. These concentration levels are known as NAAQS. Each state must identify "nonattainment areas" within its boundaries that fail to comply with the NAAQS and develop an SIP to bring such nonattainment areas into compliance. If a state fails to develop an adequate plan, the EPA must develop and implement a plan. As the EPA increases the stringency of the NAAQS through its periodic reviews, the attainment status of various areas may change, thereby triggering additional emission reduction obligations under revised SIPs aimed to achieve attainment.

In 1997, the EPA established new NAAQS for ozone and fine particulates that required additional reductions in SO_2 and NOx emissions from power plants. In 1998, the EPA issued its final "NOx SIP Call" rule requiring reductions in NOx emissions of approximately 85 percent from 1990 levels in order to mitigate ozone transport from the midwestern U.S. to the northeastern U.S. To implement the new federal requirements, in 2002, Kentucky amended its SIP to require electric generating units to reduce their NOx emissions to 0.15 pounds weight per MMBtu on a company-wide basis. In 2005, the EPA issued the CAIR which requires additional SO_2 emission reductions of 70 percent and NOx emission reductions of 65 percent from 2003 levels. The CAIR provides for a two-phase cap and trade program, with initial reductions of NOx and SO_2 emissions due by 2009 and 2010, respectively, and final reductions due by 2015. The final rule is currently under challenge in a number of federal court proceedings. In 2006, Kentucky proposed to amend its SIP to adopt state requirements similar to those under the federal CAIR. Depending on the level of action determined necessary to bring local non-attainment areas into compliance with the new ozone and fine particulate standards, KU's power plants are potentially subject to additional reductions in SO_2 and NOx emissions. KU's weighted-average company-wide emission rate for SO_2 in the first quarter of 2007 was approximately 1.50 lbs./MMBtu of heat input, with every generating unit below its emission limit established by the Kentucky Division for Air Quality.

Regional Haze The Clean Air Act also includes visibility goals for certain federally designated areas, including national parks, and requires states to submit SIPs that will demonstrate reasonable progress toward preventing future impairment and remedying any existing impairment of visibility in those areas. In 2005, the EPA issued its CAVR detailing how the Clean Air Act's BART requirements will be applied to facilities, including power plants, built between 1962 and 1974 that emit certain levels of visibility impairing pollutants. Under the final rule, as the CAIR will result in more visibility improvement than BART, states are allowed to substitute CAIR requirements in their regional haze SIPs in lieu of controls that would otherwise be required by BART. The final rule has been challenged in the courts.

Installation of Pollution Controls. Many of the programs under the Clean Air Act utilize cap and trade mechanisms that require a company to hold sufficient emissions allowances to cover its authorized emissions on a company-wide basis and do not require installation of pollution controls on every generating unit. Under cap and trade programs, companies are free to focus their pollution control efforts on plants where such controls are particularly efficient and utilize the resulting emission allowances for smaller plants where such controls are not cost effective. KU met its Phase I SO_2 requirements primarily through installation of FGD equipment on Ghent Unit 1. KU's combined strategy for its Phase II SO_2 requirements, which commenced in 2000, includes the installation of additional FGD equipment, as well as using accumulated emission allowances and fuel switching to defer certain additional capital expenditures. In order to achieve the NOx emission reductions mandated by the NOx SIP Call, KU installed additional NOx controls, including SCR technology, during the 2000 to 2006 time period at a cost of $215 million. In 2001, the Kentucky Commission granted recovery in principal of these costs incurred by KU under its periodic environmental surcharge review mechanisms.

In order to achieve the emissions reductions mandated by the CAIR and CAMR, KU expects to incur additional capital expenditures totaling $1.0 billion during the 2007 through 2009 time period for pollution controls including FGD and SCR and incur additional operating and maintenance costs in operating such controls. In 2005, the Kentucky Commission granted recovery in principal of these costs incurred by KU under its periodic environmental surcharge review mechanisms. KU believes its costs in reducing SO_2, NOx and mercury emissions to be comparable to those of similarly situated utilities with like generation assets. KU's compliance plans are subject to many factors including developments in the emission allowance and fuels markets, future legislative and regulatory enactments, legal proceedings and advances in clean air technology. KU will continue to monitor these developments to ensure that its environmental obligations are met in the most efficient and cost-effective manner.

Potential GHG Controls. In 2005, the Kyoto Protocol for reducing GHG emissions took effect, obligating 37 industrialized countries to undertake substantial reductions in GHG emissions. The U.S. has not ratified the Kyoto Protocol and there are currently no mandatory GHG emission reduction requirements at the federal level. Legislation mandating GHG reductions has been introduced in the Congress, but no federal legislation has been enacted to date. In the absence of a program at the federal level, various states have adopted their own GHG emission reduction programs. Such programs have been adopted in various states including 11 northeastern U.S. states under the Regional GHG Initiative program and California. Substantial efforts to pass federal GHG legislation are ongoing. A Supreme Court decision has clarified the authority of the EPA to regulate GHG emissions under certain circumstances, and other litigation currently pending before various courts will provide additional clarification of the authority of the EPA and the states. KU is monitoring ongoing efforts to enact GHG reduction requirements at the state and federal level and is assessing potential impacts of such programs and strategies to mitigate those impacts.

KU is unable to predict whether mandatory GHG reduction requirements will ultimately be enacted. As a company with significant coal-fired generating assets, KU could be substantially impacted by programs requiring mandatory reductions in GHG emissions, although the precise impact on the operations of KU, including the reduction targets and deadlines that would be applicable, cannot be determined prior to the enactment of such programs.

Brown NOVs. In April 2006, the EPA issued an NOV alleging that KU had violated certain provisions of the Clean Air Act's new source review rules relating to work performed in 1997, on a boiler and turbine at KU's E.W. Brown generating station. In December 2006, the EPA issued a second NOV alleging the Company had exceeded heat input values in violation of the air permit for the unit. During 2006, KU provided data responses to the EPA with respect to the allegations in the NOVs. In March 2007, the Department of Justice filed a complaint in federal court in Kentucky alleging the same violations specified in the prior NOVs. The complaint seeks civil penalties, including potential per-day fines, remedial measures and injunctive relief. KU has denied any violation of applicable laws or regulations and will rigorously defend itself. KU is not able to estimate the outcome or potential effects of these matters.

General Environmental Proceedings. From time to time, KU appears before the EPA, various state or local regulatory agencies and state and federal courts regarding matters involving compliance with applicable environmental laws and regulations. Such matters include liability under the Comprehensive Environmental Response, Compensation and Liability Act for cleanup at various off-site waste sites and ongoing claims regarding GHG emissions from KU's generating stations. Based on analysis to date, the resolution of these matters is not expected to have a material impact on the operations of KU.

Note 8 - Related Party Transactions

KU and other subsidiaries of E.ON engage in related party transactions. Transactions between KU and E.ON U.S. subsidiaries are eliminated upon consolidation of E.ON U.S. Transactions between KU and E.ON subsidiaries are eliminated upon consolidation of E.ON. These transactions are generally performed at cost and are in accordance with the FERC regulations under PUHCA 2005 and the applicable Kentucky Commission and Virginia Commission regulations. The significant related party transactions are disclosed below.

Electric Purchases

KU and LG&E purchase energy from each other in order to effectively manage the load of their retail and off-system customers. These sales and purchases are included in the statements of income as operating revenues and purchased power operating expense. KU intercompany electric revenues and purchased power expense for the three months ended March 31, were as follows:

(in millions)	2007	2006
Electric operating revenues from LG&E	$18	$19
Purchased power from LG&E	30	22

Interest Charges

See Note 6, Short-Term and Long-Term Debt, for details of intercompany borrowing arrangements. Intercompany agreements do not require interest payments for receivables related to services provided when settled within 30 days.

KU's intercompany interest expense for the three months ended March 31, was as follows:

(in millions)	2007	2006
Interest on money pool loans	$ 1	$ 1
Interest on Fidelia loans	7	5

Other Intercompany Billings

E.ON U.S. Services provides KU with a variety of centralized administrative, management and support services. These charges include payroll taxes paid by E.ON U.S. on behalf of KU, labor and burdens of E.ON U.S. Services employees performing services for KU and vouchers paid by E.ON U.S. Services on behalf of KU. The cost of these services are directly charged to KU, or for general costs which cannot be directly attributed, charged based on predetermined allocation factors, including the following ratios: number of customers, total assets, revenues, number of employees and other statistical information. These costs are charged on an actual cost basis.

In addition, KU and LG&E provide services to each other and to E.ON U.S. Services. Billings between KU and LG&E relate to labor and overheads associated with union employees performing work for the other utility, charges related to jointly-owned combustion turbines and other miscellaneous charges. Billings from KU to E.ON U.S. Services relate to information technology-related services provided by KU employees, cash received by E.ON U.S. Services on behalf of KU and services provided by KU to other non-regulated businesses which are paid through E.ON U.S. Services.

Intercompany billings to and from KU for the three months ended March 31, were as follows:

(in millions)	2007	2006
E.ON U.S. Services billings to KU	$170	$42
KU billings to LG&E	14	12
LG&E billings to KU	10	15
KU billings to E.ON U.S. Services	2	-

Note 9 – Subsequent Events

On April 20, 2007, the Virginia Commission approved KU's request for an increase of approximately $4 million in its fuel cost factor, reflecting higher fuel costs incurred and under collection during 2006, and anticipated higher fuel costs to be incurred in 2007. See Note 2, Rates and Regulatory Matters.

Management's Discussion and Analysis of Financial Condition and Results of Operations

General

The following discussion and analysis by management focuses on those factors that had a material effect on KU's financial results of operations and financial condition during the three month period ended March 31, 2007, and should be read in connection with the financial statements and notes thereto.

Some of the following discussion may contain forward-looking statements that are subject to certain risks, uncertainties and assumptions. Such forward-looking statements are intended to be identified in this document by the words "anticipate," "expect," "estimate," "objective," "possible," "potential" and similar expressions. Actual results may vary materially. Factors that could cause actual results to differ materially include: general economic conditions; business and competitive conditions in the energy industry; changes in federal or state legislation; unusual weather; actions by state or federal regulatory agencies; and other factors described from time to time in the Company's reports, including the Annual Report for the year ended December 31, 2006.

Executive Summary

Business

KU, incorporated in Kentucky in 1912 and in Virginia in 1991, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. At March 31, 2007, KU supplied electricity to approximately 502,000 customers in 77 counties in central, southeastern and western Kentucky, to approximately 30,000 customers in 5 counties in southwestern Virginia and 5 customers in Tennessee. KU's coal-fired electric generating plants produce most of KU's electricity, the remainder is generated by a hydroelectric power plant and natural gas and oil fueled combustion turbines. In Virginia, KU operates under the name Old Dominion Power Company.

KU is a wholly-owned subsidiary of E.ON U.S. E.ON U.S. is an indirect wholly-owned subsidiary of E.ON, a German corporation, making KU an indirect wholly-owned subsidiary of E.ON. KU's affiliate, LG&E, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy and the distribution of natural gas in Kentucky.

Environmental Matters

Protection of the environment is a major priority for KU. Federal, state and local regulatory agencies have issued KU permits for various activities subject to air quality, water quality and waste management laws and regulations. See Note 7 of Notes to Financial Statements for more information.

Results of Operations

The electric utility business is affected by seasonal weather patterns. As a result, operating revenues (and associated operating expenses) are not generated evenly throughout the year.

Net Income

Net income for the three months ended March 31, 2007 increased $10 million compared to the same period in 2006. The increase was primarily the result of increased electric revenues of $23 million, offset by an increase in operating expenses of $2 million, an increase in other income and expenses of $5 million and an increase in income taxes of $6 million, attributable to an increase in pre-tax income.

Revenues

Revenues in the three months ended March 31, 2007 increased $23 million primarily due to:

- Increased sales volumes delivered ($21 million) resulting from a 8% increase in heating degree days in the first quarter of 2007 as compared to the same period in 2006
- Increased fuel costs ($5 million) billed to customers through the FAC
- Increased ECR surcharge ($3) million to be billed to customers
- Decreased MISO related revenue ($6 million) resulting from the exit from the MISO

Expenses

Fuel for generation comprises a large component of total operating expenses. Increases or decreases in the cost of fuel are reflected in retail rates through the FAC, subject to the approval of the Kentucky Commission, the Virginia Commission and the FERC.

Fuel for generation increased $14 million in the three months ended March 31, 2007 primarily due to:

- Increased generation to meet sales ($9 million), due to 8% more heating degree days
- Increased spot market pricing ($5 million) for coal/natural gas generation

Other operation and maintenance expenses decreased $11 million in the three months ended March 31, 2007 primarily due to decreased other operation expenses ($10 million) and decreased maintenance expenses ($1 million).

Other operation expenses decreased $10 million in the three months ended March 31, 2007 primarily due to:

- Decreased other power supply expenses ($7 million) resulting from lower MISO Day 2 expenses
- Decreased administrative and general expenses ($3 million) resulting from the completion of the VDT amortization

Interest expense, including interest expense to affiliated companies, increased $3 million in the three months ended March 31, 2007 primarily due to:

- Increased interest expense ($2 million) due to the addition of two bond issues in July and December 2006, and the early retirement of the $53 million Series P bond in February 2007
- Increased interest expense to affiliated companies ($1 million) due to the addition of four loans with Fidelia between June 2006 and March 2007. One of the four loans noted above was used to defease the $53 million Series P bond in February 2007

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Effective Rate		
Statutory federal income tax rate	35.0%	35.0%
State income taxes net of federal benefit	3.7	4.4
Amortization of investment tax credits	(0.1)	(0.6)
EEI Dividend	(2.5)	(4.2)
Other differences	(1.3)	(0.6)
Effective income tax rate	34.8%	34.0%

The change in the EEI dividend in the first quarter of 2007 reflects a decrease in dividends received from KU's investment in EEI. The increased tax benefit in Other differences is largely attributable to changes in the level of pre-tax income.

Liquidity and Capital Resources

KU uses net cash generated from its operations and external financing (including financing from affiliates) to fund construction of plant and equipment and the payment of dividends. KU believes that such sources of funds will be sufficient to meet the needs of its business in the foreseeable future.

Operating Activities

Cash provided by operations was $113 million and $56 million for the three months ended March 31, 2007 and 2006, respectively.

The 2007 increase of $57 million was primarily the result of increases in cash due to changes in:

- Accounts payable ($31 million) due primarily to increase in accruals for construction expenditures
- Investment tax credits ($10 million) related to construction of TC2
- Materials and supplies ($10 million) due primarily to decrease in coal inventories caused by greater kwh output in the first quarter
- Accounts receivable ($7 million) due primarily to decrease in accounts receivable from affiliated company
- Taxes receivable and other current assets ($5 million)
- FAC receivable ($3 million)

These increases were partially offset by changes in cash used for:

- Pension contributions ($13 million)

Investing Activities

The primary use of funds for investing activities continues to be for capital expenditures. Capital expenditures were $125 million and $41 million in 2007 and 2006, respectively. KU expects its capital expenditures for the three year period ending December 31, 2009 to total approximately $2.0 billion, consisting primarily of construction estimates associated with installation of FGDs on Ghent and Brown units and an SCR at Ghent totaling approximately $840 million, the construction of TC2 totaling approximately $605 million and on-going construction related to generation and distribution assets.

Net cash used for investing activities increased $88 million in 2007 compared to 2006 primarily due to increased capital expenditures of $84 million. Restricted cash represents the escrowed proceeds of the Pollution Control Bonds issued which are disbursed as qualifying costs are incurred.

Financing Activities

Net cash inflows (outflows) from financing activities were $10 million and $(23) million in the three months ended March 31, 2007 and 2006, respectively.

See Note 6 of Notes to Financial Statements for information of redemptions, maturities and issuances of long-term debt.

Legal Proceedings

For a description of the significant legal proceedings involving KU, reference is made to the information under the following captions of KU's Annual Report for the year ended December 31, 2006: Business, Risk Factors, Legal Proceedings, Management's Discussion and Analysis, Financial Statements and Notes to Financial Statements. Reference is also made to the matters described in Notes 2 and 7 of this quarterly report. Except as described in this quarterly report, to date, the proceedings reporting in KU's Annual Report have not materially changed.

Other

In the normal course of business, other lawsuits, claims, environmental actions and other governmental proceedings arise against KU. To the extent that damages are assessed in any of these lawsuits, KU believes that its insurance coverage is adequate. Management, after consultation with legal counsel, does not anticipate that liabilities arising out of other currently pending or threatened lawsuits and claims will have a material adverse effect on KU's financial position or results of operations.

SEC Form 10-Q – September 30, 2006

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

FORM 10-Q

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

For the quarterly period ended September 30, 2006

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

Commission File Number	Registrant, State of Incorporation, Address, and Telephone Number	IRS Employer Identification Number
1-2893	Louisville Gas and Electric Company (A Kentucky Corporation) 220 West Main Street P. O. Box 32010 Louisville, Kentucky 40232 (502) 627-2000	61-0264150
1-3464	Kentucky Utilities Company (A Kentucky and Virginia Corporation) One Quality Street Lexington, Kentucky 40507-1428 (859) 255-2100	61-0247570

Indicate by check mark whether the 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 the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No _

Indicate by check mark whether the 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 12-b2 of the

Exchange Act. (Check one):

Large accelerated filer _____ Accelerated filer_____

Non-accelerated filer __X___

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

Indicate the number of shares outstanding of each of the issuer's classes
of common stock, as of the latest practicable date:

Louisville Gas and Electric Company - 21,294,223 shares, without par value,
as of October 31, 2006, all held by E.ON U.S. LLC

Kentucky Utilities Company - 37,817,878 shares, without par value, as of
October 31, 2006, all held by E.ON U.S. LLC

This combined Form 10-Q is separately filed by Louisville Gas and Electric
Company and Kentucky Utilities Company. Information contained herein related to any individual registrant is filed by such registrant on its own
behalf. Each registrant makes no representation as to information related
to the other registrants.

INDEX OF ABBREVIATIONS

AG	Attorney General of Kentucky
ARO	Asset Retirement Obligation
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
CCN	Certificate of Public Convenience and Necessity
Company	LG&E or KU, as applicable
Companies	LG&E and KU
DOE	Department of Energy
ECR	Environmental Cost Recovery
EEI	Electric Energy, Inc.
E.ON	E.ON AG
E.ON U.S.	E.ON U.S. LLC (formerly LG&E Energy LLC and LG&E Energy Corp.)
E.ON U.S. Services	E.ON U.S. Services Inc. (formerly LG&E Energy Services Inc.)
EPA	U.S. Environmental Protection Agency
EPAct 2005	Energy Policy Act of 2005
FAC	Fuel Adjustment Clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Fidelia	Fidelia Corporation (an E.ON affiliate)
FIN	FASB Interpretation No.
FGD	Flue Gas Desulfurization

IMEA	Illinois Municipal Electric Agency
IMPA	Indiana Municipal Power Agency
IRS	Internal Revenue Service
Kentucky Commission	Kentucky Public Service Commission
KU	Kentucky Utilities Company
LIBOR	London Interbank Offer Rate
LG&E	Louisville Gas and Electric Company
MISO	Midwest Independent Transmission System Operator, Inc.
Moody's	Moody's Investor Services, Inc.
Mw	Megawatts
NOx	Nitrogen Oxide
PUHCA 1935	Public Utility Holding Company Act of 1935
PUHCA 2005	Public Utility Holding Company Act of 2005
RSG MWP	Revenue Sufficiency Guarantee Make Whole Payment
S&P	Standard & Poor's Rating Services
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
SO2	Sulfur Dioxide
VDT	Value Delivery Team Process
Virginia Commission	Virginia State Corporation Commission

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PART II

Part I. Financial Information - Item 1. Financial Statements (Unaudited)

Louisville Gas and Electric Company
Statements of Income (Unaudited)
(Millions of $)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
OPERATING REVENUES:				
Electric	$269	$284	$704	$741
Gas	34	35	288	260
Total operating revenues	303	319	992	1,001
OPERATING EXPENSES:				
Fuel for electric generation	86	80	221	208
Power purchased	26	34	81	101
Gas supply expenses	19	20	219	192
Other operation and maintenance expenses	70	88	212	227
Depreciation and amortization	31	31	92	93
Total operating expenses	232	253	825	821

OPERATING INCOME	71	66	167	180
Other (income) - net	(2)	-	(1)	-
Interest expense (Note 3)	8	6	22	17
Interest expense to affiliated companies (Note 8)	3	3	9	9
INCOME BEFORE INCOME TAXES	62	57	137	154
Federal and state income taxes	22	15	47	50
NET INCOME	$40	$42	$90	$104

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

Statements of Retained Earnings (Unaudited)
(Millions of $)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Balance at beginning of period	$609	$555	$621	$534
Net income	40	42	90	104
Subtotal	649	597	711	638
Cash dividends declared on stock:				
Cumulative preferred	-	-	2	2
Common	35	-	95	39
Subtotal	35	-	97	41
Balance at end of period	$614	$597	$614	$597

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

Louisville Gas and Electric Company
Balance Sheets

(Unaudited)
(Millions of $)

ASSETS	September 30, 2006	December 31, 2005
Current Assets:		
Cash and cash equivalents	$5	$7
Accounts receivable - less reserves of $1 million as of September 30, 2006 and December 31, 2005	111	231
Accounts receivable from affiliated companies (Note 8)	26	36
Materials and supplies:		
Fuel (predominantly coal)	43	39
Gas stored underground	87	125
Other materials and supplies	29	28
Prepayments and other current assets	8	6
Total current assets	309	472
Utility plant:		
At original cost	4,108	4,049
Less: reserve for depreciation	1,541	1,509
Net utility plant	2,567	2,540
Deferred debits and other assets:		
Restricted cash	9	10
Unamortized debt expense	8	8
Regulatory assets (Note 2)	93	84
Intangible pension asset	31	31
Other assets	-	1
Total deferred debits and other assets	141	134
Total assets	$3,017	$3,146

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

Louisville Gas and Electric Company
Balance Sheets (cont.)
(Unaudited)
(Millions of $)

LIABILITIES AND EQUITY	September 30, 2006	December 31, 2005
Current liabilities:		
Current portion of long-term debt	$248	$248
Notes payable to affiliated companies (Note 5 and Note 8)	52	141
Accounts payable	86	141
Accounts payable to affiliated companies (Note 8)	43	52
Accrued income taxes	8	6

Customer deposits	18	17
Other current liabilities	29	15
Total current liabilities	484	620
Long-term debt:		
Long-term debt (Note 5)	328	328
Long-term debt to affiliated company (Note 5 and Note 8)	225	225
Mandatorily redeemable preferred stock	19	20
Total long-term debt	572	573
Deferred credits and other liabilities:		
Accumulated deferred income taxes - net	315	322
Investment tax credit, in process of amortization	39	42
Accumulated provision for pensions and related benefits	131	143
Customer advances for construction	10	10
Asset retirement obligation	28	27
Regulatory liabilities (Note 2):		
Accumulated cost of removal of utility plant	230	219
Regulatory liability deferred income taxes	47	42
Other regulatory liabilities	41	20
Other liabilities	28	31
Total deferred credits and other liabilities	869	856
Cumulative preferred stock	70	70
Common equity:		
Common stock, without par value - Authorized 75,000,000 shares, outstanding 21,294,223 shares	424	424
Additional paid-in capital	40	40
Accumulated comprehensive loss	(56)	(58)
Retained earnings	614	621
Total common equity	1,022	1,027
Total liabilities and equity	$3,017	$3,146

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

Louisville Gas and Electric Company
Statements of Cash Flows
(Unaudited)
(Millions of $)

	Nine Months Ended September 30,	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 90	$104
Items not requiring cash currently:		
Depreciation and amortization	92	93

Deferred income taxes	(3)	(8)
VDT amortization	7	23
Other	(3)	(4)
Changes in current assets and liabilities:		
Accounts receivable	120	68
Accounts receivable from affiliated companies	10	(32)
Fuel	(4)	(7)
Gas stored underground	38	(29)
Other changes in current assets	(3)	(13)
Accounts payable	(55)	1
Accounts payable to affiliated companies	(9)	26
Accrued income taxes	2	(6)
Other changes in current liabilities	15	(16)
Pension funding (Note 4)	(18)	-
Gas supply clause receivable, net	32	(3)
MISO exit	(13)	-
Other	(10)	(8)
Net cash provided by operating activities	288	189
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction expenditures	(104)	(95)
Change in restricted cash	1	(1)
Net cash used for investing activities	(103)	(96)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of long-term debt	-	39
Retirement of long-term debt	(1)	(40)
Repayment of long-term borrowings from affiliated company (Note 8)	-	(50)
Repayment of short-term borrowings from affiliated company (Note 5)	(89)	(2)
Payment of dividends	(97)	(41)
Net cash used for financing activities	(187)	(94)
CHANGE IN CASH AND CASH EQUIVALENTS	(2)	(1)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	7	7
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$5	$6

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

Louisville Gas and Electric Company
Statements of Comprehensive Income
(Unaudited)
(Millions of $)

	Three Months Ended September 30,	Nine Months Ended September 30,

	2006	2005	2006	2005
Net income	$40	$42	$90	$104
Income Taxes - Minimum Pension Liability	-	-	-	(1)
Gain (loss) on derivative instruments and hedging activities - net of tax benefit (expense) of $4 million, $(3) million, $(1) million and $1 million, respectively (Note 4)	(6)	5	2	(1)
Comprehensive income (loss), net of tax	(6)	5	2	(2)
Comprehensive income	$34	$47	$92	$102

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

Kentucky Utilities Company
Statements of Income
(Unaudited)
(Millions of $)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
OPERATING REVENUES	$342	$347	$911	$899
OPERATING EXPENSES:				
Fuel for electric generation	130	119	325	290
Power purchased	49	65	140	161
Other operation and maintenance expenses	63	80	195	207
Depreciation and amortization	29	28	86	86
Total operating expenses	271	292	746	744
OPERATING INCOME	71	55	165	155

Other (income) - net	(13)	(2)	(26)	(5)
Interest expense (Note 3)	4	3	11	10
Interest expense to affiliated companies (Note 5 and Note 8)	6	4	17	12
INCOME BEFORE INCOME TAXES	74	50	163	138
Federal and state income taxes	25	18	54	51
NET INCOME	$49	$32	$109	$87

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

Statements of Retained Earnings
(Unaudited)
(Millions of $)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Balance at beginning of period	$778	$674	$718	$660
Net income	49	32	109	87
Subtotal	827	706	827	747
Cash dividends declared on stock:				
Cumulative preferred	-	1	-	2
Common	-	10	-	50
Subtotal	-	11	-	52
Balance at end of period	$827	$695	$827	$695

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

Kentucky Utilities Company
Balance Sheets
(Unaudited)

(Millions of $)

ASSETS	September 30, 2006	December 31, 2005
Current assets:		
Cash and cash equivalents	$5	$7
Restricted cash	15	22
Accounts receivable - less reserves of $2 million as of September 30, 2006 and December 31, 2005	118	135
Accounts receivable from affiliated companies (Note 8)	14	32
Materials and supplies:		
Fuel (predominantly coal)	59	55
Other materials and supplies	35	32
Prepayments and other current assets	8	5
Total current assets	254	288
Other property and investments - less reserves of less than $1 million as of September 30, 2006 and December 31, 2005	24	23
Utility plant:		
At original cost	4,057	3,847
Less: reserve for depreciation	1,552	1,508
Net utility plant	2,505	2,339
Deferred debits and other assets:		
Unamortized debt expense	6	5
Regulatory assets (Note 2)	101	58
Cash surrender value of key man life insurance	34	32
Intangible pension asset	8	8
Other assets	-	3
Total deferred debits and other assets	149	106
Total assets	$2,932	$2,756

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

Kentucky Utilities Company
Balance Sheets (cont.)
(Unaudited)
(Millions of $)

LIABILITIES AND EQUITY	September 30, 2006	December 31, 2005
Current liabilities:		
Current portion of long-term debt	$140	$123
Notes payable to affiliated companies (Note 5 and Note 8)	59	70
Accounts payable	91	89

Accounts payable to affiliated companies (Note 8)	76	53
Accrued income taxes	-	13
Customer deposits	18	17
Other current liabilities	30	18
Total current liabilities	414	383
Long-term debt:		
Long-term debt (Note 5)	203	240
Long-term debt to affiliated company (Note 5 and Note 8)	433	383
Total long-term debt	636	623
Deferred credits and other liabilities:		
Accumulated deferred income taxes - net	279	274
Accumulated provision for pensions and related benefits	101	92
Asset retirement obligation	28	27
Regulatory liabilities (Note 2):		
Accumulated cost of removal of utility plant	294	281
Regulatory liability deferred income taxes	19	23
Other regulatory liabilities	11	11
Other liabilities	19	20
Total deferred credits and other liabilities	751	728
Common equity:		
Common stock, without par value - Authorized 80,000,000 shares, outstanding 37,817,878 shares	308	308
Additional paid-in capital	15	15
Accumulated comprehensive loss	(19)	(19)
Retained earnings	812	704
Undistributed subsidiary earnings	15	14
Total retained earnings	827	718
Total common equity	1,131	1,022
Total liabilities and equity	$2,932	$2,756

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

Kentucky Utilities Company
Statements of Cash Flows
(Unaudited)
(Millions of $)

	Nine Months Ended September 30,	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$109	$87
Items not requiring cash currently:		
Depreciation and amortization	86	86

Deferred income taxes	1	6
VDT amortization	3	9
Other	10	(3)
Changes in current assets and liabilities:		
Accounts receivable	17	22
Accounts receivable from affiliated companies	18	(29)
Fuel	(4)	2
Other changes in current assets	(6)	(4)
Accounts payable	2	(10)
Accounts payable to affiliated companies	23	25
Accrued income taxes	(13)	(6)
Other changes in current liabilities	13	(13)
Fuel adjustment clause receivable, net	(24)	(18)
MISO exit	(20)	-
Other	(7)	4
Net cash provided by operating activities	208	158
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction expenditures	(236)	(77)
Change in restricted cash	7	(13)
Net cash used for investing activities	(229)	(90)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Retirement of first mortgage bonds (Note 5)	(36)	(50)
Issuance of pollution control bonds	16	14
Long-term borrowings from affiliated company (Note 5)	50	50
Repayment of short-term borrowings from affiliated company (Note 5)	(11)	(3)
Repayment of other borrowings	-	(27)
Payment of dividends	-	(52)
Net cash used for financing activities	19	(68)
CHANGE IN CASH AND CASH EQUIVALENTS	(2)	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	7	4
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$5	$4

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

Kentucky Utilities Company
Statements of Comprehensive Income
(Unaudited)
(Millions of $)

Three Months Nine
Months
Ended Ended
September 30, September
30,
2006 2005 2006
2005

Net income	$49	$32	$109	$87
Comprehensive income, net of tax	-	-	-	-
Comprehensive income	$49	$32	$109	$87

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

Louisville Gas and Electric Company
Kentucky Utilities Company
Notes to Financial Statements
(Unaudited)

1. General

The unaudited financial statements include the accounts of the Companies. The common stock of each Company is wholly-owned by E.ON U.S. In the opinion of management, the unaudited interim financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of financial position, results of operations, retained earnings, comprehensive income and cash flows for the periods indicated. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to SEC rules and regulations, although the Companies believe that the disclosures are adequate to make the information presented not misleading.

See the Companies' Annual Reports on Form 10-K for the year ended December 31, 2005, for information relevant to the accompanying financial statements, including information as to the significant accounting policies of the Companies.

KU INVESTMENT IN EEI

Other property and investments on the KU balance sheet consists largely of KU's investment in EEI, which was $17 million at September 30, 2006 and $16 million at December 31, 2005. KU owns 20% of the common stock of EEI, which owns and operates a 1,000-Mw generating station in southern Illinois. Prior to 2006, KU was entitled to take 20% of the available capacity of the station under a pricing formula comparable to the cost of other power generated by KU. This contract governing the purchases from EEI terminated on December 31, 2005. Subsequent to December 31, 2005, EEI has sold power under general market-based pricing and terms, generating increases in EEI earnings in 2006.

KU's investment in EEI is accounted for under the equity method of accounting and, accordingly, as EEI earnings have increased significantly in 2006, KU's equity in EEI earnings has also increased and is recorded in other income on the income statement. For the three and nine months ended September 30, 2006, KU's equity in EEI earnings was $9 million and $22 million, respectively, as compared with less than $1 million and $2 million, respectively, for the comparable periods in 2005.

NEW ACCOUNTING PRONOUNCEMENTS

In July 2006, the FASB issued FIN 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, Accounting for Income Taxes. FIN 48 is effective for fiscal years beginning after December 15, 2006. FIN 48 clarifies accounting for income taxes to provide improved consistency of criteria used to recognize, derecognize and measure benefits related to income taxes. The Companies are now analyzing the future impacts of FIN 48 on results of operations and financial condition.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 is effective for fiscal years ending after November 15, 2007. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The Companies are now analyzing the future impacts of SFAS No. 157 on results of operations and financial condition.

In September 2006, the FASB issued SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans. SFAS No. 158 is effective for fiscal years ending after December 15, 2006 for employers with publicly traded equity securities, and for employers controlled by entities with publicly traded equity securities, which is applicable for LG&E and KU. This statement requires employers to recognize the over-funded or under-funded status of a defined benefit postretirement plan as an asset or a liability in the balance sheet and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. This statement also requires employers to measure the funded status of a plan as of the date of its year-end balance sheet. This statement amends SFAS No. 87, Employers' Accounting for Pensions, SFAS No. 88, Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits, SFAS No. 106, Employers' Accounting for

Postretirement Benefits Other than Pensions and SFAS No. 132, Employers' Disclosures about Pensions and Other Postretirement Benefits. The Companies are now analyzing the future impacts of SFAS No. 158 on results of operations and financial condition.

2. Rates and Regulatory Matters

For a description of each line item of regulatory assets and liabilities for the Companies, reference is made to Part I, Item 8, Financial Statements and Supplementary Data, Note 3 of the Companies' Annual Reports on Form 10-K for the year ended December 31, 2005.

The following regulatory assets and liabilities were included in LG&E's Balance Sheets as of September 30, 2006 and December 31, 2005:

Louisville Gas and Electric Company
(Unaudited)

(in millions)	September 30, 2006	December 31, 2005
ARO	$23	$20
Unamortized loss on bonds	20	21
Gas supply adjustments	18	29
MISO exit	13	-
FAC	10	-
ECR	5	2
VDT	-	7
Other	4	5
Total regulatory assets	$93	$84
Accumulated cost of removal of utility plant	$230	$219
Deferred income taxes - net	47	42
Gas supply adjustments	38	17
Other	3	3
Total regulatory liabilities	$318	$281

In addition to generally earning applicable returns on approved assets, LG&E currently earns a return on all regulatory assets, excluding the ARO regulatory assets, gas supply adjustments, MISO exit and the FAC. The ARO regulatory assets earn no current return and will be offset against the associated regulatory liability (included in other regulatory liabilities), ARO asset and ARO liability at the time the underlying asset is retired. The gas supply adjustments and the FAC have separate recovery mechanisms with recovery within twelve months. The MISO exit amount represents the fee accrued at September 30, 2006 to record the applicable costs relating to the withdrawal from MISO membership. LG&E expects to seek recovery of this asset in future proceedings with the Kentucky Commission. See Note 9, Subsequent

Events.

The increase in the gas supply adjustments net liability for the nine months ended September 30, 2006 reflects over-recovery of gas supply costs, which are in the process of being refunded to customers. The increase in FAC for the nine months ended September 30, 2006 is due to the higher cost of fuel being passed on to customers. The decrease in VDT for the nine months ended September 30, 2006 is due to the completion of the amortization of the VDT in the first quarter of 2006.

The following regulatory assets and liabilities were included in KU's Balance Sheets as of September 30, 2006 and December 31, 2005:

Kentucky Utilities Company
(Unaudited)

(in millions)	September 30, 2006	December 31, 2005
ARO	$22	$20
Unamortized loss on bonds	11	11
MISO exit	20	-
FAC	36	12
ECR	6	4
VDT	-	3
Other	6	8
Total regulatory assets	$101	$58
Accumulated cost of removal of utility plant	$294	$281
Deferred income taxes - net	19	23
Other	11	11
Total regulatory liabilities	$324	$315

In addition to generally earning applicable returns on approved assets, KU currently earns a return on all regulatory assets, excluding the ARO regulatory assets, MISO exit and the FAC. The ARO regulatory assets earn no current return and will be offset against the associated regulatory liability (included in other regulatory liabilities), ARO asset and ARO liability at the time the underlying asset is retired. The FAC has a separate recovery mechanism with recovery within twelve months. The MISO exit amount represents the fee accrued at September 30, 2006 to record the applicable costs relating to the withdrawal from MISO membership. KU expects to seek recovery of this asset in future proceedings with the Kentucky Commission. See Note 9, Subsequent Events.

The increase in FAC for the nine months ended September 30, 2006 is due to the higher cost of fuel being passed on to customers. The decrease in VDT for the nine months ended September 30, 2006 is due to the completion of the amortization of the VDT in the first quarter of 2006.

ELECTRIC AND GAS RATE CASES

On June 30, 2004, the Kentucky Commission issued an order approving an increase in the base electric rates of the Companies and the natural gas rates of LG&E. The rate increases took effect on July 1, 2004.

During 2004 and 2005, the AG conducted an investigation of the Companies, as well as of the Kentucky Commission and its staff, requesting information regarding allegedly improper communications between the Companies and the Kentucky Commission, particularly during the period covered by the rate cases. Concurrently, the AG had filed pleadings with the Kentucky Commission requesting rehearing of the rate cases on computational components of the increased rates, including income taxes, cost of removal and depreciation amounts. In August 2004, the Kentucky Commission denied the AG's rehearing request on the cost of removal and depreciation issues and granted rehearing on the income tax component. The Kentucky Commission agreed to hold in abeyance further proceedings in the rate case, until the AG filed its investigative report regarding the allegations of improper communication.

In January 2005 and February 2005, the AG filed a motion summarizing its investigative report as containing evidence of improper communications and record-keeping errors by the Companies in their conduct of activities before the Kentucky Commission or other state governmental entities and forwarded such report to the Kentucky Commission under continued confidential treatment to allow it to consider the report, including its impact, if any, on completing its investigation and any remaining steps in the rate case. To date, the Companies have neither seen nor requested copies of the report or its contents.

In December 2005, the Kentucky Commission issued an order noting completion of its inquiry, including review of the AG's investigative report. The order concluded that no improper communications occurred during the rate proceeding. The order further established a procedural schedule through the first quarter of 2006 for considering the sole issue for which rehearing was granted: state income tax rates used in calculating the granted rate increase. On March 31, 2006, the Kentucky Commission issued an order resolving this issue in the Companies' favor consistent with the original rate increase order.

The Companies believe no improprieties have occurred in their communications with the Kentucky Commission and have cooperated in the proceedings before the AG and the Kentucky Commission. The Companies are currently unable to predict whether there will be any additional actions or consequences as a result of the AG's report and investigation.

MISO EXIT

Following receipt of applicable FERC, Kentucky Commission and other regulatory orders, LG&E and KU withdrew from the MISO effective September 1, 2006. Specific proceedings regarding the costs and benefits of the MISO and exit matters had been underway since July 2003. Since their exit from the MISO, the Companies have been operating under a FERC-approved open access-transmission tariff providing for a return on equity of 10.88%. The Companies have further contracted with the Tennessee Valley Authority to act as their Reliability Coordinator and Southwest Power Pool, Inc. to function as the Companies' Independent Transmission Operator, pursuant to FERC requirements, with respect to transmission matters.

The Companies and the MISO have agreed upon overall calculation methods for the contractual exit fee to be paid by the Companies following their withdrawal. In September 2006, the MISO submitted an initial invoice for approximately $33 million for the exit fee, which the Companies have allocated approximately $13 million to LG&E and $20 million to KU. The Companies and the MISO continue to discuss the specifics of the exit fee calculation. The outcome of these discussions and the eventual settlement of any disputed amount cannot be estimated at this time. Orders of the Kentucky Commission approving the Companies' exit from the MISO have authorized the establishment of a regulatory asset for the exit fee, subject to adjustment for possible future MISO credits, and a regulatory liability for certain revenues associated with former MISO Schedule 10 charges, which may continue to be collected via base rates. The treatment of the regulatory asset and liability will be determined in the Companies' next rate cases, however, the Companies historically have received approval to recover regulatory assets and liabilities.

See also Note 9, Subsequent Events.

FAC

On February 15, 2006, KU filed an application with the Virginia Commission seeking approval of an increase of approximately $6 million in its fuel cost factor to reflect higher fuel costs incurred during 2005, and anticipated to be incurred in 2006. The Virginia Commission approved KU's request on April 5, 2006.

In July 2006, the Kentucky Commission initiated routine periodic reviews of the FAC for the Companies. The Kentucky Commission issued Orders for both Companies on November 8, 2006, approving the charges and credits billed through the FAC during the review period.

ECR

In June 2006, the Companies filed applications to amend their ECR plans with the Kentucky Commission seeking approval to recover investments in environmental upgrades at the Companies' generating facilities. The estimated capital cost of the upgrades for the years 2006 through 2008 is approximately $324 million ($48 million for LG&E and $276 million for KU), of which $226 million is for the Air Quality Control System at Trimble County Unit 2 ($43 million for LG&E and $183 million for KU) and $95 million is for KU's Ghent Unit 2 Selective Catalytic Reduction. The estimated total capital cost of the upgrades is $364 million. A final order is expected to be issued by the end of 2006.

In April 2006, the Kentucky Commission initiated routine periodic reviews of the ECR mechanisms for the Companies. Hearings have been completed and the Kentucky Commission's Order is expected before year-end.

In December 2004, the Companies filed applications with the Kentucky Commission for approval of a CCN to construct new SO2 control technology (FGDs) at KU's Ghent and Brown stations, and to amend LG&E's compliance plan to allow recovery of new and additional environmental compliance facilities. The estimated capital cost of the additional facilities for 2006 through 2008 is approximately $840 million ($40 million for LG&E and $800 million for KU), of which $680 million is for the KU FGDs at Brown and Ghent. Hearings in these cases occurred during May 2005 and final orders were issued in June 2005, granting approval of the CCN and amendments to the Companies' compliance plans. In October 2006, the Kentucky Commission commenced an inquiry into elements of KU's planned construction of one of its three new FGDs at the Ghent generating station. See also Note 9, Subsequent Events.

VDT

In December 2001, the Companies received an order from the Kentucky Commission permitting them to set up regulatory assets for workforce reduction costs (VDT costs) and begin amortizing them over a five-year period beginning in April 2001. The order also reduced revenues through a surcredit on bills to ratepayers over the same five-year period, reflecting a sharing (40% to the ratepayers and 60% to the Companies) of the stipulated savings, net of amortization costs, of the workforce reduction. The five-year VDT amortization period ended March 31, 2006.

On February 27, 2006, the AG, Kentucky Industrial Utility Consumers, Inc. and the Companies reached a settlement agreement on the future ratemaking treatment of the VDT surcredits and costs and subsequently submitted a joint motion to the Kentucky Commission to approve the unanimous settlement agreement. Under the terms of the settlement agreement, the VDT surcredit will continue at the current level until such time as LG&E or KU file for a change in electric or natural gas base rates. The Kentucky Commission issued an order on March 24, 2006, approving the settlement agreement.

MARKET-BASED RATE AUTHORITY

Beginning in April 2004, the FERC initiated proceedings to modify its methods used to assess generation market power and has established more stringent interim market screen tests. During 2005, in connection with the Companies' tri-annual market-based rate tariff renewals, the FERC continued to contend that the Companies failed such market screens in certain regions. The Companies disputed this contention and, in January 2006, in an attempt to resolve the matter, the Companies submitted proposed tariff schedules to the FERC containing a mitigation mechanism with respect to applicable power sales into the control area of Big Rivers Electric Corporation ("BREC") in western Kentucky, where Western Kentucky Energy Corp., an affiliate of the Companies, maintains a long-term contractual relationship with BREC. Under the proposed tariff schedule, prices for such sales would be capped at a relevant MISO power pool index price. Upon the Companies' exit from the MISO, the FERC contended that they would have market power in their own joint control area, potentially requiring a similar mitigation mechanism for power sales into such region. In July 2006, the FERC issued an order in the Companies' market-based rate proceeding accepting the Companies' further proposal to address certain market power issues the FERC had claimed would arise upon an exit from the MISO. In particular, the Companies received permission to sell power at market-based rates at the interface of control areas in which they may be deemed to have market power, subject to a restriction that such power not be collusively re-sold back into such control areas. Certain general FERC proceedings continue with respect to market-based rate matters, and the Companies' market-based rate authority is subject to such future developments.

Additionally, recent FERC decisions in certain other market-based rate proceedings have proposed or required cost-based, rather than market index, price caps. The Companies cannot predict the ultimate impact of the current or potential mitigation mechanisms on their future wholesale power sales.

EPAct 2005

The EPAct 2005 was enacted on August 8, 2005. Among other matters, this comprehensive legislation contains provisions mandating improved electric reliability standards and performance; providing economic and other incentives relating to transmission, pollution control and renewable generation assets; increasing funding for clean coal generation incentives (see Note 6); repealing PUHCA 1935; enacting PUHCA 2005 and expanding FERC jurisdiction over public utility holding companies and related matters via the Federal Power Act and PUHCA 2005.

The FERC was directed by the EPAct 2005 to adopt rules to address many areas previously regulated by the other agencies under other statutes, including PUHCA 1935. The FERC remains in various stages of rulemaking on these issues and the Companies are monitoring these rulemaking activities and actively participating in these and other rulemaking proceedings. The Companies continue to evaluate the potential impacts of the EPAct 2005 and the associated rulemakings and cannot predict what impact the EPAct 2005, and any uncompleted rulemakings, will have on their operations or financial position.

3. Financial Instruments

INTEREST RATE SWAPS (hedging derivatives)

The Companies use over-the-counter interest rate swaps to hedge exposure to market fluctuations in certain of their debt instruments. Pursuant to the Companies' policies, use of these financial instruments is intended to mitigate risk, earnings and cash flow volatility and is not speculative in nature. Management has designated all of the interest rate swaps as hedge instruments. Financial instruments designated as cash flow hedges have resulting gains and losses recorded within comprehensive income and stockholders' equity. Financial instruments designated as fair value hedges and the underlying hedged items are periodically marked to market with the resulting net gains and losses recorded directly into net income. Upon termination of any fair value hedge, the resulting gain or loss is recorded into net income.

As of September 30, 2006, LG&E was party to various interest rate swap agreements with aggregate notional amounts of $211 million. Under these swap agreements, LG&E paid fixed rates averaging 4.38% and received variable rates based on LIBOR or the Bond Market Association's municipal swap index averaging 3.67% at September 30, 2006. The swap agreements in effect at September 30, 2006, have been designated as cash flow hedges and mature on dates ranging from 2020 to 2033. The hedges have been deemed to be fully effective resulting in a pretax gain of $3 million for the nine months ended September 30, 2006, recorded in comprehensive income. Upon expiration of these hedges, the amount recorded in comprehensive income will be reclassified into earnings. The amounts expected to be reclassified from comprehensive income to earnings in the next twelve months are immaterial. A deposit in the amount of $9 million, used as collateral for the $83 million interest rate swap, is classified as restricted cash on LG&E's Balance Sheet. The amount of the deposit required is tied to the market value of the swap.

As of September 30, 2006, KU was party to an interest rate swap agreement with a notional amount of $53 million. Under this swap agreement, KU paid variable rates based on LIBOR averaging 7.48%, and received fixed rates averaging 7.92% at September 30, 2006. The swap agreement in effect at September 30, 2006 has been designated as a fair value hedge and matures in 2007. At September 30, 2006, the effect of marking this financial instrument and the underlying debt to market resulted in pretax gains recorded in interest expense of less than $1 million.

Interest rate swaps hedge interest rate risk on the underlying debt. Under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, in addition to swaps being marked to market, the item being hedged using a fair value hedge must also be marked to market. Consequently at September 30, 2006, KU's debt reflects a mark-to-market adjustment of less than $1 million.

At September 30, 2006, the Companies' percentage of debt having a variable rate, including the impact of interest rate swaps, was 48% ($415 million) for LG&E and 48% ($401 million) for KU.

ENERGY TRADING AND RISK MANAGEMENT CONTRACTS (non-hedging derivatives)

The Companies conduct energy trading and risk management activities to maximize the value of power sales from physical assets they own. Certain energy trading activities are accounted for on a mark-to-market basis in accordance with SFAS No. 133, as amended. The mark-to-market adjustment as of September 30, 2006 generated an increase in other income for each Company of approximately $2 million during the third quarter of 2006.

The fair values of the Companies' energy trading and risk management contracts as of September 30, 2006 were each approximately $4 million, recorded in other assets on the balance sheets of each Company. The fair values at September 30, 2005, were less than $1 million each. No changes to valuation techniques for energy trading and risk management activities occurred during 2006 or 2005. All contracts outstanding at September 30, 2006, have a maturity of less than one year and are valued using prices actively quoted for proposed or executed transactions or quoted by brokers.

4. Pension and Other Post-retirement Benefit Plans

The following table provides the components of net periodic benefit cost for pension and other benefit plans for the three and nine months ended September 30, 2006 and 2005:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2006		2005		2006		2005	
(in millions)	LG&E	KU	LG&E	KU	LG&E	KU	LG&E	KU

Pension and Other Benefit Plans								
Components of net period benefit cost								
Service cost	$2	$2	$1	$2	$5	$6	$4	$6
Interest cost	6	5	5	6	17	13	17	14
Expected return on plan assets	(6)	(4)	(5)	(5)	(16)	(12)	(16)	(13)
Amortization of prior service cost	1	1	1	-	3	2	4	1
Recognized actuarial loss	1	1	1	1	3	3	2	2
Total net period benefit cost	$4	$5	$3	$4	$12	$12	$11	$10

LG&E made a discretionary contribution to the pension plan of $18 million in January 2006. LG&E made no contributions during 2005. KU made no contributions to the pension plan in 2006 or 2005.

5. Short-Term and Long-Term Debt

Under the provisions for LG&E's variable-rate pollution control bonds, Series S, T, U, BB, CC, DD and EE, and KU's variable-rate pollution control bonds Series 10, 12, 13, 14 and 15, the bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events, causing the bonds to be classified as current portion of long-term debt in the balance sheets. The average annualized interest rate for these bonds during the nine months ending September 30, 2006 was 3.47% for LG&E and 3.50% for KU.

During June 2006, LG&E renewed five revolving lines of credit with banks totaling $185 million. There was no outstanding balance under any of these facilities at September 30, 2006. LG&E expects to renew these facilities prior to their expiration in June 2007

LG&E, KU and E.ON U.S. participate in an intercompany money pool agreement. Details of the balances at September 30, 2006 and December 31, 2005 were as follows:

($ in millions)	Total Money Pool Available	Amount Outstanding	Balance Available	Average Interest Rate
September 30, 2006:				
LG&E	$400	$ 52	$348	5.27%
KU	$400	$ 59	$341	5.27%

December 31, 2005:				
LG&E	$400	$ 141	$259	4.21%
KU	$400	$ 70	$330	4.21%

E.ON U.S. maintains a revolving credit facility totaling $200 million with an affiliated company, E.ON North America, Inc., to ensure funding availability for the money pool. The balance outstanding on this facility at September 30, 2006, was $52 million.

Redemptions and maturities of long-term debt year-to-date through September 30, 2006, are summarized below:

Year	Company	Description	Principal Amount (in millions)	Rate	Secured/ Unsecured	Maturity
2006	LG&E	Mand. Red. Pref. Stock	$1	5.875%	Unsecured	Jul 2006
2006	KU	First mortgage bonds	$36	5.99%	Secured	Jan 2006

Issuances of long-term debt year-to-date through September 30, 2006, are summarized below:

Year	Company	Description	Principal Amount (in millions)	Rate	Secured/ Unsecured	Maturity
2006	KU	Fidelia note	$50	6.33%	Unsecured	Jun 2036
2006	KU	Pollution control bonds	$17	Variable	Secured	Jun 2036

6. Commitments and Contingencies

Except as may be discussed in this Quarterly Report on Form 10-Q (including Note 2), material changes have not occurred in the current status of various commitments or contingent liabilities from that discussed in the Companies' Annual Report on Form 10-K for the year ended December 31, 2005 (including in Notes 3 and 10 to the financial statements of the Companies contained therein) and Quarterly Reports on Form 10-Q for the quarters ended March 31, 2006 and June 30, 2006 (including in Notes 2 and 6 to the financial statements contained therein). See the above-referenced notes in the Companies' Annual Report on Form 10-K and Quarterly Reports on Form 10-Q for information regarding such commitments or contingencies.

TRIMBLE COUNTY UNIT 2

In June 2006, the Companies, as 75% owners, entered into and delivered notice to proceed under an engineering, procurement and construction agreement with Bechtel Power Corporation ("Bechtel"), regarding construction of Trimble County Unit 2, valued at approximately $1.1 billion. IMEA and IMPA, as 25% owners, are also parties to the contract. The contract is generally in the form of a lump-sum, turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to *designated specifications*, *terms and conditions. The contract price* and its components are subject to a number of potential adjustments which may serve to increase or decrease the ultimate construction price paid or payable to the contractor. The contract also contains standard representations, covenants, indemnities, termination and other provisions for arrangements of this type, including termination for convenience or for cause rights. In general, termination by the owners for convenience or by the contractor due to owners' default will limit payment obligations to payment for work or incentives performed or earned to date and termination by owners due to contractor's default will similarly limit payment obligations, subject however to owners' rights with respect to cover damages and to certain collateral provided. In connection with this matter, the Companies dismissed their litigation against Bechtel regarding the contract previously commenced in April 2006 in United States District Court for the Western District of Kentucky.

In June 2006, the Companies filed an application with the DOE requesting certification to be eligible for investment tax credits applicable to the construction of Trimble County Unit 2. The EPAct 2005 added a new 48A to the Internal Revenue Code, which provides for an investment tax credit to *promote the commercialization of advanced* coal technologies that will generate electricity in an environmentally responsible manner. The application requested up to the maximum amount of "advanced coal project" credit allowed per taxpayer, or $125 million, based on an estimate of 15% of projected qualifying Trimble County Unit 2 expenditures. In September and October 2006, the Companies submitted a follow-on application and additionally requested information to the IRS. IRS action on such applications *would also be expected to occur during the fourth quarter of 2006.* To the extent the Companies' application is ultimately accepted by the IRS, federal income tax credits may be claimed on eligible expenditures, as incurred.

LOUISVILLE DOWNTOWN ARENA

In August 2006, LG&E and the Louisville Arena Authority, Inc., a non-profit corporation (the "Authority") entered into a non-binding Memorandum of Understanding ("MOU") to transfer certain property and relocate certain LG&E facilities so that an LG&E-owned site, in part, could be used for the development and construction of a new multi-purpose arena in Louisville, Kentucky. The MOU contemplates the parties working in good faith toward completing definitive documents regarding the arena transaction. The MOU notes that the cost of relocating the LG&E facilities will be approximately $63 million and commits that the Authority arrange for the provision of state funds necessary for the relocation, as well as up to $10 million in state funds for the purchase of the property at fair market value. Assuming completion of definitive documents, the transfer of the property to the Authority is anticipated to occur before the end of 2008. In September 2006, the Kentucky Commission approved LG&E's application for authority to transfer applicable property as part of the arena transaction. In November 2006, the parties completed definitive documents relating to the arena transactions. See also Note 9, Subsequent Events.

OMU LITIGATION

In May 2004, the City of Owensboro, Kentucky and Owensboro Municipal Utilities (collectively "OMU") commenced a suit now removed to the U.S. District Court for the Western District of Kentucky, against KU concerning a long-term power supply contract (the "OMU Agreement") with KU. The dispute involves interpretational differences regarding issues under the OMU Agreement, including various payments or charges between KU and OMU and rights concerning excess power, termination and emissions allowances. The complaint seeks approximately $6 million in damages for periods prior to 2004 and OMU is expected to claim further amounts for later-occurring periods. OMU has additionally requested injunctive and other relief, including a declaration that KU is in material breach of the contract. KU has filed an answer in that court denying the OMU claims and presenting counterclaims. During 2005, the FERC declined KU's application to exercise exclusive jurisdiction over the matter. In July 2005, the district court resolved a summary judgment motion made by KU in OMU's favor, ruling that a contractual provision grants OMU the ability to terminate the contract without cause upon four years' prior notice, for which ruling KU retains certain rights to appeal. At this time the district court case is in the discovery stage and currently a trial date of January 2008 has been scheduled. In May 2006, OMU issued a notification of its intent to terminate the contract in May 2010, without cause, absent any earlier relief which may be permitted by the proceeding.

ENVIRONMENTAL MATTERS

In April 2006, the EPA issued a notice of violation for alleged violations of the Clean Air Act involving work performed on Unit 3 of KU's E.W. Brown Station in 1997. The EPA alleges modification of a source without a permit, failure to comply with requirements under the Prevention of Significant Deterioration ("PSD") program, operation of a source in violation of the New Source Performance Standards ("NSPS"), and failure to identify the applicability of PSD and NSPS requirements in compliance certifications. Violations, if ultimately found, could result in additional expenditures on pollution controls or civil penalties. KU has responded to certain data requests of the EPA and held initial discussions with the EPA regarding this matter. Due to the early stage of this matter, KU is unable to determine its ultimate potential impact.

The Companies are subject to SO2 and NOx emission limits on their electric generating units pursuant to the Clean Air Act. The Companies placed into operation significant NOx controls for their generating units prior to the 2004 summer ozone season. As of September 30, 2006, LG&E and KU have incurred total capital costs of approximately $187 million and $215 million, respectively, to reduce their NOx emissions to required levels. In addition, the Companies incur additional operating and maintenance costs in operating the new NOx controls. On March 10, 2005, the EPA issued the final CAIR which requires substantial additional reductions in SO2 and NOx emissions from electric generating units. The CAIR provides for a two-phased reduction program with Phase I reductions in NOx and SO2 emissions in 2009 and 2010, respectively, and Phase II reductions in 2015. On March 15, 2005, the EPA issued a related regulation, the final CAMR, which requires substantial mercury reductions from electric generating units. The CAMR also provides for a two-phased reduction, with the Phase I target in

2010 achieved as a "co-benefit" of the controls installed to meet the CAIR. Additional control measures will be required to meet the Phase II target in 2018. Both the CAIR and the CAMR establish a cap and trade framework, in which a limit is set on total emissions and allowances can be bought or sold on the open market to be used for compliance, unless the state chooses another approach. LG&E currently has FGDs on all its coal-fired units, but will continue to evaluate improvements to further reduce SO2 emissions.

In order to meet these new regulatory requirements, KU has implemented a plan for adding significant additional SO2 controls to its generating units. Installation of additional SO2 controls will proceed on a phased basis, with construction of controls (i.e., FGDs) having commenced in September 2005 and continuing through the final installation and operation in 2009. KU estimates that it will incur $809 million in capital costs related to the construction of the FGDs to achieve compliance with current emission limits on a company-wide basis. Of this amount, $126 million has been incurred through September 30, 2006. In addition, KU will incur additional operating and maintenance costs in operating the new SO2 controls.

The Companies are also monitoring several other air quality issues which may potentially impact coal-fired power plants, including the EPA's revised air quality standards for ozone and particulate matter and measures to implement the EPA's Clean Air Visibility Rule.

During 2006, the EPA and state environmental authorities agreed to a tentative general settlement with KU and other parties regarding recovery of remediation and other costs relating to the former Tindall transformer scrap yard. KU's share of such overall settlement is less than $1 million. The tentative settlement remains subject to certain actions at the EPA and state levels, including completion of certain public notice and comment procedures, following which actions final regulatory approvals can commence.

In the normal course of business, lawsuits, claims, environmental actions and various non-ratemaking governmental proceedings arise against the Companies. To the extent that damages are assessed in any lawsuits relating to the above, the Companies believe that their insurance coverage or other appropriate reserves are adequate. Management, after consultation with legal counsel, and based upon the present status of these items, does not anticipate that liabilities arising out of other currently pending or threatened lawsuits and claims of the type referenced above will have a material adverse effect on the Companies' financial position or results of operations.

EMPLOYEES AND LABOR RELATIONS

Effective August 1, 2006, KU and its employees represented by IBEW Local 2100 entered into a new three-year collective bargaining agreement. The new agreement provides for negotiated increases or changes to wages, benefits or other provisions and for annual wage re-openers.

PENSION LEGISLATION

The Pension Protection Act of 2006 was enacted in August 2006. Among other matters, this comprehensive legislation contains provisions applicable to defined benefit plans which generally (i) mandate 100% funding of current liabilities within seven years; (ii) increase tax-deduction levels regarding contributions; (iii) revise certain actuarial assumptions, such as mortality tables and discount rates; and (iv) raise federal insurance premiums and other fees for funded and distressed plans. The legislation also contains similar provisions relating to defined-contribution plans and qualified and non-qualified executive pension plans and other matters. The Companies are currently examining the potential impacts of the Pension Protection Act of 2006.

7. Segments of Business

LG&E's revenues, net income and total assets by business segment for the three and nine months ended September 30, 2006 and 2005, follow:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2006	2005	2006	2005
LG&E Electric				
Revenues	$269	$284	$704	$741
Net income	43	45	86	99
Total assets	2,454	2,416	2,454	2,416
LG&E Gas				
Revenues	34	35	288	260
Net income	(3)	(3)	4	5

Total assets	563	551	563	551
Total				
Revenues	303	319	992	1,001
Net income	40	42	90	104
Total assets	3,017	2,967	3,017	2,967

KU is an electric utility company. It does not provide natural gas service and, therefore, is presented as a single business segment.

8. Related Party Transactions

LG&E, KU, subsidiaries of E.ON U.S., and other subsidiaries of E.ON engage in related-party transactions. These transactions are generally performed at cost and in accordance with applicable FERC, Kentucky Commission and Virginia Commission regulations. The significant related-party transactions are disclosed below.

ELECTRIC PURCHASES

The Companies' intercompany electric revenues and purchased power expense from affiliated companies for the three and nine months ended September 30, 2006 and 2005 were as follows:

(in millions)	Three Months Ended September 30, 2006		2005		Nine Months Ended September 30, 2006		2005	
	LG&E	KU	LG&E	KU	LG&E	KU	LG&E	KU
Electric operating revenues from KU	$23	-	$15	-	$67	-	$62	-
Electric operating revenues from LG&E	-	17	-	16	-	52	-	65
Purchased power from KU	17	-	16	-	52	-	65	-
Purchased power from LG&E	-	23	-	15	-	67	-	62

INTEREST CHARGES

The Companies' intercompany interest income and expense for the three and nine months ended September 30, 2006 and 2005 were as follows:

	Three Months Ended September 30, 2006	2005	Nine Months Ended September 30, 2006	2005

(in millions)	LG&E	KU	LG&E	KU	LG&E	KU	LG&E	KU
Interest on money pool loans	$-	$1	$-	$-	$1	$2	$1	$1
Interest on Fidelia loans	3	5	3	4	8	15	8	11

OTHER INTERCOMPANY BILLINGS

Other intercompany billings related to the Companies for the three and nine months ended September 30, 2006 and 2005 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2006	2005	2006	2005
E.ON U.S. Services billings to LG&E	$57	$53	$162	$161
E.ON U.S. Services billings to KU	99	44	221	146
LG&E billings to E.ON U.S. Services	1	1	4	6
KU billings to E.ON U.S. Services	1	-	3	4
LG&E billings to KU	21	55	31	83
KU billings to LG&E	14	8	29	21

9. Subsequent Events

In October 2006, the Companies paid approximately $33 million to the MISO pursuant to a revised MISO invoice regarding the exit fee and made related FERC compliance filings. The Companies' payment of this exit fee amount was with reservation of their rights to contest the amount, or components thereof, following a continuing review of its calculation and supporting documentation.

In October 2006, E.ON U.S., LG&E and KU announced plans to provide up to $25 million over a period of up to twelve years to the FutureGen Industrial Alliance, Inc. ("FutureGen"), a non-profit consortium. FutureGen will conduct research, development and demonstration activities relating to advanced coal technologies, including proposed construction of the world's first coal-fired, "near zero emissions" power plant. Among the members of FutureGen are companies with interests in coal-fired electric power generation or coal production.

FutureGen has signed an initial cooperative agreement with the DOE and expects to sign a full-scope cooperative agreement in 2007. Beyond their initial aggregate membership amount of $0.3 million, E.ON U.S. and the Companies have rights at sequential future times to terminate participation prior to incurring the obligation to contribute the relevant remaining contribution amounts. The next estimated contribution will be in the amount of $0.8 million during the remainder of 2006.

In October 2006, KU entered into a $50 million long-term unsecured loan from Fidelia. The loan matures in October 2016, and has an interest rate of 5.675%.

In October 2006, the Kentucky Commission commenced an inquiry into elements of KU's planned construction of one of its three new FGD's at the Ghent generating station. The proceeding requests additional information from KU regarding configuration details, expenditures and the proposed construction sequence applicable to future construction phases of the Ghent FGD project. The inquiry focuses on KU's proposal to complete the project in a manner which would result in connecting the final new FGD to the generating unit currently served by an existing FGD and reconnecting such existing FGD to the final remaining generating unit. Pursuant to various Kentucky Commission approvals, KU has built and operated an FGD on one generating unit since the mid-1990's and is in varying stages of construction or pre-construction on FGD's for the remaining three generating units at its Ghent plant. KU is currently unable to predict the outcome and ultimate impact, if any, of the Kentucky Commission's proceeding.

In November 2006, the Kentucky Commission issued orders for both Companies regarding the routine periodic reviews approving the changes and credits billed through the FAC during the review period.

In November 2006, LG&E completed certain agreements pursuant to its August 2006 MOU with the Authority regarding the proposed construction of an arena in downtown Louisville. LG&E entered into a relocation agreement providing for the reimbursement by the Authority to LG&E of the costs to be incurred in moving certain LG&E facilities related to the arena transaction, which costs are currently estimated to be approximately $63 million. The parties further entered into a property sale contract providing for LG&E's sale of a downtown site to the Authority for approximately $10 million, which represents the appraised value of the parcel, less certain agreed demolition costs. The amounts specified in the contracts are subject to certain adjustments. Depending upon continuing progress in the proposed arena transaction generally, the transactions contemplated by the contracts are anticipated to occur between 2006 and 2010.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

General

The following discussion and analysis by management focuses on those factors that had a material effect on the Companies' financial results of operations and financial condition during the three and nine month periods ended September 30, 2006, and should be read in connection with the financial statements and notes thereto.

Some of the following discussion may contain forward-looking statements that are subject to certain risks, uncertainties and assumptions. Such forward-looking statements are intended to be identified in this document by the words "anticipate," "expect," "estimate," "objective," "possible," "potential" and similar expressions. Actual results may vary materially. Factors that could cause actual results to differ materially include: general economic conditions; business and competitive conditions in the energy industry; changes in federal or state legislation; unusual weather; actions by state or federal regulatory agencies; and other factors described from time to time in the Companies' reports to the SEC, including the Annual Reports on Form 10-K for the year ended December 31, 2005.

Executive Summary

LG&E and KU, subsidiaries of E.ON U.S. (indirect subsidiaries of E.ON), are regulated public utilities. At September 30, 2006, LG&E supplied electricity to approximately 397,000 customers and natural gas to approximately 322,000 customers in Louisville and adjacent areas in Kentucky. At September 30, 2006, KU provided electricity to approximately 499,000 customers in 77 counties in central, southeastern and western Kentucky, to approximately 30,000 customers in southwestern Virginia and 5 customers in Tennessee. KU also sells wholesale electricity to 12 municipalities.

The mission of the Companies is to build on our tradition and achieve world-class status providing reliable, low-cost energy services and superior customer satisfaction; and to promote safety, financial success and quality of life for our employees, communities and other stakeholders.

The Companies' strategy focuses on the following:

- Achieve scale as an integrated U.S. electric and gas business through organic growth;
- Maintain excellent customer satisfaction;
- Maintain best-in-class cost position versus U.S. utility companies;
- Develop and transfer best practices throughout the company;
- Invest in infrastructure to meet expanding load and comply with increasing environmental requirements;
- Achieve appropriate regulated returns on all investment;
- Attract, retain and develop the best people; and
- Act with a commitment to corporate social responsibility that enhances the well being of our employees, demonstrates environmental stewardship, promotes quality of life in our communities and reflects the diversity of the society we serve.

In a June 2004 order, the Kentucky Commission accepted the settlement agreements reached by the majority of the parties in the rate cases filed by the Companies in December 2003. Under the ruling, the LG&E utility base electric rates have increased $43 million (7.7%) and base natural gas rates have increased $12 million (3.4%) annually. Base electric rates at KU have increased $46 million (6.8%) annually. The rate increases took effect on July 1, 2004. The 2004 increases were the first increases in electric base rates for the Companies in 13 and 20 years, respectively; the previous natural gas rate increase for the LG&E gas utility took effect in September 2000.

The Companies have begun construction of another base-load coal-fired unit at the Trimble County site. The Companies believe this is the least cost alternative to meet the future needs of customers. Trimble County Unit 2, with a 750 Mw capacity rating, is expected to be jointly owned by the Companies (75% owners of the unit) and the IMEA and IMPA (25% owners). Trimble County Unit 2 is expected to cost $1.1 billion and be completed by 2010. The Companies' aggregate 75% share of the total Trimble County Unit 2 capital cost is approximately $879 million and is estimated to be

approximately $151 million for LG&E and $601 million for KU through 2008.
Through September 2006, expenditures for Trimble County Unit 2 have been $18 million for LG&E and $66 million for KU. In June 2006, the Companies entered into a construction contract regarding the Trimble County Unit 2 project. See Note 6 of the Notes to Financial Statements, in Part 1, Item 1, herein.

In November 2005, the Kentucky Commission approved the CCN construction application of the Companies to expand the Trimble County generating plant. Kentucky Commission approvals for the related transmission line CCNs were granted in September 2005 and May 2006. In July 2006, certain property owners filed a motion for judicial appeal of the latter transmission line CCN ruling. A schedule for such proceeding has not been established. In November 2005, the Kentucky Division for Air Quality issued the final air permit, which was challenged via a request for remand in December 2005 by three environmental advocacy groups, including the Sierra Club. Administrative proceedings with respect to the challenge are expected to continue during 2006. A ruling thereafter may be anticipated in the first half of 2007.

In July 2006, the FERC issued a final report under a routine audit that its Office of Enforcement (formerly its Office of Market Oversight and Investigations) had conducted regarding the compliance of E.ON U.S. and subsidiaries, including LG&E and KU, under the FERC's standards of conduct and codes of conduct requirements, as well as other areas. The final report contained certain findings calling for improvements in E.ON U.S. and subsidiaries' structures, policies and procedures relating to transmission, generation dispatch, energy marketing and other practices. E.ON U.S. and affiliates have agreed to certain corrective actions and plan to submit procedures related to such corrective actions to the FERC. The corrective actions are in the nature of organization and operational improvements as described above and are not expected to have a material adverse impact on the Companies' results of operations or financial condition.

Results of Operations

The results of operations for the Companies are affected by seasonal

fluctuations in temperature and other weather-related factors. Because of
these and other factors, the results of one interim period are not necessarily indicative of results or trends to be expected for the full year.

Three Months Ended September 30, 2006, Compared to
Three Months Ended September 30, 2005

LG&E Results:

LG&E's net income decreased $2 million (5%) for the three months ended September 30, 2006, as compared to the three months ended September 30, 2005, primarily due to lower retail sales volumes resulting from cooler weather than last year and a higher effective income tax rate this year,
partially offset by lower MISO expenses and lower other operation expenses
primarily from the completion of the VDT amortization earlier this year.

A comparison of LG&E's revenues for the three months ended September 30,
2006, with the three months ended September 30, 2005, reflects increases
and (decreases) which have been segregated by the following principal causes:

Cause (in millions)	Electric Revenues	Gas Revenues
Retail sales:		
Fuel and gas supply adjustments	$3	$1
Environmental cost recovery surcharge	(1)	-
Merger surcredit	1	-
Variation in sales volume and other	(12)	(2)
Total retail sales	(9)	(1)
Wholesale sales	4	-
MISO Day 2 RSG MWP	(10)	-
Total	$(15)	$(1)

Electric revenues decreased $15 million (5%) primarily due to:
- Decreased sales volumes delivered ($12 million) resulting from a 16% decrease in cooling degree days in the third quarter of 2006 as compared to the same period in 2005
- Decreased MISO related revenue ($10 million) due to the accounting reclassification of MISO Day 2 RSG MWP in the third quarter of 2005. This reclass of the RSG MWP was made from an expense account to a revenue account back to the inception of MISO Day 2 on April 1, 2005.
- Increased fuel costs ($3 million) billed to customers through the fuel adjustment clause
- Increased wholesale sales ($4 million) largely due to 20% higher

volumes

Gas revenues for the quarter ending September 2006 as compared to the same period last year were essentially flat with no significant variances.

Fuel for electric generation and gas supply expenses comprise a large component of LG&E's total operating expenses. Increases or decreases in the cost of fuel and natural gas supply are reflected in LG&E's electric and natural gas retail rates, through the fuel adjustment clause and gas supply clause, subject to the approval of the Kentucky Commission.

Fuel for electric generation increased $6 million (8%) in 2006 primarily due to:
- Increased unit cost of fuel burned ($3 million) due to higher fuel prices
- Increased generation ($3 million) due to higher unit availability

Power purchased decreased $8 million (24%) in 2006 primarily due to:
- Decreased volumes purchased ($9 million) due to higher unit availability and lower retail sales volumes
- Increased unit cost of purchases ($1 million) due to higher market prices

Gas supply expenses decreased $1 million (5%) in 2006 primarily due to:
- Decreased unit cost of natural gas purchased ($3 million)
- Increased volumes delivered to the distribution system ($2 million)

Other operation and maintenance expenses decreased $18 million (20%) in 2006.

Other operation expenses decreased $23 million (34%) primarily due to:
- Decreased other power supply costs ($16 million) primarily due to lower MISO Day 2 expenses
- Decreased administrative and general expenses ($7 million) primarily due to completion of the VDT amortization

Maintenance expense increased $3 million (22%) primarily due to:
- Increased electric distribution maintenance ($2 million) primarily due to tree trimming
- Increased steam generation maintenance ($1 million) primarily related to Mill Creek Unit 4

Property and other taxes increased $1 million (30%)

Other income increased $2 million in 2006 primarily due to non-hedging derivative mark-to-market income.

Interest expense increased $2 million (33%) in 2006 primarily due to:
- Increased interest rates on variable rate debt ($2 million)

- Increased interest expense on tax deficiencies ($1 million)
- Decreased interest expense on the swaps ($1 million)

The weighted average interest rate on variable-rate bonds for the three months ended September 30, 2006, was 3.63%, compared to 2.54% for the comparable period in 2005.

A comparison of the LG&E effective income tax rate for the three months ended September 30, 2006 and 2005 follows:

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005
Effective Rate		
Statutory federal income tax rate	35.0%	35.0%
State income taxes net of federal benefit	4.0	3.7
Reduction of previous accruals	(0.6)	(9.0)
Amortization of investment tax credits	(1.6)	(1.8)
Other differences	(1.3)	(1.6)
Effective income tax rate	35.5%	26.3%

In September 2005, E.ON U.S. Investments Corp., the parent of E.ON U.S. and indirect parent of LG&E, received notice from the Congressional Joint Committee on Taxation approving the IRS audit of the consolidated group's returns for the periods December 1999 through December 2003. As a result of this approval, LG&E released income tax reserves of $5.1 million in the third quarter of 2005. Further reductions of previous tax accruals were made in the third quarter of 2006 primarily due to the expiration of the statute of limitations for a prior year.

The change in amortization of investment tax credits and other differences is largely attributable to the change in the levels of pre-tax income.

KU Results:

KU's net income increased $17 million (53%) for the three months ended September 30, 2006, as compared to the three months ended September 30, 2005, primarily due to higher equity in earnings from EEI, lower MISO expenses and lower other operation expenses primarily from the completion of the VDT amortization earlier this year, partially offset by lower retail and wholesale sales volumes and increased interest expense.

A comparison of KU's revenues for the three months ended September 30, 2006, with the three months ended September 30, 2005, reflects increases and (decreases) which have been segregated by the following principal causes:

Cause (in millions)	Electric Revenues
Retail sales:	
Fuel supply adjustments	$27
Environmental cost recovery surcharge	3
Merger surcredit	2
Variation in sales volumes and other	(13)
Total retail sales	19
Wholesale sales	(10)
MISO Day 2 RSG MWP	(14)
Total	$(5)

Electric revenues decreased $5 million (1%) in 2006 primarily due to:

- Decreased MISO related revenue ($14 million) due to the accounting reclassification of MISO Day 2 RSG MWP in the third quarter of 2005. This reclass of the RSG MWP was made from an expense account to a revenue account back to the inception of MISO Day 2 on April 1, 2005.
- Decreased sales volumes delivered ($13 million) resulting from a 21% decrease in cooling degree days in the third quarter of 2006, as compared to the same period in 2005
- Decreased wholesale revenues ($10 million) largely due to 37% lower volumes
- Increased fuel costs ($27 million) billed to customers through the fuel adjustment clause due to higher coal prices
- Increased environmental cost recovery ($3 million) billed to customers
- Increased merger surcredit revenues ($2 million)

Fuel for electric generation comprises a large component of KU's total operating expenses. Increases or decreases in the cost of fuel are reflected in KU's retail electric rates through the fuel adjustment clause, subject to the approval of the Kentucky Commission, the Virginia State Corporation Commission and the FERC.

Fuel for electric generation increased $11 million (9%) in 2006 primarily due to:

- Increased unit cost of fuel burned ($17 million) due to higher fuel prices
- Decreased generation ($6 million) due to lower sales volumes

Power purchased decreased $16 million (25%) in 2006 primarily due to:

- Decreased unit cost of purchases ($12 million) due to lower market prices

- Decreased volumes purchased ($4 million) due to higher unit availability and lower sales volumes

Other operation and maintenance expenses decreased $17 million (21%) in 2006.

Other operation expenses decreased $19 million (33%) primarily due to:

- Decreased other power supply costs ($15 million) primarily due to lower MISO Day 2 expenses
- Decreased administrative and general expenses ($3 million) primarily due to the completion of the VDT amortization
- Decreased transmission expense ($2 million) primarily due to lower MISO Day 1 expenses
- Increased steam generation operations expense ($1 million)

Property and other taxes increased $1 million (29%)

Other income - net increased $11 million primarily due to:

- Increased equity in earnings from EEI as a result of EEI selling electricity at market based rates, effective January 2006 ($9 million)
- Increased non-hedging derivative mark-to-market income ($2 million)

Interest expense increased $1 million (33%) primarily due to higher interest rates on variable rate debt. The weighted average interest rate on variable-rate bonds for the three months ended September 30, 2006, was 3.63%, compared to 2.54% for the comparable period in 2005.

Interest expense to affiliated companies increased $2 million (50%) in 2006 primarily due to increased borrowing from Fidelia.

A comparison of the KU effective income tax rate for the three months ended September 30, 2006 and 2005 follows:

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005
Effective Rate		
Statutory federal income tax rate	35.0%	35.0%
State income taxes net of federal benefit	4.5	4.6
Reduction of previous accruals	(0.3)	(8.9)
Amortization of investment tax credits	(0.4)	(0.9)
EEI dividend	(3.0)	-
EEI adjustment	-	6.3

Other differences	(2.0)	(0.1)
Effective income tax rate	33.8%	36.0%

The EEI dividend in the third quarter of 2006 reflects tax benefits associated with the receipt of dividends from KU's investment in EEI. During the third quarter in 2005, KU recognized additional deferred tax expense ($3.1 million) related to the undistributed earnings in its EEI unconsolidated investment. An EEI management decision regarding changes in the distribution of EEI's previous earnings led to the decision to provide deferred income taxes for all book and tax basis differences in this investment.

The change in amortization of investment tax credits is largely attributable to the change in the levels of pre-tax income.

In September 2005, E.ON U.S. Investments Corp., the parent of E.ON U.S. and indirect parent of KU, received notice from the Congressional Joint Committee on Taxation approving the IRS audit of the consolidated group's returns for the periods December 1999 through December 2003. As a result of this approval, KU released income tax reserves of $4.4 million in the third quarter of 2005. Further reductions of previous tax accruals were made in the third quarter of 2006 primarily due to the expiration of the statute of limitations for a prior year.

Nine Months Ended September 30, 2006, Compared to
Nine Months Ended September 30, 2005

LG&E Results:

LG&E's net income decreased $14 million (13%) for the nine months ended September 30, 2006, as compared to the nine months ended September 30, 2005, primarily due to lower electric and gas retail and wholesale sales volumes resulting from milder weather this year, higher interest expense and a higher effective income tax rate, partially offset by lower other operations expenses primarily from the completion of the VDT amortization earlier this year and lower MISO expenses.

A comparison of LG&E's revenues for the nine months ended September 30, 2006, with the nine months ended September 30, 2005, reflects increases and (decreases) which have been segregated by the following principal causes:

Cause (in millions)	Electric Revenues	Gas Revenues

Retail sales:		
Fuel and gas supply adjustments	$18	$74
Merger surcredit	2	-
Environmental cost recovery	(1)	-
Value delivery surcredit	-	1
Weather normalization	-	2
Variation in sales volume and other	(19)	(34)
Total retail sales	-	43
Wholesale sales	(28)	(16)
MISO Day 2 RSG MWP	(7)	-
Other	(2)	1
Total	$(37)	$28

Electric revenues decreased $37 million (5%) in 2006 primarily due to:

- Decreased wholesale sales ($28 million) resulting from 16% lower volumes
- Decreased retail sales volumes and other ($19 million) resulting from a 12% decrease in cooling degree days as compared to the same period in 2005
- Decreased MISO related revenue ($7 million) largely due to the accounting reclassification of MISO Day 2 RSG MWP in the third quarter of 2005. This reclass of the RSG MWP was made from an expense account to a revenue account back to the inception of MISO Day 2 on April 1, 2005.
- Increased fuel costs ($18 million) billed to customers through the fuel adjustment clause due to higher costs of coal

Gas revenues increased $28 million (11%) in 2006 primarily due to:

- Increased gas supply costs ($74 million) billed to customers through the gas supply adjustment clause due to higher costs of natural gas
- Increased weather normalization revenues ($2 million) due to warmer weather
- Increased value delivery surcredit revenues ($1 million)
- Decreased sales volumes and other ($34 million) resulting from a 8% decrease in heating degree days as compared to the same period in 2005
- Decreased wholesale sales ($16 million) due to limited opportunities to sell off-system

Fuel for electric generation and gas supply expenses comprise a large component of LG&E's total operating expenses. Increases or decreases in the cost of fuel and natural gas supply are reflected in LG&E's electric and natural gas retail rates, through the fuel adjustment clause and gas supply clause, subject to the approval of the Kentucky Commission.

Fuel for electric generation increased $13 million (6%) in 2006 primarily due to:
- Increased unit cost of fuel burned ($17 million) due to higher fuel prices
- Decreased generation ($4 million) due to lower sales volumes

Power purchased decreased $20 million (20%) in 2006 primarily due to:
- Decreased volumes purchased ($30 million) due to higher unit availability and lower sales volumes
- Increased unit cost of purchases ($10 million) due to higher market prices

Gas supply expenses increased $27 million (14%) in 2006 primarily due to:
- Increased unit cost of natural gas purchased ($69 million)
- Decreased volumes delivered to the distribution system ($41 million)

Other operation and maintenance expenses decreased $15 million (7%) in 2006.

Other operation expenses decreased $25 million (15%) primarily due to:
- Decreased administrative and general expenses ($14 million) primarily due to the completion of the VDT amortization
- Decreased other power supply expenses ($6 million) primarily due to lower MISO Day 2 expenses
- Decreased transmission expenses ($6 million) primarily due to lower MISO expenses

Maintenance expenses increased $9 million (18%) primarily due to:
- Increased steam maintenance ($4 million) primarily related Mill Creek Unit 4
- Increased distribution maintenance ($4 million) primarily related to storm restoration
- Increased administrative and general maintenance ($2 million)

Property and other taxes increased $1 million (8%)

Interest expense increased $5 million (29%) in 2006 primarily due to:
- Increased interest rates on variable rate debt ($4 million)
- Increased interest on tax deficiencies ($3 million)
- Decreased interest expense on the swaps ($2 million)

The weighted average interest rate on variable-rate bonds for the nine months ended September 30, 2006, was 3.43%, compared to 2.36% for the comparable period in 2005.

A comparison of the LG&E effective income tax rate for the nine months ended September 30, 2006 and 2005 follows:

	Nine Months	Nine Months

	Ended September 30, 2006	Ended September 30, 2005
Effective Rate		
Statutory federal income tax rate	35.0%	35.0%
State income taxes net of federal benefit	3.8	4.3
Reduction of previous accruals	(0.3)	(3.4)
Amortization of investment tax credits	(2.2)	(2.0)
Other differences	(2.0)	(1.4)
Effective income tax rate	34.3%	32.5%

State income taxes in 2006 reflect Kentucky Coal Tax credits earned. The change in amortization of investment tax credits is largely attributable to the change in the levels of pre-tax income.

In September 2005, E.ON U.S. Investments Corp., the parent of E.ON U.S. and indirect parent of LG&E, received notice from the Congressional Joint Committee on Taxation approving the IRS audit of the consolidated group's returns for the periods December 1999 through December 2003. As a result of this approval, LG&E released income tax reserves of $5.1 million in the third quarter of 2005. Further reductions of previous tax accruals were made in 2006 primarily due to the expiration of the statute of limitations for a prior year.

KU Results:

KU's net income increased $22 million (25%) for the nine months ended September 30, 2006, as compared to the nine months ended September 30, 2005, primarily due to higher equity in earnings from EEI, lower MISO expenses, lower other operation expenses primarily from the completion of the VDT amortization earlier this year and a lower effective income tax rate, partially offset by lower retail and wholesale sales volumes and increased interest expense.

A comparison of KU's revenues for the nine months ended September 30, 2006, with the nine months ended September 30, 2005, reflects increases and (decreases) which have been segregated by the following principal causes:

Cause (in millions)	Electric Revenues
Retail sales:	
Fuel supply adjustments	$ 52
Environmental cost recovery surcharge	6
Merger surcredit	2
Rate and rate structure	2

Value delivery surcredit	1
Variation in sales volume and other	(8)
Total retail sales	55
Wholesale sales	(28)
MISO Day 2 RSG MWP	(4)
Other	(11)
Total	$ 12

Electric revenues increased $12 million (1%) in 2006 primarily due to:
- Increased fuel costs ($52 million) billed to customers through the fuel adjustment clause
- Increased environmental cost recovery surcharge ($6 million)
- Increased merger surcredit revenues ($2 million)
- Increased revenues from changes in Virginia rates and rate structure ($2 million)
- Decreased wholesale sales ($28 million) resulting from 51% lower volumes
- Decreased transmission revenue ($10 million) due to lower volumes
- Decreased retail sales volumes and other ($9 million) resulting from a 10% decrease in cooling degree days as compared to the same period in 2005
- Decreased MISO related revenues ($4 million) largely due to the accounting reclassification of MISO Day 2 RSG MWP in the third quarter of 2005.This reclass of the RSG MWP was made from an expense account to a revenue account back to the inception of MISO Day 2 on April 1, 2005.

Fuel for electric generation comprises a large component of KU's total operating expenses. Increases or decreases in the cost of fuel are reflected in KU's retail electric rates through the fuel adjustment clause, subject to the approval of the Kentucky Commission, the Virginia State Corporation Commission and the FERC.

Fuel for electric generation increased $35 million (12%) in 2006 primarily due to:
- Increased unit cost of fuel burned ($37 million) due to higher fuel prices
- Decreased generation ($2 million) due to decreased sales volumes

Power purchased decreased $21 million (13%) in 2006 primarily due to:
- Decreased volumes purchased ($24 million) due to higher unit availability and lower sales volumes
- Increased unit cost of purchases ($3 million) due to higher market prices

Other operation and maintenance expenses decreased $12 million (6%) in 2006.

Other operation expenses decreased $9 million (6%) primarily due to:
- Decreased other power supply expenses ($9 million) primarily due to

lower MISO Day 2 expenses
- Decreased administrative and general expenses ($3 million) primarily due to the completion of the VDT amortization
- Increased transmission expenses ($2 million)
- Increased steam generation operation expense ($1 million)

Maintenance expenses decreased $3 million (6%) primarily due to:
- Decreased steam generation maintenance ($7 million) due to outages in 2005 at E.W. Brown, Ghent and Green River
- Increased administrative and general maintenance ($2 million)
- Increased combustion turbine maintenance ($1 million)
- Increased electric distribution maintenance ($1 million)

Property and other taxes increased $1 million (12%)

Other income - net increased $21 million primarily due to increased equity in earnings from EEI as a result of EEI selling electricity at market based rates, effective January 2006.

Interest expense increased $1 million (10%) in 2006 primarily due to:
- Increased cost of the interest rate swap ($2 million)
- Increased interest rates on variable rate debt ($2 million)
- Decreased interest due to replacing external debt with debt to affiliated companies ($3 million)

The weighted average interest rate on variable-rate bonds for the nine months ended September 30, 2006, was 3.32%, compared to 2.39% for the comparable period in 2005.

Interest expense to affiliated companies increased $5 million (42%) primarily due to:
- Increased borrowing from Fidelia ($4 million)
- Increased borrowing from the money pool ($1 million)

A comparison of the KU effective income tax rate for the nine months ended September 30, 2006 and 2005 follows:

	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Effective Rate		
Statutory federal income tax rate	35.0%	35.0%
State income taxes net of federal benefit	4.4	4.7
Reduction of previous accruals	(0.1)	(3.2)
Amortization of investment tax credits	(0.5)	(0.9)
EEI dividend	(4.1)	-
EEI adjustment	-	2.3
Other differences	(1.6)	(0.9)
Effective income tax rate	33.1%	37.0%

The EEI dividend for the nine months ended September 30, 2006, reflects tax benefits associated with the receipt of dividends from KU's investment in EEI. During the third quarter in 2005, KU recognized additional deferred tax expense ($3.1 million) related to the undistributed earnings in its EEI unconsolidated investment. Subsequent to an EEI management decision regarding changes in the distribution of EEI's previous earnings, KU has elected to record deferred income taxes for all book and tax basis differences in this investment.

In September 2005, E.ON U.S. Investments Corp., the parent of E.ON U.S. and the indirect parent of KU, received notice from the Congressional Joint Committee on Taxation approving the IRS audit of the consolidated group's returns for the periods December 1999 through December 2003. As a result of this approval, KU released income tax reserves of $4.4 million in the third quarter of 2005. Further reductions of previous tax accruals were made in 2006 primarily due to the expiration of the statute of limitations for a prior year.

Liquidity and Capital Resources

The Companies' needs for capital funds are largely related to the construction of plant and equipment necessary to meet the needs of electric and gas utility customers, in addition to debt service requirements and dividend payments. Internal and external lines of credit are maintained to fund short-term capital requirements. The Companies believe that such sources of funds will be sufficient to meet the needs of the business in the foreseeable future.

At September 30, 2006, the Companies were in a negative working capital position in part because of the classification of certain variable-rate pollution control bonds that are subject to tender for purchase at the option of the holder as current portion of long-term debt. The Companies expect to cover any working capital deficiencies with cash flow from operations, money pool borrowings and borrowings from Fidelia.

Construction expenditures for the nine months ended September 30, 2006 amounted to $104 million for LG&E and $236 million for KU. At LG&E, capital expenditures included Trimble County Unit 2, infrastructure for new customers, gas main replacements and capital repairs to Mill Creek Unit 4.

At KU, capital expenditures included Trimble County Unit 2, FGD's and other environmental equipment at the Brown and Ghent generating stations and infrastructure for new customers.

LG&E's cash balance decreased $2 million during the nine months ended September 30, 2006, largely resulting from the retirement of debt and the payment of dividends. KU's cash balance decreased $2 million during the nine months ended September 30, 2006, largely resulting from increasing construction expenditures.

Variations in accounts receivable, inventories and accounts payable are generally not significant indicators of the Companies' liquidity. Such variations are primarily attributable to seasonal fluctuations in weather, which have a direct effect on sales of electricity and natural gas. The decreases in LG&E's accounts receivable and natural gas stored underground relate primarily to seasonal uses of natural gas.

For information regarding the Companies' use of interest rate swaps to hedge underlying variable-rate (LG&E) and fixed-rate (KU) debt obligations, see Note 3 of the Notes to Financial Statements.

See Note 5 of the Notes to Financial Statements for information regarding the Companies' long-term and short-term debt including: accounting treatment of bonds permitting tender for purchase at the option of the holder, re-negotiation of revolving credit lines, intercompany debt transactions and the issuance and redemption of financial instruments during the year.

Security ratings as of September 30, 2006, were:

	LG&E		KU	
	Moody's	S&P	Moody's	S&P
First mortgage bonds	A1	A-	A1	A
Preferred stock	Baa1	BBB-	Baa1	BBB-
Commercial paper	P-1	A-2	P-1	A-2

These ratings reflect the views of Moody's and S&P. A security rating is not a recommendation to buy, sell or hold securities and is subject to revision or withdrawal at any time by the rating agency.

LG&E made a discretionary contribution to the pension plan of $18 million in January 2006. LG&E made no contributions during 2005. KU made no contributions to the pension plan in 2006 or 2005.

Contingencies

For a description of significant contingencies that may affect the

Companies, reference is made to Part I, Item 3, Legal Proceedings in the
Companies' Annual Reports on Form 10-K for the year ended December 31, 2005; to Part I - Item 1 and Part II - Item 1, Legal Proceedings in the Companies' Quarterly Reports on Form 10-Q for the periods ended March 31,
2006 and June 30, 2006; and to Notes 2 and 6 of the Notes to Financial Statements in Part I - Item 1, and Part II - Item 1, Legal Proceedings herein.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

The Companies use interest rate swaps to hedge exposure to market fluctuations in certain of their debt instruments. Pursuant to the Companies' policies, use of these financial instruments is intended to mitigate risk and earnings volatility and is not speculative in nature. Management has designated all of the Companies' interest rate swaps as hedge instruments. Financial instruments designated as cash flow hedges have resulting gains and losses recorded within comprehensive income and
stockholders' equity. To the extent a financial instrument or the underlying item being hedged is prematurely terminated or the hedge becomes
ineffective, the resulting gains or losses are reclassified from comprehensive income to net income. Financial instruments designated as fair value hedges are periodically marked to market with the resulting gains and losses recorded directly into net income to correspond with income or expense recognized from changes in market value of the items being hedged.

The potential change in interest expense associated with a 1% change in base interest rates of the Companies' non-hedged variable debt is estimated
at $4 million each at September 30, 2006. The Companies' exposure to floating interest rates did not materially change during the first nine months of 2006.

The potential loss in fair value of LG&E's interest rate swaps resulting
from a hypothetical 1% change in base interest rates is estimated at approximately $18 million as of September 30, 2006. The potential loss in
fair value of KU's interest rate swaps resulting from a hypothetical 1% change in base interest rates is estimated at less than $1 million as of
September 30, 2006. These estimates are derived from third-party valuations. Changes in the market values of these swaps, if held to maturity, will have no effect on LG&E's or KU's net income or cash flow.

Pension Risk

The Companies' costs of providing defined-benefit pension retirement plans are dependent upon a number of factors, such as the rates of return on plan assets, discount rate and contributions made to the plans. The Companies have recognized an additional minimum liability as prescribed by SFAS No. 87, Employers' Accounting for Pensions because the accumulated benefit obligation exceeds the fair value of their plans' assets. The liabilities were recorded as a reduction to comprehensive income, and did not affect net income. The amount of the liability depends upon the discount rate, the asset returns and contributions made by the Companies to the plans. If the fair value of the plans' assets exceeds the accumulated benefit obligation, the recorded liabilities will be reduced and comprehensive income will be restored in the balance sheet. See Note 1 of the Notes to Financial Statements in Item 1, Part 1 for a discussion of the new accounting pronouncement SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans.

A 1% increase or decrease in the assumed discount rate could have an approximate $49 million positive or negative impact to the accumulated benefit obligation of LG&E. A 1% increase or decrease in the assumed discount rate could have an approximate $33 million positive or negative impact to the accumulated benefit obligation of KU.

LG&E made a discretionary contribution to the pension plan of $18 million in January 2006. LG&E made no contributions during 2005. KU made no contributions to the pension plan in 2006 or 2005.

Energy & Risk Management Activities

The Companies conduct energy trading and risk management activities to maximize the value of power sales from physical assets they own. Certain energy trading activities are accounted for on a mark-to-market basis in accordance with SFAS No. 133, as amended. Wholesale sales of excess asset capacity are treated as normal sales under SFAS No. 133, as amended, and are not marked to market.

The fair values of the Companies' energy trading and risk management contracts as of September 30, 2006 were each approximately $4 million. The fair values at September 30, 2005, were less than $1 million each. No changes to valuation techniques for energy trading and risk management activities occurred during 2006 or 2005. Changes in market pricing, interest rate and volatility assumptions were made during all periods. The outstanding mark-to-market value is sensitive to changes in prices, price volatilities and interest rates. The Companies estimate that a movement in prices of $1 and a change in interest and volatilities of 1% would result in a change in the mark-to-market value of less than $1 million. All contracts outstanding at September 30, 2006, have a maturity of less than one year and are valued using prices actively quoted for proposed or executed transactions or quoted by brokers.

The Companies maintain policies intended to minimize credit risk and revalue credit exposures daily to monitor compliance with those policies.
As of September 30, 2006, 100% of the trading and risk management commitments were with counterparties rated BBB-/Baa3 equivalent or better.

MISO Exit

For further discussions of certain market risks relating to the Companies' withdrawal from MISO, see also Part II, Item 1A, Risk Factors in this quarterly report and in the Companies' Annual Report on Form 10-K for the year ended December 31, 2005.

Item 4. Controls and Procedures

The Companies maintain a system of disclosure controls and procedures designed to ensure that information required to be disclosed by the Companies in reports they file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission rules and forms. The Companies conducted an evaluation of such controls and procedures under the supervision and with the participation of the Companies' management, including the Chairman, President and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"). Based upon that evaluation, the CEO and CFO have concluded that the Companies' disclosure controls and procedures are effective as of the end of the period covered by this report.

The Companies are not accelerated filers under the Sarbanes-Oxley Act of 2002 and associated rules (the "Act") and consequently anticipate issuing Management's Report on Internal Control over Financial Reporting pursuant to Section 404 of the Act in their first periodic report covering the fiscal year ended December 31, 2007 as permitted by SEC rulemaking.

In preparation for required reporting under Section 404 of the Act, the

Companies are conducting a thorough review of their internal controls over financial reporting, including disclosure controls and procedures. Based on this review, the Companies have made internal controls enhancements and will continue to make future enhancements to their internal control over financial reporting. There has been no change in the Companies' internal control over financial reporting that occurred during the fiscal quarter ended September 30, 2006, that has materially affected, or is reasonably likely to materially affect, the Companies' internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings.

For a description of the significant legal proceedings involving the Companies, reference is made to the information under the following items and captions of the Companies' respective combined Annual Report on Form 10-K for the year ended December 31, 2005: Item 1, Business; Item 3, Legal Proceedings; Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations; and Item 8, Financial Statements and Supplementary Data in Notes 3 and 10. Reference is also made to the matters described in Notes 2 and 6 of Part 1, Item 1 of the Companies' Quarterly Reports on Form 10-Q for the three months ended March 31, 2006 and June 30, 2006; and Notes 2 and 6 of the Notes to Financial Statements in Part I, Item 1 of this 10-Q. Except as described herein, to date, the proceedings reported in the Companies' respective combined Annual Report on Form 10-K have not changed materially.

Other

In the normal course of business, other lawsuits, claims, environmental actions, and other governmental proceedings arise against the Companies. To the extent that damages are assessed in any of these lawsuits, the Companies believe that their insurance coverage is adequate. Management, after consultation with legal counsel, does not anticipate that liabilities arising out of other currently pending or threatened lawsuits and claims will have a material adverse effect on LG&E's or KU's financial position or results of operations, respectively.

Item 1A. Risk Factors.

MISO Exit

LG&E and KU withdrew from the MISO effective September 1, 2006. The resulting changes to transmission and wholesale power market structures and prices are not completely estimable and may result in unforeseen effects on energy purchases and sales, transmission and related costs or revenues. As required by the FERC, in connection with their exit, the Companies have engaged two independent third parties to perform certain oversight and functional control activities relating to transmission and related activities. Such activities may have an effect on the Companies' abilities to access the transmission system for wholesale or native load power activities. The Companies will save certain MISO membership costs and charges, but will incur a MISO exit fee as well as fees related to the new transmission service vendors. The Companies believe that, over time, the benefits and savings from their exit of the MISO will outweigh the costs and expenses. However, until post-MISO market conditions and operations have matured, the effects on financial condition, liquidity or results of operations will remain difficult to fully predict.

See Note 2 of LG&E's and KU's Notes to Financial Statements in Part I, Item 1 of this 10-Q.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

2(c)

LG&E has an existing $5.875 series of mandatorily redeemable preferred stock outstanding having a current redemption price of $100 per share. The preferred stock has a sinking fund requirement sufficient to retire a minimum of 12,500 shares on July 15 of each year commencing with July 15, 2003, and a minimum of 187,500 shares on July 15, 2008 at $100 per share. LG&E redeemed 12,500 shares in accordance with these provisions on July 15, 2006, leaving 200,000 shares currently outstanding. Beginning with the three months ended September 30, 2003, LG&E reclassified, at fair value, its $5.875 series preferred stock as long-term debt with the minimum shares mandatorily redeemable within one year classified as current portion of long-term debt. Dividends accrued beginning July 1, 2003 are charged as interest expense, pursuant to SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity.

	July 2006	August 2006	September 2006
Total number of shares (or units) purchased	12,500 ($5.875 Pref.)	n/a	n/a
Average price paid per share (or unit)	$100	n/a	n/a
Total number of shares (or units) purchased as part of publicly announced plans or programs	12,500 ($5.875 Pref.)	n/a	n/a
Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs	200,000 ($5.875 Pref.)	n/a	n/a

Item 4. Submission of Matters to a Vote of Security Holders.

a) LG&E's and KU's Annual Meetings of Shareholders were held on July 20, 2006.

b) Not applicable.

c) The matters voted upon and the results of the voting at the Annual Meetings are set forth below:

1. LG&E

i) The shareholders voted to elect LG&E's nominees for election to the Board of Directors, as follows:

Victor A. Staffieri - 21,294,223 common shares and 596,501 preferred shares cast in favor of election and 7,687 preferred shares withheld.

S. Bradford Rives - 21,294,223 common shares and 595,801 preferred shares cast in favor of election and 8,387 preferred shares withheld.

John R. McCall - 21,294,223 common shares and 596,956 preferred shares cast in favor of election and 7,232 preferred shares withheld.

Paul W. Thompson - 21,294,223 common shares and 596,656 preferred shares cast in favor of election and 7,532 preferred shares withheld.

Chris Hermann - 21,294,223 common shares and 596,713 preferred shares cast in favor of election and 7,475 preferred shares withheld.

No holders of common or preferred shares abstained from voting on this matter.

ii) The shareholders voted 21,294,223 common shares and 599,991 preferred shares in favor of and 2,564 preferred shares against the approval of PricewaterhouseCoopers LLP as the Independent Registered Public Accounting Firm for 2006. Holders of 1,633 preferred shares abstained from voting on this matter.

2. KU

i) The sole shareholder voted to elect KU's nominees for election to the Board of Directors, as follows:

37,817,878 common shares cast in favor of election and no shares withheld for each of Victor A. Staffieri, S. Bradford Rives, John R. McCall, Paul W. Thompson, and Chris Hermann, respectively.

ii) The sole shareholder voted 37,817,878 common shares in favor of and no shares withheld for approval of PricewaterhouseCoopers LLP as the Independent Registered Public Accounting Firm for 2006.

No holders of common shares abstained from voting on these matters.

d) Not applicable.

Item 5. Other Information.

In October 2006, executive officers of LG&E and KU received initial grants of performance units under a new long-term variable compensation plan, the E.ON AG Share Performance Plan ("New Plan") established by E.ON during 2006. These grants, which have a maturity period of three years, commencing on January 1 of this year, are payable in cash after the end of the maturity period. The ultimate amount of compensation paid to the executives

is determined by the value E.ON AG share performance during the final 60 days of the period and the relative performance of E.ON AG stock's total shareholder return ("TSR") against the TSR of a European utility stock index over the maturity period. Minimum E.ON AG performance against the index must be attained in order for a performance unit to have any value.
The maximum value of a performance unit granted under the New Plan is three times the initial value of the performance unit, which initial value is set at E.ON AG's average share price for the 60 trading days preceding the commencement of the three year period. The performance units are subject to accelerated payment prior to their maturity date, using performance calculations to date, upon certain events of change-in-control. Additionally, acceleration of payment may occur in the event of death, disability or termination of employment of the executive officer by the Company for other than for cause. This description is qualified in its entirety by reference to the text of the New Plan and related documents, copies of which are filed with this Form 10-Q as Exhibits 10.01 and 10.02, respectively.

Item 6. Exhibits.

Exhibit No.	Applicable to Form 10-Q of LG&E	KU	Description
4.1		X	Supplemental Indenture dated July 1, 2006 between KU and U.S. Bank National Association, Chicago Illinois, as Trustee. [Filed as Exhibit 4.1 to KU's Current Report on Form 8-K dated July 20, 2006 and incorporated by reference herein.]
4.2		X	Loan Agreement dated as of June 1, 2006 between KU and the County of Carroll, Kentucky. [Filed as Exhibit 4.2 to KU's Current Report on Form 8-K dated July 20, 2006 and incorporated by reference herein.]
10.01	X	X	Copies of E.ON Share Performance Plan (i) Terms and Conditions for the 1. Tranche (2006-2008) and (ii) Technical Annex, each dated as of June 2006.
10.02	X	X	Copies of form representative specimen Certificate Award under E.ON Share Performance Plan

31.1 X Certification of Chairman of the Board, President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 X Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.3 X Certification of Chairman of the Board, President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.4 X Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32 X X Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Certain instruments defining the rights of holders of certain long-term debt of LG&E or KU have not been filed with the SEC but will be furnished to the SEC upon request.

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 thereunto duly authorized.

Louisville Gas and Electric Company
Registrant

Date: November 9, 2006

/s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer
(On behalf of the registrant in his capacities as Principal Financial Officer and Principal Accounting Officer)

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 thereunto duly authorized.

Kentucky Utilities Company
Registrant

Date: November 9, 2006

/s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer
(On behalf of the registrant in his capacities as Principal Financial

Officer

and Principal Accounting Officer)

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SEC Form 10-Q – June 30, 2006

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

FORM 10-Q

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

For the quarterly period ended June 30, 2006

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

Commission File Number	Registrant, State of Incorporation, Address, and Telephone Number	IRS Employer Identification Number
1-2893	Louisville Gas and Electric Company (A Kentucky Corporation) 220 West Main Street P. O. Box 32010 Louisville, Kentucky 40232 (502) 627-2000	61-0264150
1-3464	Kentucky Utilities Company (A Kentucky and Virginia Corporation) One Quality Street Lexington, Kentucky 40507-1428 (859) 255-2100	61-0247570

Indicate by check mark whether the 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 the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No _

Indicate by check mark whether the 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 12-b2 of the Exchange Act. (Check one):

Large accelerated filer _____ Accelerated filer_____

Non-accelerated filer __X___

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

Indicate the number of shares outstanding of each of the issuer's classes
of common stock, as of the latest practicable date:

Louisville Gas and Electric Company - 21,294,223 shares, without par value,
as of July 31, 2006, all held by E.ON U.S. LLC

Kentucky Utilities Company - 37,817,878 shares, without par value, as of
July 31, 2006, all held by E.ON U.S. LLC

This combined Form 10-Q is separately filed by Louisville Gas and Electric
Company and Kentucky Utilities Company. Information contained herein related to any individual registrant is filed by such registrant on its own
behalf. Each registrant makes no representation as to information related
to the other registrants.

INDEX OF ABBREVIATIONS

AG	Attorney General of Kentucky
ARO	Asset Retirement Obligation
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
CCN	Certificate of Public Convenience and Necessity
Company	LG&E or KU, as applicable
Companies	LG&E and KU
DSM	Demand Side Management
ECR	Environmental Cost Recovery
EEI	Electric Energy, Inc.
E.ON	E.ON AG
E.ON U.S.	E.ON U.S. LLC (formerly LG&E Energy LLC and LG&E Energy Corp.)
E.ON U.S. Services	E.ON U.S. Services Inc. (formerly LG&E Energy Services Inc.)
EPA	U.S. Environmental Protection Agency
EPAct 2005	Energy Policy Act of 2005
FAC	Fuel Adjustment Clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Fidelia	Fidelia Corporation (an E.ON affiliate)
FIN	FASB Interpretation No.
FGD	Flue Gas Desulfurization
FTR	Financial Transmission Rights
IMEA	Illinois Municipal Electric Agency
IMPA	Indiana Municipal Power Agency
Kentucky Commission	Kentucky Public Service Commission
KU	Kentucky Utilities Company
LIBOR	London Interbank Offer Rate

LG&E	Louisville Gas and Electric Company
MISO	Midwest Independent Transmission System Operator, Inc.
Moody's	Moody's Investor Services, Inc.
Mw	Megawatts
NOx	Nitrogen Oxide
OMU	Owensboro Municipal Utilities
PUHCA 1935	Public Utility Holding Company Act of 1935
PUHCA 2005	Public Utility Holding Company Act of 2005
S&P	Standard & Poor's Rating Services
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
SO2	Sulfur Dioxide
TEMT	Transmission and Energy Markets Tariff
VDT	Value Delivery Team Process
Virginia Commission	Virginia State Corporation Commission

TABLE OF CONTENTS

Part I. Financial Information - Item 1. Financial Statements (Unaudited)

Louisville Gas and Electric Company
Statements of Income (Unaudited)
(Millions of $)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
OPERATING REVENUES:				
Electric	$223	$228	$435	$457
Gas	54	53	254	225
Total operating revenues	277	281	689	682
OPERATING EXPENSES:				
Fuel for electric generation	70	68	135	129
Power purchased	26	28	54	67
Gas supply expenses	38	36	200	171
Other operation and maintenance expenses	65	65	143	139
Depreciation and amortization	31	31	61	62
Total operating expenses	230	228	593	568
OPERATING INCOME	47	53	96	114
Other expense - net	1	-	1	-
Interest expense (Note 3)	6	6	13	12
Interest expense to affiliated companies (Note 8)	3	3	7	6

INCOME BEFORE INCOME TAXES	37	44	75	96
Federal and state income taxes	12	16	25	34
NET INCOME	$25	$28	$50	$62

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

Statements of Retained Earnings (Unaudited)
(Millions of $)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Balance at beginning of period	$605	$538	$621	$534
Net income	25	28	50	62
Subtotal	630	566	671	596
Cash dividends declared on stock:				
Cumulative preferred	1	1	2	2
Common	20	10	60	39
Subtotal	21	11	62	41
Balance at end of period	$609	$555	$609	$555

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

Louisville Gas and Electric Company
Balance Sheets
(Unaudited)
(Millions of $)

ASSETS	June 30,	December 31,
	2006	2005
Current Assets:		
Cash and cash equivalents	$ 5	$ 7
Accounts receivable - less reserves of $1 million as of June 30,2006		

and December 31, 2005	123	231
Accounts receivable from affiliated companies (Note 8)	19	36
Materials and supplies:		
Fuel (predominantly coal)	53	39
Gas stored underground	30	125
Other materials and supplies	29	28
Prepayments and other current assets	4	6
Total current assets	263	472
Other property and investments - less reserves of less than $1 million as of June 30, 2006 and December 31, 2005	1	1
Utility plant:		
At original cost	4,077	4,049
Less: reserve for depreciation	1,523	1,509
Net utility plant	2,554	2,540
Deferred debits and other assets:		
Restricted cash	7	10
Unamortized debt expense	8	8
Regulatory assets (Note 2)	78	84
Other assets	36	31
Total deferred debits and other assets	129	133
Total assets	$2,947	$3,146

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

Louisville Gas and Electric Company
Balance Sheets (cont.)
(Unaudited)
(Millions of $)

LIABILITIES AND EQUITY	June 30, 2006	December 31, 2005
Current liabilities:		
Current portion of long-term debt	$248	$248
Notes payable to affiliated companies (Note 5 and Note 8)	1	141
Accounts payable	80	141
Accounts payable to affiliated companies (Note 8)	47	52
Accrued income taxes	9	6
Customer deposits	18	17
Other current liabilities	26	15
Total current liabilities	429	620
Long-term debt:		
Long-term debt (Note 5)	328	328
Long-term debt to affiliated company (Note 5 and Note 8)	225	225
Mandatorily redeemable preferred stock	20	20
Total long-term debt	573	573

Deferred credits and other liabilities:		
Accumulated deferred income taxes - net	312	322
Investment tax credit, in process of amortization	40	42
Accumulated provision for pensions and related benefits	129	143
Customer advances for construction	10	10
Asset retirement obligation	27	27
Regulatory liabilities (Note 2):		
Accumulated cost of removal of utility plant	225	219
Regulatory liability deferred income taxes	44	42
Other regulatory liabilities	42	20
Other liabilities	23	31
Total deferred credits and other liabilities	852	856
Cumulative preferred stock	70	70
Common equity:		
Common stock, without par value - Authorized 75,000,000 shares, outstanding 21,294,223 shares	424	424
Additional paid-in capital	40	40
Accumulated comprehensive loss	(50)	(58)
Retained earnings	609	621
Total common equity	1,023	1,027
Total liabilities and equity	$2,947	$3,146

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

Louisville Gas and Electric Company
Statements of Cash Flows
(Unaudited)
(Millions of $)

	Six Months Ended June 30,	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$50	$62
Items not requiring cash currently:		
Depreciation and amortization	61	62
Deferred income taxes	(13)	(11)
VDT amortization	7	15
Other	(3)	(3)
Changes in current assets and liabilities:		
Accounts receivable	108	41
Accounts receivable from affiliated companies	17	(15)
Fuel	(14)	(6)
Gas stored underground	95	58
Other changes in current assets	1	-
Accounts payable	(61)	(39)
Accounts payable to affiliated companies	(5)	29
Accrued income taxes	3	(6)

Other changes in current liabilities	12	(7)
Pension funding (Note 4)	(18)	-
Gas supply clause receivable, net	31	2
Other	(8)	(3)
Net cash provided by operating activities	263	179
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction expenditures	(66)	(51)
Change in restricted cash	3	(2)
Net cash used for investing activities	(63)	(53)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of long-term borrowings from affiliated company (Note 8)	-	(50)
Repayment of short-term borrowings from affiliated company (Note 5)	(140)	(37)
Payment of dividends	(62)	(41)
Net cash used for financing activities	(202)	(128)
CHANGE IN CASH AND CASH EQUIVALENTS	(2)	(2)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	7	7
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$5	$5

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

Louisville Gas and Electric Company
Statements of Comprehensive Income
(Unaudited)
(Millions of $)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Net income	$25	$28	$50	$62
Income Taxes - Minimum Pension Liability	-	-	-	(1)
Gain (loss) on derivative instruments and hedging activities - net of tax benefit (expense) of $(2) million, $5 million, $(5) million and $4 million, respectively (Note 4)	3	(8)	8	(6)
Comprehensive income (loss), net of tax	3	(8)	8	(7)

Comprehensive income	$28	$20	$58	$55

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

Kentucky Utilities Company
Statements of Income
(Unaudited)
(Millions of $)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
OPERATING REVENUES	$276	$265	$569	$552
OPERATING EXPENSES:				
Fuel for electric generation	100	84	195	172
Power purchased	44	50	90	96
Other operation and maintenance expenses	63	68	133	126
Depreciation and amortization	29	29	57	58
Total operating expenses	236	231	475	452
OPERATING INCOME	40	34	94	100
Other (income) - net	(5)	(2)	(13)	(3)
Interest expense (Note 3)	4	4	7	7
Interest expense to affiliated companies (Note 5 and Note 8)	5	4	11	7
INCOME BEFORE INCOME TAXES	36	28	89	89
Federal and state income taxes	11	10	29	34
NET INCOME	$25	$18	$60	$55

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

Statements of Retained Earnings
(Unaudited)
(Millions of $)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Balance at beginning of period	$753	$666	$718	$660
Net income	25	18	60	55
Subtotal	778	684	778	715
Cash dividends declared on stock:				
Cumulative preferred	-	-	-	1
Common	-	10	-	40
Subtotal	-	10	-	41
Balance at end of period	$778	$674	$778	$674

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

Kentucky Utilities Company
Balance Sheets
(Unaudited)
(Millions of $)

ASSETS	June 30, 2006	December 31, 2005
Current assets:		
Cash and cash equivalents	$5	$7
Restricted cash	10	22
Accounts receivable - less reserves of $2 million as of June 30, 2006 and December 31, 2005	113	135
Accounts receivable from affiliated companies (Note 8)	18	32
Materials and supplies:		
Fuel (predominantly coal)	75	55
Other materials and supplies	35	32
Prepayments and other current assets	9	5
Total current assets	265	288

Other property and investments - less reserves of less than $1 million as of June 30,2006 and December 31, 2005	22	23
Utility plant:		
At original cost	3,944	3,847
Less: reserve for depreciation	1,532	1,508
Net utility plant	2,412	2,339
Deferred debits and other assets:		
Unamortized debt expense	5	5
Regulatory assets (Note 2)	70	58
Cash surrender value of key man life insurance	34	32
Other assets	9	11
Total deferred debits and other assets	118	106
Total assets	$2,817	$2,756

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

Kentucky Utilities Company
Balance Sheets (cont.)
(Unaudited)
(Millions of $)

LIABILITIES AND EQUITY	June 30, 2006	December 31, 2005
Current liabilities:		
Current portion of long-term debt	$140	$123
Notes payable to affiliated companies (Note 5 and Note 8)	52	70
Accounts payable	81	89
Accounts payable to affiliated companies (Note 8)	60	53
Accrued income taxes	-	13
Customer deposits	18	17
Other current liabilities	24	18
Total current liabilities	375	383
Long-term debt:		
Long-term debt (Note 5)	186	240
Long-term debt to affiliated company (Note 5 and Note 8)	433	383
Total long-term debt	619	623
Deferred credits and other liabilities:		
Accumulated deferred income taxes - net	277	274
Accumulated provision for pensions and related benefits	97	92
Asset retirement obligation	28	27
Regulatory liabilities (Note 2):		
Accumulated cost of removal of utility plant	288	281
Regulatory liability deferred income taxes	22	23
Other regulatory liabilities	10	11

Other liabilities	19	20
Total deferred credits and other liabilities	741	728
Common equity:		
Common stock, without par value - Authorized 80,000,000 shares, outstanding 37,817,878	308	308
Additional paid-in capital	15	15
Accumulated comprehensive loss	(19)	(19)
Retained earnings	765	704
Undistributed subsidiary earnings	13	14
Total retained earnings	778	718
Total common equity	1,082	1,022
Total liabilities and equity	$2,817	$2,756

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

Kentucky Utilities Company
Statements of Cash Flows
(Unaudited)
(Millions of $)

	Six Months Ended June 30,	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$60	$55
Items not requiring cash currently:		
Depreciation and amortization	57	58
Deferred income taxes	2	(4)
VDT amortization	3	6
Other	6	(5)
Changes in current assets and liabilities:		
Accounts receivable	22	26
Accounts receivable from affiliated companies	14	(21)
Fuel	(20)	(5)
Other changes in current assets	(7)	3
Accounts payable	(8)	(20)
Accounts payable to affiliated companies	7	35
Accrued income taxes	(13)	(2)
Other changes in current liabilities	7	(12)
Fuel adjustment clause receivable, net	(15)	(13)
Other	(4)	2
Net cash provided by operating activities	111	103
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction expenditures	(121)	(44)
Change in restricted cash	12	-
Net cash used for investing activities	(109)	(44)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Retirement of first mortgage bonds (Note 5)	(36)	(50)
Short-term borrowings from affiliated company		

(Note 5)	-	58
Long-term borrowings from affiliated company (Note 5)	50	-
Repayment of short-term borrowings from affiliated company (Note 5)	(18)	-
Repayment of other borrowings	-	(27)
Payment of dividends	-	(41)
Net cash used for financing activities	(4)	(60)
CHANGE IN CASH AND CASH EQUIVALENTS	(2)	(1)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	7	5
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$5	$4

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

Kentucky Utilities Company
Statements of Comprehensive Income
(Unaudited)
(Millions of $)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Net income	$25	$18	$60	$55
Comprehensive income, net of tax	-	-	-	-
Comprehensive income	$25	$18	$60	$55

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

Louisville Gas and Electric Company
Kentucky Utilities Company
Notes to Financial Statements
(Unaudited)

1. General

The unaudited financial statements include the accounts of the Companies. The common stock of each Company is wholly-owned by E.ON U.S. In the opinion of management, the unaudited condensed interim financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of financial position, results of operations, retained earnings, comprehensive income and cash flows for the periods indicated. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to SEC rules and regulations, although the Companies believe that the disclosures are adequate to make the information presented not misleading.

See the Companies' Annual Reports on Form 10-K for the year ended December 31, 2005, for information relevant to the accompanying financial statements, including information as to the significant accounting policies of the Companies.

New Accounting Pronouncements

In July 2006, the FASB issued FIN 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, Accounting for Income Taxes. FIN 48 is effective for fiscal years beginning after December 15, 2006. FIN 48 clarifies accounting for income taxes to provide improved consistency of criteria used to recognize, derecognize and measure benefits related to income taxes. The Companies are now analyzing the future impacts of FIN 48 on results of operations and financial condition.

2. Rates and Regulatory Matters

For a description of each line item of regulatory assets and liabilities for the Companies, reference is made to Part I, Item 8, Financial Statements and Supplementary Data, Note 3 of the Companies' Annual Reports on Form 10-K for the year ended December 31, 2005.

The following regulatory assets and liabilities were included in LG&E's Balance Sheets as of June 30, 2006 and December 31, 2005:

Louisville Gas and Electric Company
(Unaudited)

(in millions)	June 30, 2006	December 31, 2005
ARO	$21	$20
Gas supply adjustments	21	29
Unamortized loss on bonds	20	21
ECR	6	2
FAC	5	-
VDT	-	7
Other	5	5
Total regulatory assets	$78	$84
Accumulated cost of removal of utility plant	$225	$219
Deferred income taxes - net	44	42
Gas supply adjustments	40	17

Other	2	3
Total regulatory liabilities	$311	$281

LG&E currently earns a return on all regulatory assets, excluding the ARO regulatory assets, gas supply adjustments and the FAC. The ARO regulatory assets earn no current return and will be offset against the associated regulatory liability (included in other regulatory liabilities), ARO asset and ARO liability at the time the underlying asset is retired. The gas supply adjustments and the FAC have separate rate mechanisms with recovery within twelve months.

The increase in FAC for the period is due to the higher cost of fuel being passed on to customers. The decrease in VDT for the period is due to the completion of the amortization of the VDT in the first quarter of 2006. The increase in the Gas supply adjustments net liability for the period reflects over-recovery of gas supply costs, in process of being refunded to customers.

The following regulatory assets and liabilities were included in KU's Balance Sheets as of June 30, 2006 and December 31, 2005:

Kentucky Utilities Company
(Unaudited)

(in millions)	June 30, 2006	December 31, 2005
ARO	$21	$20
Unamortized loss on bonds	10	11
ECR	5	4
FAC	27	12
VDT	-	3
Other	7	8
Total regulatory assets	$70	$58
Accumulated cost of removal of utility plant	$288	$281
Deferred income taxes - net	22	23
Other	10	11
Total regulatory liabilities	$320	$315

KU currently earns a return on all regulatory assets, excluding the ARO regulatory assets and the FAC. The ARO regulatory assets earn no current return and will be offset against the associated regulatory liability (included in other regulatory liabilities), ARO asset and ARO liability at the time the underlying asset is retired. The FAC has a separate recovery mechanism with recovery within twelve months.

The increase in FAC for the period is due to the higher cost of fuel being passed on to customers. The decrease in VDT for the period is due to the completion of the amortization of the VDT in the first quarter of 2006.

ELECTRIC AND GAS RATE CASES

On June 30, 2004, the Kentucky Commission issued an order approving an increase in the base electric rates of the Companies and the natural gas rates of LG&E. The rate increases took effect on July 1, 2004.

During 2004 and 2005, the AG conducted an investigation of the Companies, as well as of the Kentucky Commission and its staff, requesting information regarding allegedly improper communications between the Companies and the Kentucky Commission, particularly during the period covered by the rate cases. Concurrently, the AG had filed pleadings with the Kentucky Commission requesting rehearing of the rate cases on computational components of the increased rates, including income taxes, cost of removal and depreciation amounts. In August 2004, the Kentucky Commission denied the AG's rehearing request on the cost of removal and depreciation issues and granted rehearing on the income tax component. The Kentucky Commission agreed to hold in abeyance further proceedings in the rate case, until the AG filed its investigative report regarding the allegations of improper communication.

In January 2005 and February 2005, the AG filed a motion summarizing its investigative report as containing evidence of improper communications and record-keeping errors by the Companies in their conduct of activities before the Kentucky Commission or other state governmental entities and forwarded such report to the Kentucky Commission under continued confidential treatment to allow it to consider the report, including its impact, if any, on completing its investigation and any remaining steps in the rate case. To date, the Companies have neither seen nor requested copies of the report or its contents.

In December 2005, the Kentucky Commission issued an order noting completion of its inquiry, including review of the AG's investigative report. The order concludes that no improper communications occurred during the rate proceeding. The order further established a procedural schedule through the first quarter of 2006 for considering the sole issue for which rehearing was granted: state income tax rates used in calculating the granted rate increase. On March 31, 2006, the Kentucky Commission issued an order resolving this issue in the Companies' favor consistent with the original rate increase order.

The Companies believe no improprieties have occurred in their communications with the Kentucky Commission and have cooperated in the proceedings before the AG and the Kentucky Commission. The Companies are currently unable to predict whether there will be any additional actions or consequences as a result of the AG's report and investigation.

ECR

In June 2006, the Companies filed applications to amend their ECR plans with the Kentucky Commission seeking approval to recover investments in environmental upgrades at the Companies' generating facilities. The estimated capital cost of the upgrades for the years 2006 through 2008 is approximately $391 million ($66 million for LG&E and $325 million for KU), of which $229 million is for the Air Quality Control System at Trimble County Unit 2 ($44 million for LG&E and $185 million for KU) and $95 million is for KU's Ghent Unit 2 Selective Catalytic Reduction. A final order is expected to be issued by the end of 2006.

In April 2006, the Kentucky Commission initiated routine periodic reviews of the ECR mechanisms for the Companies. These proceedings are expected to be completed before the end of the third quarter of 2006.

In December 2004, KU and LG&E filed applications with the Kentucky Commission for approval of a CCN to construct new SO2 control technology (FGDs) at KU's Ghent and Brown stations, and to amend LG&E's compliance plan to allow recovery of new and additional environmental compliance facilities. The estimated capital cost of the additional facilities for 2006 through 2008 is approximately $720 million ($40 million for LG&E and $680 million for KU), of which $560 million is for the KU FGDs at Brown and Ghent. Hearings in these cases occurred during May 2005 and final orders were issued in June 2005, granting approval of the CCN and amendments to the Companies' compliance plans.

FAC

On February 15, 2006, KU filed with the Virginia Commission an application seeking approval of an increase in its fuel cost factor to reflect higher fuel costs incurred during 2005, and anticipated to be incurred in 2006, of approximately $6 million. The Virginia Commission approved KU's request on April 5, 2006.

VDT

In December 2001, the Companies received an order from the Kentucky Commission permitting them to set up regulatory assets for workforce reduction costs (VDT costs) and begin amortizing them over a five-year period beginning in April 2001. The order also reduced revenues through a surcredit on bills to ratepayers over the same five-year period, reflecting a sharing (40% to the ratepayers and 60% to the Companies) of the stipulated savings, net of amortization costs, of the workforce reduction. The five-year VDT amortization period ended March 31, 2006.

On February 27, 2006, the AG, Kentucky Industrial Utility Consumers, Inc. and the Companies reached a settlement agreement on the future ratemaking treatment of the VDT surcredits and costs and subsequently submitted a joint motion to the Kentucky Commission to approve the unanimous settlement agreement. Under the terms of the settlement agreement, the VDT surcredit will continue at the current level until such time as LG&E or KU file for a change in electric or natural gas base rates. The Kentucky Commission issued an order on March 24, 2006, approving the settlement agreement.

MISO

The MISO is a non-profit independent transmission system operator that controls more than 100,000 miles of transmission lines over 1.1 million square miles in 17 northern Midwest states and one Canadian province. The MISO operates the regional power grid and wholesale electricity market in an effort to optimize efficiency and safeguard reliability in accordance with federal energy policy.

The Companies are now involved in proceedings with the Kentucky Commission and the FERC seeking the authority to exit the MISO. Based on various financial analyses performed internally due to the July 2003 Kentucky Commission investigation into MISO membership, and particularly in light of the financial impact of MISO's implementation of the new day-ahead and real-time markets, the Companies determined that the costs of MISO membership, both now and in the future, outweigh the benefits. A timeline of events regarding the MISO and various proceedings is as follows:

- September 1998 - The FERC granted conditional approval for the formation of the MISO. The Companies were founding members.

- October 2001 - The FERC ordered that all bundled retail loads and grandfathered wholesale loads of each member transmission owner be included in the calculation of the MISO "cost adder," the Schedule 10 charges designed to recover the MISO's cost of operation, including start-up capital (debt) costs. The Companies and several owners opposed the FERC order and filed suit with the United States Court of Appeals.

- February 2002 - The MISO began commercial operations.

- February 2003 - The FERC reaffirmed its position on the Schedule 10 charges and the order was subsequently upheld by the U.S. Court of Appeals.

- July 2003 - The Kentucky Commission opened an investigation into the Companies' MISO membership. Testimony was filed by the Companies that supported an exit from the MISO, under certain conditions.

- August 2004 - The MISO filed its FERC-required TEMT. The Companies and other owners filed opposition to certain conditions of the TEMT and sought to delay the implementation. Such opposition was denied by the FERC.

- December 2004 - The Companies provided the MISO its required one-year notice of intent to exit the grid.

- April 2005 - The MISO implemented its day-ahead and real-time market (MISO Day 2), including a congestion management system.

- October 2005 - The Companies filed documents with the FERC seeking authority to exit the MISO.

- November 2005 - The Companies requested a Kentucky Commission order authorizing the transfer of functional control of their transmission facilities from the MISO to the Companies respectively, for the purpose of withdrawing from the MISO. The request stated that the Tennessee Valley Authority ("TVA") would have control to the extent necessary to act as the Companies' Reliability Coordinator and for the Southwest Power Pool, Inc. ("SPP") to perform its function as the Companies' Independent Transmission Organization. The Kentucky Commission issued an order authorizing this transfer in July 2006.

- March 2006 - the FERC issued an order conditionally approving the request of the Companies to exit the MISO. The FERC order contained a number of conditions that the Companies needed to satisfy to effect their exit from the MISO including:

  - Submission of various compliance filings addressing:

    - the Companies' hold-harmless obligations under the MISO Transmission Owners' Agreement, and the amount of the MISO exit fee to be paid by the Companies as calculated under the approved methodology;
    - the Companies' anticipated arrangements with Southwest Power Pool, Inc. and Tennessee Valley Authority, including revisions to address certain independence and transmission planning considerations, and reciprocity arrangements to ensure certain KU requirements customers do not incur pancaked rates for transmission and ancillary services;
    - the Companies' proposed Open Access Transmission Tariff as revised to address possible capacity hoarding, available transmission calculation methodology, curtailment priority and pricing, among other matters; and
    - the Companies' finalized arrangements with the Southwest Power Pool, Inc. and Tennessee Valley Authority.

  - The Companies must also file an application of the proposed Open Access Transmission Tariff under Section 205 of the Federal Power Act including a proposed return on equity. During April 2006 through the present, the Companies have submitted filings to the FERC addressing the majority of the conditions contained in the March 2006 order, including a proposed return on equity of 10.88% as part of its open access transmission tariff effective upon any exit from the MISO.

- May 2006 - the Kentucky Commission issued an order approving the request of the Companies to exit the MISO. The order authorized the Companies, upon exit of the MISO, to establish a regulatory asset for the exit fee, subject to adjustment for possible future MISO credits, and a regulatory liability for certain revenues which may be collected via current base rates as a result of the existing inclusion of amounts associated with certain MISO Schedule 10 charges.

- July 2006 - the Kentucky Commission issued an order approving the Companies' contractual arrangements with TVA and SPP to provide services to the Companies as reliability coordinator and independent transmission organization, respectively, upon a withdrawal from the MISO. This order was subject to certain conditions based upon a satisfactory outcome of pending FERC proceedings involving the Companies' market-based rate authority.

- July 2006 - the Kentucky Commission issued further orders denying the MISO's request for a rehearing regarding the May 2006 order and denying the MISO's request for intervenor status in the proceeding concerning the Companies' TVA/SPP arrangements.

- July 2006 - the FERC issued a further decision accepting, in substantial part, certain of the Companies' steps, including compliance and other filings, which constituted conditions to the FERC's March 2006 order conditionally approving their exit from the MISO. Also in July 2006, the FERC issued an order denying the MISO's request for a rehearing regarding the FERC's March 2006 order.

The Companies now estimate that they may complete their exit from the MISO during late summer 2006. The Companies have tendered a contractual notice to the MISO providing for a withdrawal date of September 1, 2006. There remain certain further conditions that must be satisfied under the FERC's exit orders, which conditions the Companies currently anticipate they can accomplish. The Companies are in continuing discussions with the MISO concerning operational elements of the exit and transition.

On or about the date of a completed exit from the MISO, and following initial calculation and invoicing from the MISO, the Companies would pay an exit fee to the MISO in an amount of up to approximately $41 million (allocated approximately $16 million for LG&E and $25 million for KU). The ultimate amount would be determined based upon the actual timing and circumstances of exit and, following payment, is subject to confirmation, correction and true-up, as agreed between the Companies and the MISO. The Kentucky Commission's May 2006 order granted certain relief regarding the exit fee, including the establishment of a regulatory asset relating to such fee and continuing ability to recover certain MISO charges in existing rates.

While the Companies believe they can reasonably achieve the remaining conditions imposed by the FERC relating to MISO exit by the late summer, including possibly as early as September 1, 2006, the actual timing or occurrence of withdrawal cannot be assured.

Market-Based Rate Authority

Beginning in April 2004, the FERC initiated proceedings to modify its methods used to assess generation market power and has established more stringent interim market screen tests. During 2005, in connection with the Companies' tri-annual market-based rate tariff renewals, the FERC continued to contend that the Companies failed such market screens in certain regions. The Companies disputed this contention and, in January 2006, in an attempt to resolve the matter, the Companies submitted proposed tariff schedules to the FERC containing a mitigation mechanism with respect to applicable power sales into the control area of Big Rivers Electric Corporation ("BREC") in western Kentucky, where Western Kentucky Energy Corp., an affiliate of the Companies, maintains a long-term contractual relationship with BREC. Under the proposed tariff schedule, prices for such sales would be capped at a relevant MISO power pool index price. Should the Companies exit the MISO, the FERC contended that they would have market power in their own joint control area, potentially requiring a similar mitigation mechanism for power sales into such region. In July 2006, the FERC issued an order in the Companies' market-based rate proceeding accepting the Companies' further proposal to address certain market power issues the FERC had claimed would arise upon an exit from the MISO. In particular, the Companies received permission to sell power at market-based rates at the interface of control areas in which they may be deemed to have market power, subject to a restriction that such power not be collusively re-sold back into such control areas. Certain general FERC proceedings continue with respect to market-based rate matters, and the Companies' market-based rate authority is subject to such future developments.

In some cases, recent FERC decisions in other market-based rate proceedings have proposed or required cost-based, rather than market index, price caps. The Companies cannot predict the ultimate impact of the current or potential mitigation mechanisms on their future wholesale power sales.

EPAct 2005

The EPAct 2005 was enacted on August 8, 2005. Among other matters, this comprehensive legislation contains provisions mandating improved electric reliability standards and performance; providing economic and other incentives relating to transmission, pollution control and renewable generation assets; increasing funding for clean coal generation incentives (see Note 6); repealing PUHCA 1935; enacting PUHCA 2005 and expanding FERC jurisdiction over public utility holding companies and related matters via the Federal Power Act and PUHCA 2005.

The FERC was directed by the EPAct 2005 to adopt rules to address many areas previously regulated by the other agencies under other statutes, including PUHCA 1935. The FERC remains in various stages of rulemaking on these issues and the Companies are monitoring these rulemaking activities and actively participating in these and other rulemaking proceedings. The Companies continue to evaluate the potential impacts of the EPAct 2005 and the associated rulemakings and cannot predict what impact the EPAct 2005, and any uncompleted rulemakings, will have on their operations or financial position.

3. Financial Instruments

The Companies use over-the-counter interest rate swaps to hedge exposure to market fluctuations in certain of their debt instruments. Pursuant to the Companies' policies, use of these financial instruments is intended to mitigate risk, earnings and cash flow volatility and is not speculative in nature. Management has designated all of the interest rate swaps as hedge instruments. Financial instruments designated as cash flow hedges have resulting gains and losses recorded within comprehensive income and stockholders' equity. Financial instruments designated as fair value hedges and the underlying hedged items are periodically marked to market with the resulting net gains and losses recorded directly into net income. Upon termination of any fair value hedge, the resulting gain or loss is recorded into net income.

As of June 30, 2006, LG&E was party to various interest rate swap agreements with aggregate notional amounts of $211 million. Under these swap agreements, LG&E paid fixed rates averaging 4.38% and received variable rates based on LIBOR or the Bond Market Association's municipal swap index averaging 3.67% at June 30, 2006. The swap agreements in effect at June 30, 2006, have been designated as cash flow hedges and mature on dates ranging from 2020 to 2033. The hedges have been deemed to be fully effective resulting in a pretax gain of $13 million for the six months ended June 30, 2006, recorded in comprehensive income. Upon expiration of these hedges, the amount recorded in comprehensive income will be reclassified into earnings. The amounts expected to be reclassified from comprehensive income to earnings in the next twelve months are immaterial. A deposit in the amount of $7 million, used as collateral for the $83 million interest rate swap, is classified as restricted cash on LG&E's Balance Sheet. The amount of the deposit required is tied to the market value of the swap.

As of June 30, 2006, KU was party to an interest rate swap agreement with a notional amount of $53 million. Under this swap agreement, KU paid variable rates based on LIBOR averaging 7.24%, and received fixed rates averaging 7.92% at June 30, 2006. The swap agreement in effect at June 30, 2006 has been designated as a fair value hedge and matures in 2007. At June 30, 2006, the effect of marking this financial instrument and the underlying debt to market resulted in pretax gains recorded in interest expense of less than $1 million.

Interest rate swaps hedge interest rate risk on the underlying debt. Under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, in addition to swaps being marked to market, the item being hedged using a fair value hedge must also be marked to market. Consequently at June 30, 2006, KU's debt reflects a mark-to-market adjustment of less than $1 million.

At June 30, 2006, the Companies' percentage of debt having a variable rate, including the impact of interest rate swaps, was 44%($364 million) for LG&E and 47% ($378 million) for KU.

4. Pension and Other Post-retirement Benefit Plans

The following table provides the components of net periodic benefit cost for pension and other benefit plans for the three and six months ended June 30, 2006 and 2005:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2006		2005		2006		2005	
(in millions)	LG&E	KU	LG&E	KU	LG&E	KU	LG&E	KU
Pension and Other Benefit Plans Components of net periodic benefit cost								
Service cost	$2	$2	$1	$2	$3	$4	$3	$3
Interest cost	5	5	6	4	11	8	12	9
Expected return on plan assets	(5)	(4)	(5)	(4)	(10)	(7)	(11)	(8)
Amortization of prior service cost	1	-	1	-	2	1	3	1
Recognized actuarial loss	1	1	1	1	2	2	1	1
Total net period benefit cost	$4	$4	$4	$3	$8	$8	$8	$6

LG&E made a discretionary contribution to the pension plan of $18 million in January 2006. LG&E made no contributions during 2005. KU made no contributions to the pension plan in 2006 or 2005.

5. Short-Term and Long-Term Debt

Under the provisions for LG&E's variable-rate pollution control bonds, Series S, T, U, BB, CC, DD and EE, and KU's variable-rate pollution control bonds Series 10, 12, 13, 14 and 15, the bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events, causing the bonds to be classified as current portion of long-term debt in the balance sheets. The average annualized interest rate for these bonds during the six months ending June 30, 2006 was 3.38% for LG&E and 3.41% for KU.

During June 2006, LG&E renewed five revolving lines of credit with banks totaling $185 million. There was no outstanding balance under any of these facilities at June 30, 2006. LG&E expects to renew these facilities prior to their expiration in June 2007.

LG&E, KU and E.ON U.S. participate in an intercompany money pool agreement. Details of the balances at June 30, 2006 and December 31, 2005 were as follows:

($ in millions)	Total Money Pool Available	Amount Outstanding	Balance Available	Average Interest Rate
June 30, 2006:				
LG&E	$400	$ 1	$399	4.96%
KU	$400	$ 52	$348	4.96%
December 31, 2005:				
LG&E	$400	$141	$259	4.21%
KU	$400	$ 70	$330	4.21%

E.ON U.S. maintains a revolving credit facility totaling $200 million with an affiliated company, E.ON North America, Inc., to ensure funding availability for the money pool. The balance outstanding on this facility at June 30, 2006, was $64 million.

Redemptions and maturities of long-term debt year-to-date through June 30, 2006, are summarized below:

($ in millions)

Year	Company	Description	Principal Amount	Rate	Secured/ Unsecured	Maturity
2006	KU	First mortgage bonds	$36	5.99%	Secured	Jan 2006

Issuances of long-term debt year-to-date through June 30, 2006, are summarized below:

($ in millions)

Year	Company	Description	Principal Amount	Rate	Secured/ Unsecured	Maturity
2006	KU	Fidelia note	$50	6.33%	Unsecured	Jun 2036

6. Commitments and Contingencies

Except as may be discussed in this Quarterly Report on Form 10-Q (including Note 2), material changes have not occurred in the current status of various commitments or contingent liabilities from that discussed in the Companies' Annual Report on Form 10-K for the year ended December 31, 2005 (including in Notes 3 and 10 to the financial statements of the Companies contained therein) and Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 (including in Notes 2 and 6 to the financial statements contained therein). See the above-referenced notes in the Companies' Annual Report on Form 10-K and Quarterly Report on Form 10-Q for information regarding such commitments or contingencies.

TRIMBLE COUNTY UNIT 2

In June 2006, the Companies, as 75% owners, entered into and delivered notice to proceed under an engineering, procurement and construction agreement with Bechtel Power Corporation ("Bechtel"), regarding construction of Trimble County Unit 2 valued at approximately $1.1 billion. IMEA and IMPA, as 25% owners, are also parties to the contract. The contract is generally in the form of a lump-sum, turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may serve to increase or decrease the ultimate construction price paid or payable to the contractor. The contract also contains standard representations, covenants, indemnities, termination and other provisions for arrangements of this type, including termination for convenience or for cause rights. In general, termination by the owners for convenience or by the contractor due to owners' default will limit payment obligations to payment for work or incentives performed or earned to date and termination by owners due to contractor's default will similarly limit payment obligations, subject however to owners' rights with respect to cover damages and to certain collateral provided. In connection with this matter, the Companies dismissed their litigation against Bechtel regarding the contract previously commenced in April 2006 in United States District Court for the Western District of Kentucky.

In June 2006, the Companies filed an application with the Department of Energy ("DOE") requesting certification to be eligible for investment tax credits applicable to the construction of Trimble County Unit 2. The EPAct 2005 added a new 48A to the Internal Revenue Code, which provides for an investment tax credit to promote the commercialization of advanced coal technologies that will generate electricity in an environmentally responsible manner. The application requested up to the maximum amount of "advanced coal project" credit allowed per taxpayer, or $125 million, based on an estimate of 15% of projected qualifying Trimble County Unit 2 expenditures. The DOE is anticipated to select and certify feasible and suitable qualifying projects, in their discretion, from among the applicant group during the late fall of 2006. If selected, the Companies would submit an additional application to the Internal Revenue Service ("IRS"). IRS action on such applications would thereafter be expected to occur during the fourth quarter of 2006. If, and to the extent the Companies' applications are ultimately accepted, the Companies could thereafter claim allocated federal income tax credits on eligible expenditures, as they occur over time, relating to the Trimble County Unit 2 project.

LOUISVILLE DOWNTOWN ARENA

LG&E has been asked by the Louisville Arena Authority, Inc., a non-profit corporation (the "Authority"), to transfer certain property and relocate certain LG&E facilities so that an LG&E-owned site, in part, could be used for the development and construction of a new multi-purpose arena in Louisville, Kentucky. The Authority and LG&E are negotiating a non-binding letter of intent regarding the arena transactions. LG&E estimates that the cost of relocating the LG&E facilities will be approximately $63 million and LG&E expects to request that the Authority arrange for the provision of state funds necessary for the relocation, as well as up to $10 million in state funds for the purchase of the property at fair market value. Current estimates are that the arena project could be completed by approximately 2010. The anticipated letter of intent would be subject to a number of contingencies, including completion of definitive documents and regulatory approvals necessary for the transactions contemplated.

OMU LITIGATION

In May 2004, the City of Owensboro, Kentucky and Owensboro Municipal Utilities (collectively "OMU") commenced a suit now removed to the U.S. District Court for the Western District of Kentucky, against KU concerning a long-term power supply contract (the "OMU Agreement") with KU. The dispute involves interpretational differences regarding issues under the OMU Agreement, including various payments or charges between KU and OMU and rights concerning excess power, termination and emissions allowances. The complaint seeks approximately $6 million in damages for periods prior to 2004 and OMU is expected to claim further amounts for later-occurring periods. OMU has additionally requested injunctive and other relief, including a declaration that KU is in material breach of the contract. KU has filed an answer in that court denying the OMU claims and presenting counterclaims. During 2005, the FERC declined KU's application to exercise exclusive jurisdiction over the matter. In July 2005, the district court resolved a summary judgment motion made by KU in OMU's favor, ruling that a contractual provision grants OMU the ability to terminate the contract without cause upon four years' prior notice, for which ruling KU retains certain rights to appeal. At this time the district court case is in the discovery stage and a trial schedule has not yet been established.

In May 2006, OMU issued a notification of its intent to terminate the contract in May 2010, without cause, absent any earlier termination which may be permitted by the proceeding.

ENVIRONMENTAL MATTERS

In April 2006, the EPA issued a notice of violation for alleged violations of the Clean Air Act involving work performed on Unit 3 of KU's E.W. Brown Station in 1997. The EPA alleges modification of a source without a permit, failure to comply with requirements under the Prevention of Significant Deterioration ("PSD") program, operation of a source in violation of the New Source Performance Standards ("NSPS"), and failure to identify the applicability of PSD and NSPS requirements in compliance certifications. Violations, if ultimately found, could result in additional expenditures on pollution controls or civil penalties. KU has responded to certain data requests of the EPA and held initial discussions with the EPA regarding this matter. Due to the early stage of this matter, KU is unable to determine its ultimate potential impact.

The Companies are subject to SO2 and NOx emission limits on their electric generating units pursuant to the Clean Air Act. The Companies placed into operation significant NOx controls for their generating units prior to the 2004 summer ozone season. As of June 30, 2006, LG&E and KU have incurred total capital costs of approximately $191 million and $217 million, respectively, to reduce their NOx emissions to required levels. In addition, the Companies incur additional operating and maintenance costs in operating the new NOx controls. On March 10, 2005, the EPA issued the final CAIR which requires substantial additional reductions in SO2 and NOx emissions from electric generating units. The CAIR provides for a two-phased reduction program with Phase I reductions in NOx and SO2 emissions in 2009 and 2010, respectively, and Phase II reductions in 2015. On March 15, 2005, the EPA issued a related regulation, the final CAMR, which requires substantial mercury reductions from electric generating units. The CAMR also provides for a two-phased reduction, with the Phase I target in 2010 achieved as a "co-benefit" of the controls installed to meet the CAIR. Additional control measures will be required to meet the Phase II target in 2018. Both the CAIR and the CAMR establish a cap and trade framework, in which a limit is set on total emissions and allowances can be bought or sold on the open market to be used for compliance, unless the state chooses another approach. LG&E currently has FGDs on all its coal-fired units, but will continue to evaluate improvements to further reduce SO2 emissions.

In order to meet these new regulatory requirements, KU has implemented a plan for adding significant additional SO2 controls to its generating units. Installation of additional SO2 controls will proceed on a phased basis, with construction of controls (i.e., FGDs) having commenced in September 2005 and continuing through the final installation and operation in 2009. KU estimates that it will incur $659 million in capital costs related to the construction of the FGDs to achieve compliance with current emission limits on a company-wide basis. Of this amount, $77 million has been incurred through June 30, 2006. In addition, KU will incur additional operating and maintenance costs in operating the new SO2 controls.

The Companies are also monitoring several other air quality issues which may potentially impact coal-fired power plants, including the EPA's revised air quality standards for ozone and particulate matter and measures to implement the EPA's Clean Air Visibility Rule.

In the normal course of business, lawsuits, claims, environmental actions and various non-ratemaking governmental proceedings arise against the Companies. To the extent that damages are assessed in any lawsuits relating to the above, the Companies believe that their insurance coverage or other appropriate reserves are adequate. Management, after consultation with legal counsel, and based upon the present status of these items, does not anticipate that liabilities arising out of other currently pending or threatened lawsuits and claims of the type referenced above will have a material adverse effect on the Companies' financial position or results of operations.

7. Segments of Business

LG&E's revenues, net income and total assets by business segment for the three and six months ended June 30, 2006 and 2005, follow:

(in millions)	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
LG&E Electric				
Revenues	$223	$228	$435	$457
Net income	27	30	42	54
Total assets	2,440	2,404	2,440	2,404
LG&E Gas				
Revenues	54	53	254	225
Net income	(2)	(2)	8	8
Total assets	507	454	507	454
Total				
Revenues	277	281	689	682
Net income	25	28	50	62
Total assets	2,947	2,858	2,947	2,858

KU is an electric utility company. It does not provide natural gas service and, therefore, is presented as a single business segment.

8. *Related Party Transactions*

LG&E, KU, subsidiaries of E.ON U.S. and other subsidiaries of E.ON engage in related-party transactions. These transactions are generally performed at cost and in accordance with applicable FERC, Kentucky Commission and Virginia Commission regulations. The significant related-party transactions are disclosed below.

Electric Purchases

The Companies' intercompany electric revenues and purchased power expense from affiliated companies for the three and six months ended June 30, 2006 and 2005 were as follows:

(in millions)	Three Months Ended June 30, 2006 LG&E	2006 KU	2005 LG&E	2005 KU	Six Months Ended June 30, 2006 LG&E	2006 KU	2005 LG&E	2005 KU
Electric operating revenues from KU	$22	$-	$21	$-	$44	$-	$47	$-
Electric operating revenues from LG&E	-	17	-	19	-	36	-	49
Purchased power from KU	17	-	19	-	36	-	49	-
Purchased power from LG&E	-	22	-	21	-	44	-	47

Interest Charges

The Companies' intercompany interest income and expense for the three and six months ended June 30, 2006 and 2005 were as follows:

(in millions)	Three Months Ended June 30, 2006 LG&E	2006 KU	2005 LG&E	2005 KU	Six Months Ended June 30, 2006 LG&E	2006 KU	2005 LG&E	2005 KU
Interest on money pool loans	$-	$1	$-	$-	$1	$2	$-	$-
Interest on Fidelia loans	3	4	3	4	6	9	6	7

Other Intercompany Billings

Other intercompany billings related to the Companies for the three and six months ended June 30, 2006 and 2005 were as follows:

(in millions)	Three Months Ended June 30, 2006	2005	Six Months Ended June 30, 2006	2005
E.ON U.S. Services billings to LG&E	$69	$76	$105	$108
E.ON U.S. Services billings to KU	78	75	120	101
LG&E billings to E.ON U.S. Services	2	1	3	5
KU billings to E.ON U.S. Services	2	-	3	4
LG&E billings to KU	6	7	10	10

KU billings to LG&E	3	9	15
13			

9. *Subsequent Events*

On July 14, 2006, LG&E redeemed 12,500 shares of its 5.875% mandatorily redeemable preferred stock pursuant to sinking fund requirements at $100 per share.

On July 20, 2006, KU completed a new tax-exempt financing totaling approximately $17 million. The new bonds, due June 1, 2036, have a variable, auction rate of interest.

Effective August 1, 2006, KU and its employees represented by IBEW Local 2100 entered into a new three-year collective bargaining agreement. Such agreement provides for routine updates to wages, benefits or other provisions and provides for annual wage re-openers for the second and third years.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

General

The following discussion and analysis by management focuses on those factors that had a material effect on the Companies' financial results of operations and financial condition during the three and six month periods ended June 30, 2006, and should be read in connection with the financial statements and notes thereto.

Some of the following discussion may contain forward-looking statements that are subject to certain risks, uncertainties and assumptions. Such forward-looking statements are intended to be identified in this document by the words "anticipate," "expect," "estimate," "objective," "possible," "potential" and similar expressions. Actual results may vary materially. Factors that could cause actual results to differ materially include: general economic conditions; business and competitive conditions in the energy industry; changes in federal or state legislation; unusual weather; actions by state or federal regulatory agencies; and other factors described from time to time in the Companies' reports to the SEC, including the Annual Reports on Form 10-K for the year ended December 31, 2005.

Executive Summary

LG&E and KU, subsidiaries of E.ON U.S. (indirect subsidiaries of E.ON), are regulated public utilities. At June 30, 2006, LG&E supplied electricity to approximately 398,000 customers and natural gas to approximately 323,000 customers in Louisville and adjacent areas in Kentucky. At June 30, 2006, KU provided electricity to approximately 497,000 customers in 77 counties in central, southeastern and western Kentucky, to approximately 30,000 customers in southwestern Virginia and 5 customers in Tennessee. KU also sells wholesale electricity to 12 municipalities.

The mission of the Companies is to build on our tradition and achieve world-class status providing reliable, low-cost energy services and superior customer satisfaction; and to promote safety, financial success and quality of life for our employees, communities and other stakeholders.

The Companies' strategy focuses on the following:

- Achieve scale as an integrated U.S. electric and gas business through organic growth;
- Maintain excellent customer satisfaction;
- Maintain best-in-class cost position versus U.S. utility companies;
- Develop and transfer best practices throughout the company;
- Invest in infrastructure to meet expanding load and comply with increasing environmental requirements;
- Achieve appropriate regulated returns on all investment;
- Attract, retain and develop the best people; and
- Act with a commitment to corporate social responsibility that enhances the well being of our employees, demonstrates environmental stewardship, promotes quality of life in our communities and reflects the diversity of the society we serve.

In a June 2004 order, the Kentucky Commission accepted the settlement agreements reached by the majority of the parties in the rate cases filed by the Companies in December 2003. Under the ruling, the LG&E utility base electric rates have increased $43 million (7.7%) and base natural gas rates have increased $12 million (3.4%) annually. Base electric rates at KU have increased $46 million (6.8%) annually. The rate increases took effect on July 1, 2004. The 2004 increases were the first increases in electric base rates for the Companies in 13 and 20 years, respectively; the previous natural gas rate increase for the LG&E gas utility took effect in September 2000.

The Companies have begun construction of another base-load coal-fired unit at the Trimble County site. The Companies believe this is the least cost alternative to meet the future needs of customers. Trimble County Unit 2, with a 750 Mw capacity rating, is expected to be jointly owned by the Companies (75% owners of the unit) and IMEA and IMPA (25% owners). Trimble County Unit 2 is expected to cost $1.1 billion and be completed by 2010. The Companies' aggregate 75% share of the total Trimble County Unit 2 capital cost is approximately $885 million and is estimated to be approximately $120 million for LG&E and $510 million for KU through 2008. Through June 2006, expenditures for Trimble County Unit 2 have been $7 million for LG&E and $25 million for KU. In June 2006, the Companies entered into a construction contract regarding the Trimble County Unit 2 project. See Note 6 of the Notes to Financial Statements, in Part 1, Item 1, herein.

In November 2005, the Kentucky Commission approved the CCN construction application of the Companies to expand the Trimble County generating plant. Kentucky Commission approvals for the related transmission line CCNs were granted in September 2005 and May 2006. In July 2006, certain property owners filed a motion for judicial appeal of the latter transmission line CCN ruling. A schedule for such proceeding has not been established. In November 2005, the Kentucky Division for Air Quality issued the final air permit, which was challenged via a request for remand in December 2005 by three environmental advocacy groups, including the Sierra Club. Administrative proceedings with respect to the challenge are expected to continue during 2006 with a hearing scheduled for October 2006. A ruling thereafter may be anticipated in the first half of 2007.

In July 2006, the FERC issued a final report under a routine audit that its *Office of Enforcement* (formerly its Office of Market Oversight and Investigations) had conducted regarding the compliance of E.ON U.S. and subsidiaries, including LG&E and KU, under the FERC's standards of conduct and codes of conduct requirements, as well as other areas. The final report contained certain findings calling for improvements in E.ON U.S. and subsidiaries' structures, policies and procedures relating to transmission, generation dispatch, energy marketing and other practices. E.ON U.S. and affiliates have agreed to certain corrective actions and plan to submit procedures related to such corrective actions to the FERC. The corrective actions are in the nature of organization and operational improvements as described above and are not expected to have a material adverse impact on the Companies' results of operations or financial condition.

Results of Operations

The results of operations for the Companies are affected by seasonal fluctuations in temperature and other weather-related factors. Because of these and other factors, the results of one interim period are not necessarily indicative of results or trends to be expected for the full year.

Three Months Ended June 30, 2006, Compared to Three Months Ended June 30, 2005

LG&E Results:

LG&E's net income decreased $3 million (11%) for the three months ended June 30, 2006, as compared to the three months ended June 30, 2005, primarily due to lower electricity and natural gas retail and wholesale sales volumes resulting largely from milder weather than in the prior year.

A comparison of LG&E's revenues for the three months ended June 30, 2006, with the three months ended June 30, 2005, reflects increases and (decreases) which have been segregated by the following principal causes:

Cause (in millions)	Electric Revenues	Gas Revenues
Retail sales:		
Fuel and gas supply adjustments	$6	$7
Environmental cost recovery surcharge	(3)	-
Variation in sales volume and other	(5)	(2)
Total retail sales	(2)	5
Wholesale sales	(4)	(4)
Other	1	-
Total	$(5)	$1

Electric revenues decreased $5 million (2%) primarily due to:

- Decreased wholesale revenues ($4 million) largely due to 4% lower volumes
- Decreased retail electric volumes delivered ($5 million) resulting from a 14% decrease in cooling degree days in the second quarter of 2006 compared to the same period in 2005 and an 16% decrease from the 20-year average
- Decreased environmental cost recovery ($3 million) due to lower ECR billing rates

- Increased fuel costs billed to customers through the fuel adjustment clause ($6 million) due to higher costs of coal and natural gas

Gas revenues increased $1 million (2%) primarily due to:

- Increased gas supply costs billed to customers through the gas supply adjustment ($7 million) due to the higher cost of natural gas
- Decreased wholesale revenues ($4 million) as a result of 7% lower volumes due to lower demand from wholesale customers
- Decreased retail gas volumes delivered ($2 million) resulting from a 17% decrease in heating degree days in the second quarter of 2006 compared to the same period in 2005 and an 20% decrease from the 20-year average

Fuel for electric generation and gas supply expenses comprise a large component of LG&E's total operating expenses. Increases or decreases in the cost of fuel and natural gas supply are reflected in LG&E's electric and natural gas retail rates, through the fuel adjustment clause and gas supply clause, subject to the approval of the Kentucky Commission.

Fuel for electric generation increased $2 million (3%) in 2006 primarily due to:

- Increased unit cost of fuel burned ($4 million) due to higher fuel prices
- Decreased generation ($2 million) due to lower wholesale and retail sales volumes

Power purchased decreased $2 million (7%) in 2006 primarily due to:

- Decreased volumes purchased ($6 million) due to lower wholesale and retail sales
- Increased unit cost of purchases ($4 million) due to higher market prices

Gas supply expenses increased $2 million (6%) in 2006 primarily due to:

- Increased unit cost of natural gas purchased ($8 million)
- Decreased volumes of natural gas delivered into the distribution system ($6 million) due to milder weather

A comparison of the LG&E effective income tax rate for the three months ended June 30, 2006 and 2005 follows:

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005

Effective Rate		
Statutory federal income tax rate	35.0%	35.0%
State income taxes net of federal benefit	3.5	5.2
Amortization of investment tax credits	(2.7)	(2.3)
Other differences	(3.4)	(1.5)
Effective income tax rate	32.4%	36.4%

State income taxes in 2006 reflect Kentucky Coal Tax credits earned. The change in amortization of investment tax credits and other differences is largely attributable to the change in the levels of pre-tax income.

KU Results:

KU's net income increased $7 million (39%) for the three months ended June 30, 2006, as compared to the three months ended June 30, 2005, primarily due to lower maintenance costs, a lower effective income tax rate and higher earnings from EEI.

A comparison of KU's revenues for the three months ended June 30, 2006, with the three months ended June 30, 2005, reflects increases and (decreases) which have been segregated by the following principal causes:

Cause (in millions)	Electric Revenues
Retail sales:	
Fuel supply adjustments	$17
Environmental cost recovery surcharge	3
Variation in sales volumes and other	(7)
Total retail sales	13
Other	(2)
Total	$11

Electric revenues increased $11 million (4%) in 2006 primarily due to:

- Increased fuel costs billed to customers through the fuel adjustment clause ($17 million) due to higher costs of coal and natural gas
- Increased environmental cost recovery ($3 million) due to higher ECR billing rates
- Decreased retail electric volumes delivered ($7 million) resulting from a 17% decrease in cooling degree days in the second quarter of 2006 compared to the same period in 2005 and an 19% decrease from the 20-year average

Fuel for electric generation comprises a large component of KU's total operating expenses. Increases or decreases in the cost of fuel are reflected in KU's retail electric rates through the fuel adjustment clause, subject to the approval of the Kentucky Commission, the Virginia State Corporation Commission and the FERC.

Fuel for electric generation increased $16 million (19%) in 2006 primarily due to:

- Increased unit cost of fuel burned ($9 million) due to higher fuel prices
- Increased generation ($7 million) largely due to higher unit availability

Power purchased decreased $6 million (12%) in 2006 primarily due to:

- Decreased volumes purchased ($8 million) largely due to higher unit availability and decreased retail demand
- Increased unit cost of purchases ($2 million) due to higher market prices

Other operation and maintenance expenses decreased $5 million (7%) in 2006 primarily due to:

- Decreased maintenance costs ($3 million) largely due to an outage last year at Brown Unit 3
- Decreased other power supply costs ($2 million) related to lower MISO Day 2 expenses

Other (income) - net increased $3 million (150%) primarily due to increased equity in earnings from EEI as a result of EEI selling electricity at market based rates, effective January 2006.

Interest expense increased $1 million (13%) in 2006 primarily due to increased borrowing from Fidelia.

A comparison of the KU effective income tax rate for the three months ended June 30, 2006 and 2005 follows:

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005
Effective Rate		
Statutory federal income tax rate	35.0%	35.0%
State income taxes net of federal benefit	4.4	5.0
Amortization of investment tax credits	(0.8)	(1.4)
EEI dividend	(6.1)	-
Other differences	(1.9)	(2.9)
Effective income tax rate	30.6%	35.7%

The EEI dividend in the second quarter of 2006 reflects a tax benefit associated with the receipt of dividends from KU's investment in EEI. The change in amortization of investment tax credits and other differences is largely attributable to the change in the levels of pre-tax income.

Six Months Ended June 30, 2006, Compared to
Six Months Ended June 30, 2005

LG&E Results:

LG&E's net income decreased $12 million (19%) for the six months ended June 30, 2006, as compared to the six months ended June 30, 2005, primarily due to lower electricity and natural gas retail and wholesale sales volumes, higher maintenance costs and higher interest expense.

A comparison of LG&E's revenues for the six months ended June 30, 2006, with the six months ended June 30, 2005, reflects increases and (decreases) which have been segregated by the following principal causes:

Cause (in millions)	Electric Revenues	Gas Revenues
Retail sales:		
Fuel and gas supply adjustments	$15	$73
Merger surcredit	1	-
Weather normalization	-	2
Variation in sales volume and other	(8)	(31)
Total retail sales	8	44
Wholesale sales	(32)	(16)
Other	2	1
Total	$(22)	$29

Electric revenues decreased $22 million (5%) in 2006 primarily due to:

- Decreased wholesale revenues ($32 million) largely due to 10% lower volumes
- Decreased retail electric volumes delivered ($8 million) resulting from a 10% decrease in cooling degree days in the first six months of 2006 compared to the same period in 2005 and an 12% decrease from the 20-year average
- *Increased fuel costs billed to customers through the fuel* adjustment clause ($15 million) due to higher costs of coal and natural gas
- Increased miscellaneous revenues ($2 million)

Gas revenues increased $29 million (13%) in 2006 primarily due to:

- Increased gas supply costs billed to customers through the gas supply adjustment ($73 million) due to higher natural gas costs
- Increased weather normalization revenues ($2 million) due to warmer weather .
- Decreased retail gas volumes delivered ($31 million) resulting from a 10% decrease in heating degree days in the first six months of 2006 compared to the same period in 2005 and an 12% decrease from the 20-year average

- Decreased wholesale revenues ($16 million) as a result of 7% lower volumes due to lower demand from wholesale customers

Fuel for electric generation and gas supply expenses comprise a large component of LG&E's total operating expenses. Increases or decreases in the cost of fuel and natural gas supply are reflected in LG&E's electric and natural gas retail rates, through the fuel adjustment clause and gas supply clause, subject to the approval of the Kentucky Commission.

Fuel for electric generation increased $6 million (5%) in 2006 primarily due to:
- Increased unit cost of fuel burned ($13 million) due to higher fuel prices
- Decreased generation ($5 million) due to lower wholesale and retail sales volumes

Power purchased decreased $13 million (19%) in 2006 primarily due to:
- Decreased volumes purchased ($22 million) due to lower wholesale and retail sales
- Increased unit cost of purchases ($9 million) due to higher market prices

Gas supply expenses increased $29 million (17%) in 2006 primarily due to:

- Increased unit cost of natural gas purchased ($69 million)
- Decreased volumes of natural gas delivered into the distribution system ($40 million) due to milder weather

Other operation and maintenance expenses increased $4 million (3%) in 2006 primarily due to:
- Increased steam maintenance ($3 million) largely due to the outage at Mill Creek Unit 4
- Increased distribution maintenance ($2 million) due to higher storm restoration costs

Interest expense increased $2 million (11%) in 2006 primarily due to:
- Increased interest rates on variable rate debt ($3 million)
- Increased interest on tax deficiencies ($1 million)
- Increased interest rates on money pool borrowing ($1 million)
- Decreased interest on the swaps ($2 million)
- Decreased interest due to refinancing fixed rate debt with variable rate debt ($1 million)

The weighted average interest rate on variable-rate bonds for the six months ended June 30, 2006, was 3.33%, compared to 2.27% for the comparable period in 2005.

A comparison of the LG&E effective income tax rate for the six months ended
June 30, 2006 and 2005 follows:

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Effective Rate		
Statutory federal income tax rate	35.0%	35.0%
State income taxes net of federal benefit	3.6	4.8
Amortization of investment tax credits	(2.7)	(2.2)
Other differences	(2.6)	(2.2)
Effective income tax rate	33.3%	35.4%

State income taxes in 2006 reflect Kentucky Coal Tax credits earned. The change in amortization of investment tax credits and other differences is largely attributable to the change in the levels of pre-tax income.

KU Results:

KU's net income increased $5 million (9%) for the six months ended June 30, 2006, as compared to the six months ended June 30, 2005, primarily due higher earnings from EEI and a lower effective income tax rate, which is partially offset by higher transmission costs and higher interest charges.

A comparison of KU's revenues for the six months ended June 30, 2006, with the six months ended June 30, 2005, reflects increases and (decreases) which have been segregated by the following principal causes:

Cause (in millions)	Electric Revenues
Retail sales:	
Fuel supply adjustments	$36
Environmental cost recovery surcharge	3
Merger surcredit	1
Rate and rate structure	2
Variation in sales volume and other	(6)
Total retail sales	36
Wholesale sales	(18)
Other	(1)
Total	$17

Electric revenues increased $17 million (3%) in 2006 primarily due to:
- Increased fuel costs billed to customers through the fuel adjustment clause ($36 million) due to higher costs of coal and natural gas
- Increased environmental cost recovery ($3 million) due to higher ECR

billing rates
- Increased Virginia revenues due to a rate change for increased fuel recovery ($2 million)
- Decreased wholesale sales ($18 million) largely due to 5% lower volumes
- Decreased retail electric volumes delivered ($7 million) resulting from a 9% decrease in cooling degree days in the first six months of 2006 compared to the same period in 2005 and an 11% decrease from the 20-year average

Fuel for electric generation comprises a large component of KU's total operating expenses. Increases or decreases in the cost of fuel are reflected in KU's retail electric rates through the fuel adjustment clause, subject to the approval of the Kentucky Commission, the Virginia State Corporation Commission and the FERC.

Fuel for electric generation increased $23 million (13%) in 2006 primarily due to:
- Increased unit cost of fuel burned ($20 million) due to higher fuel prices
- Increased generation ($3 million) largely due to higher unit availability

Power purchased decreased $6 million (6%) in 2006 primarily due to:
- Decreased volumes purchased ($18 million) largely due to higher unit availability and decreased retail demand
- Increased unit cost of purchases ($12 million) due to higher market prices

Other operation and maintenance expenses increased $7 million (6%) in 2006 primarily due to:
- Increased other power supply ($5 million) largely due to MISO Day 2
- Increased transmission expense ($3 million) largely due to MISO Day 1

Other (income) - net increased $10 million (333%) primarily due to increased equity in earnings from EEI as a result of EEI selling electricity at market based rates, effective January 2006.

Interest expense increased $4 million (29%) in 2006 primarily due to:
- Increased borrowing from Fidelia ($2 million)
- Increased borrowing and increased interest rates on money pool debt ($2 million)

A comparison of the KU effective income tax rate for the six months ended June 30, 2006 and 2005 follows:

	Six Months Ended	Six Months Ended

	June 30, 2006	June 30, 2005
Effective Rate		
Statutory federal income tax rate	35.0%	35.0%
State income taxes net of federal benefit	4.4	4.7
Amortization of investment tax credits	(0.6)	(0.9)
EEI dividend	(5.1)	-
Other differences	(1.1)	(0.6)
Effective income tax rate	32.6%	38.2%

The EEI dividend for the six months ended June 30, 2006, reflects a tax benefit associated with the receipt of dividends from KU's investment in EEI.

Liquidity and Capital Resources

The Companies' needs for capital funds are largely related to the construction of plant and equipment necessary to meet the needs of electric and gas utility customers, in addition to debt service requirements and dividend payments. Internal and external lines of credit are maintained to fund short-term capital requirements. The Companies believe that such sources of funds will be sufficient to meet the needs of the business in the foreseeable future.

At June 30, 2006, the Companies were in a negative working capital position in part because of the classification of certain variable-rate pollution control bonds that are subject to tender for purchase at the option of the holder as current portion of long-term debt. The Companies expect to cover any working capital deficiencies with cash flow from operations, money pool borrowings and borrowings from Fidelia.

Construction expenditures for the six months ended June 30, 2006 amounted to $66 million for LG&E and $121 million for KU. At LG&E, capital expenditures included infrastructure for new customers, gas main replacements/extensions and capital repairs to Mill Creek Unit 4. At KU, capital expenditures included construction of FGD and other environmental equipment at the Ghent generating station and infrastructure for new customers.

LG&E's cash balance decreased $2 million during the six months ended June 30, 2006, largely resulting from repayments of debt and the payment of dividends. KU's cash balance decreased $2 million during the six months ended June 30, 2006, primarily due to increased capital expenditures.

Variations in accounts receivable, inventories and accounts payable are generally not significant indicators of the Companies' liquidity. Such variations are primarily attributable to seasonal fluctuations in weather, which have a direct effect on sales of electricity and natural gas. The decreases in LG&E's accounts receivable and natural gas stored underground relate primarily to seasonal uses of natural gas.

For information regarding the Companies' use of interest rate swaps to hedge underlying variable-rate (LG&E) and fixed-rate (KU) debt obligations, see Note 3 of the Notes to Financial Statements.

See Note 5 of the Notes to Financial Statements for information regarding the Companies' long-term and short-term debt including: accounting treatment of bonds permitting tender for purchase at the option of the holder, re-negotiation of revolving credit lines, intercompany debt transactions and the issuance and redemption of financial instruments during the year.

Security ratings as of June 30, 2006, were:

	LG&E		KU	
	Moody's	S&P	Moody's	S&P
First mortgage bonds	A1	A-	A1	A
Preferred stock	Baa1	BBB-	Baa1	BBB-
Commercial paper	P-1	A-2	P-1	A-2

These ratings reflect the views of Moody's and S&P. A security rating is not a recommendation to buy, sell or hold securities and is subject to revision or withdrawal at any time by the rating agency.

LG&E made a discretionary contribution to the pension plan of $18 million in January 2006. LG&E made no contributions during 2005. KU made no contributions to the pension plan in 2006 or 2005.

Contingencies

For a description of significant contingencies that may affect the Companies, reference is made to Part I, Item 3, Legal Proceedings in the Companies' Annual Reports on Form 10-K for the year ended December 31, 2005; to Part I - Item 1 and Part II - Item 1, Legal Proceedings in the Companies' Quarterly Report on Form 10-Q for the period ended March 31, 2006; and to Notes 2 and 6 of the Notes to Financial Statements in Part I - Item 1, and Part II - Item 1, Legal Proceedings herein.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

The Companies use interest rate swaps to hedge exposure to market fluctuations in certain of their debt instruments. Pursuant to the Companies' policies, use of these financial instruments is intended to mitigate risk and earnings volatility and is not speculative in nature. Management has designated all of the Companies' interest rate swaps as hedge instruments. Financial instruments designated as cash flow hedges have resulting gains and losses recorded within comprehensive income and stockholders' equity. To the extent a financial instrument or the underlying item being hedged is prematurely terminated or the hedge becomes ineffective, the resulting gains or losses are reclassified from comprehensive income to net income. Financial instruments designated as fair value hedges are periodically marked to market with the resulting gains and losses recorded directly into net income to correspond with income or expense recognized from changes in market value of the items being hedged.

The potential change in interest expense associated with a 1% change in base interest rates of the Companies' unswapped variable debt is estimated at $4 million each at June 30, 2006. The Companies' exposure to floating interest rates did not materially change during the first six months of 2006.

The potential loss in fair value of LG&E's interest rate swaps resulting from a hypothetical 1% change in base interest rates is estimated at approximately $17 million as of June 30, 2006. The potential loss in fair value of KU's interest rate swaps resulting from a hypothetical 1% change in base interest rates is estimated at less than $1 million as of June 30, 2006. These estimates are derived from third-party valuations. Changes in the market values of these swaps, if held to maturity, will have no effect on LG&E's or KU's net income or cash flow.

Pension Risk

The Companies' costs of providing defined-benefit pension retirement plans is dependent upon a number of factors, such as the rates of return on plan assets, discount rate and contributions made to the plan. The Companies have recognized an additional minimum liability as prescribed by SFAS No. 87, Employers' Accounting for Pensions because the accumulated benefit obligation exceeds the fair value of their plans' assets. The liabilities were recorded as a reduction to comprehensive income, and did not affect net income. The amount of the liability depends upon the discount rate, the asset returns and contributions made by the Companies to the plans. If the fair value of the plans' assets exceeds the accumulated benefit obligation, the recorded liabilities will be reduced and comprehensive income will be restored in the balance sheet.

A 1% increase or decrease in the assumed discount rate could have an approximate $49 million positive or negative impact to the accumulated benefit obligation of LG&E. A 1% increase or decrease in the assumed discount rate could have an approximate $33 million positive or negative impact to the accumulated benefit obligation of KU.

LG&E made a discretionary contribution to the pension plan for $18 million in January 2006. LG&E made no contributions during 2005. KU made no contributions to the pension plan in 2006 or 2005.

Energy & Risk Management Activities

The Companies conduct energy trading and risk management activities to maximize the value of power sales from physical assets they own. Certain energy trading activities are accounted for on a mark-to-market basis in accordance with SFAS No. 133, as amended. Wholesale sales of excess asset capacity are treated as normal sales under SFAS No. 133, as amended, and are not marked to market.

Since the inception of the MISO Day 2 market in April 2005, the Companies have been eligible to receive FTRs from the MISO. FTRs are assigned by the MISO to market participants for a twelve-month period of time beginning June 1, 2006, for off-peak and peak periods based on each market participant's share of generation. FTRs are utilized to manage price risk associated with transmission congestion. The value of FTRs is determined by the transmission congestion charges that arise when the transmission grid is congested in the day-ahead market. FTRs are obtained through an allocation from the MISO at zero cost, however, they can also be bought and sold. FTRs are derivatives and their fair value is insignificant due to the lack of liquidity in the forward market.

The fair values of the Companies' energy trading and risk management contracts as of June 30, 2006 were each approximately $2 million. The fair

values at June 30, 2005, were less than $1 million each. No changes to valuation techniques for energy trading and risk management activities occurred during 2006 or 2005. Changes in market pricing, interest rate and
volatility assumptions were made during all periods. The outstanding mark-
to-market value is sensitive to changes in prices, price volatilities and
interest rates. The Companies estimate that a movement in prices of $1 and
a change in interest and volatilities of 1% would result in a change in the
mark-to-market value of less than $1 million. All contracts outstanding at
June 30, 2006, have a maturity of less than one year and are valued using
prices actively quoted for proposed or executed transactions or quoted by
brokers.

The Companies maintain policies intended to minimize credit risk and revalue credit exposures daily to monitor compliance with those policies.
As of June 30, 2006, 100% of the trading and risk management commitments
were with counterparties rated BBB-/Baa3 equivalent or better.

Item 4. Controls and Procedures

The Companies maintain a system of disclosure controls and procedures designed to ensure that information required to be disclosed by the Companies in reports they file or submit under the Securities Exchange Act
of 1934 is recorded, processed, summarized and reported, within the time
periods specified in the Securities and Exchange Commission rules and forms. The Companies conducted an evaluation of such controls and procedures under the supervision and with the participation of the Companies' management, including the Chairman, President and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"). Based
upon that evaluation, the CEO and CFO have concluded that the Companies'
disclosure controls and procedures are effective as of the end of the period covered by this report.

The Companies are not accelerated filers under the Sarbanes-Oxley Act of
2002 and associated rules (the "Act") and consequently anticipate issuing
Management's Report on Internal Control over Financial Reporting pursuant
to Section 404 of the Act in their first periodic report covering the fiscal year ended December 31, 2007 as permitted by SEC rulemaking.

In preparation for required reporting under Section 404 of the Act, the

Companies are conducting a thorough review of their internal controls over financial reporting, including disclosure controls and procedures. Based on this review, the Companies have made internal controls enhancements and will continue to make future enhancements to their internal control over financial reporting. There has been no change in the Companies' internal control over financial reporting that occurred during the fiscal quarter ended June 30, 2006, that has materially affected, or is reasonably likely to materially affect, the Companies' internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings.

For a description of the significant legal proceedings involving the Companies, reference is made to the information under the following items and captions of the Companies' respective combined Annual Report on Form 10-K for the year ended December 31, 2005: Item 1, Business; Item 3, Legal Proceedings; Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations; and Item 8, Financial Statements and Supplementary Data in Notes 3 and 10. Reference is also made to the matters described in Notes 2 and 6 of Part 1, Item 1 of the Companies' Quarterly Report on Form 10-Q for the three months ended March 31, 2006, and Notes 2 and 6 of the Notes to Financial Statements in Part I, Item 1 of this 10-Q. Except as described herein, to date, the proceedings reported in the Companies' respective combined Annual Report on Form 10-K have not changed materially.

Other

In the normal course of business, other lawsuits, claims, environmental actions, and other governmental proceedings arise against the Companies. To the extent that damages are assessed in any of these lawsuits, the Companies believe that their insurance coverage is adequate. Management, after consultation with legal counsel, does not anticipate that liabilities arising out of other currently pending or threatened lawsuits and claims will have a material adverse effect on LG&E's or KU's financial position or results of operations, respectively.

Item 1A. Risk Factors.

LG&E and KU currently anticipate withdrawal from the MISO effective September 1, 2006. The resulting changes to transmission and wholesale power market structures and prices are not completely estimable and may result in unforeseen effects on costs or revenues. As required by the FERC, in connection with their exit, the Companies have engaged two independent third parties to perform certain oversight and functional control activities relating to transmission and related activities. The Companies will save certain MISO membership costs and charges, but will incur an exit fee and fees related to the new transmission service vendors.
The Companies believe that, over time, the benefits and savings from an exit of the MISO will outweigh the costs and expenses. However, until post-MISO market conditions and operations have matured, the effects on financial condition, liquidity or results of operations will remain difficult to fully predict.

See Note 2 of LG&E's and KU's Notes to Financial Statements in Part I, Item 1 of this 10-Q.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit No.	Applicable to Form 10-Q of LG&E	KU	Description
4.1		X	Loan Agreement dated June 23, 2006 between Kentucky Utilities Company and Fidelia Corporation. [Filed as Exhibit 4.1 to KU's Current Report on Form 8-K dated June 23, 2006 and incorporated by reference herein.]
4.2		X	Copy of Promissory Note from KU to Fidelia Corporation, dated as of June 23, 2006. [Filed as Exhibit 4.2 to KU's Current Report on Form 8-K dated June 23, 2006 and incorporated by reference herein.]
31.1	X		Certification of Chairman of the Board, President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	X		Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.3 X Certification of Chairman of the Board, President and Chief

Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.4 X Certification of Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32 X X Certification pursuant to Section 906 of the Sarbanes-Oxley

Act of 2002

Certain instruments defining the rights of holders of certain long-term
debt of LG&E or KU have not been filed with the SEC but will be furnished
to the SEC upon request.

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 thereunto duly authorized.

Louisville Gas and Electric Company
Registrant

Date: August 14, 2006 /s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer
(On behalf of the registrant in his
capacities as Principal Financial
Officer
and Principal
Accounting Officer)

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 thereunto duly authorized.

Kentucky Utilities Company
Registrant

Date: August 14, 2006 /s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer
(On behalf of the registrant in his
capacities as Principal Financial
Officer

and Principal
Accounting Officer)

SEC Form 8-K – December 7, 2006

UNITED STATES
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): **December 7, 2006**

Kentucky Utilities Company

(Exact name of registrant as specified in its charter)

Kentucky and Virginia	**1-3464**	**61-0247570**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

One Quality Street, Lexington, Kentucky	**40507**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(857) 255-2100**

(Former name or former address, if changed since last report)

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 (see General Instruction A.2. below):

☐ 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))

ltem 2.03. Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant.

On December 7, 2006, Kentucky Utilities Company (the "Company") completed a financing transaction resulting in the issuance of 6,693,620 in new pollution control indebtedness. The indebtedness, the Company's First Mortgage Bonds, Pollution Control Series No. 21, lue June 1, 2036, will currently carry a variable, auction rate of interest. (During July 2006, the Company issued pollution control indebtedness n a similar principal amount and maturity, which transaction is distinct from this issuance,)

As part of the current transaction, the County of Carroll, Kentucky (the "County") has issued $16,693,620 in new pollution control ›onds (the "County Bonds") relating to facilities to be constructed at the Company's Ghent generating station. Pursuant to a Loan Agreement lated as of October 1, 2006 (the "Loan Agreement"), the Company has borrowed from the County the proceeds from sale of the County 3onds. Under the Loan Agreement, the Company has agreed to repay the loan by making principal, interest, premium payments or any ›urchase price payments as and when due with respect to the County Bonds. The payment obligations of the Company under the Loan Agreement are absolute and unconditional.

The Company's obligations with respect to the County Bonds are secured by the Company's issuance of the above-mentioned 516,693,620 in first mortgage bonds (the "Company Bonds") with identical principal amount, maturity and interest provisions as the County 3onds. The Company Bonds are issued pursuant to a Supplemental Indenture dated November 1, 2006, to the Company's existing first nortgage bond indenture among the Company and its first mortgage bond trustee.

The Loan Agreement, the Supplemental Indenture and other transaction documents contain standard representations, covenants and events of default for facilities of this type, including acceleration of indebtedness upon certain events of default. Events of default under the Loan Agreement or other transaction documents include a failure to punctually make payments associated with County Bonds when due; a continuing failure or default regarding performance of applicable covenants, conditions or agreements in the Loan Agreement, the insurance agreement or other relevant transaction documents; any acceleration of payments with respect to the Company Bonds or other first mortgage bonds; and certain bankruptcy or insolvency-related conditions relating to the Company

ltem 9.01 Financial Statements and Exhibits

Exhibits:

1	Supplemental Indenture dated November 1, 2006 from Kentucky Utilities Company to U.S. Bank National Association, Chicago, Illinois, as trustee
1.2	Loan Agreement dated as of October 1, 2006 between Kentucky Utilities Company and the County of Carroll, Kentucky.

SIGNATURES

ʾursuant 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 ındersigned hereunto duly authorized.

KENTUCKY UTILITIES COMPANY

Ɔated: December 13, 2006

By: /s/ John R. McCall
John R. McCall
Executive Vice President, General
Counsel and Corporate Secretary

SEC Form 8-K – October 25, 2006

UNITED STATES
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): **October 25, 2006**

Kentucky Utilities Company

(Exact name of registrant as specified in its charter)

Kentucky and Virginia	**1-3464**	**61-0247570**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No)

One Quality Street, Lexington, Kentucky	**40507**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(857) 255-2100**

(Former name or former address, if changed since last report)

:heck the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of he following provisions (see General Instruction A 2 below):

☐ 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))

tem 2.03. Creation of a Direct Financial Obligation or an Obligation Under an Off-Balance Sheet Arrangement of a Registrant.

On October 25, 2006, Kentucky Utilities Company (the "Company" or "KU") completed a financing transaction involving the -uance of $50 million in long-term indebtedness. The indebtedness is represented by a $50 million, 10-year, unsecured loan from Fidelia rporation ("Fidelia"), an indirect subsidiary of E.ON AG and an affiliate of KU, which will carry a 5.675% rate of interest KU is using the proceeds in connection with distribution and transmission system upgrades or expansions and other capital projects, including pollution control acilities at its Ghent generating station.

As part of the transaction, KU entered into a Loan Agreement with Fidelia, under which agreement the Company has agreed to repay he loan by making principal and interest payments as and when due with respect to the indebtedness.

The Loan Agreement contains standard representations, covenants and events of default for arrangements of this type, including acceleration of indebtedness upon certain events of default Events of default under the Loan Agreement or other transaction documents include a failure to punctually make payments associated with the loan when due; certain bankruptcy or insolvency-related conditions relating to the Company, and departure of the Company from the E.ON group.

Item 9.01 Financial Statements and Exhibits

Exhibits:

1.1 Loan Agreement dated October 25, 2006 between Kentucky Utilities Company and Fidelia Corporation.

1.2 Copy of Promissory Note from Kentucky Utilities Company to Fidelia Corporation, dated as of October 25, 2006.

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.

KENTUCKY UTILITIES COMPANY

Dated: October 31, 2006

BY: /s/ John R. McCall
John R. McCall
Executive Vice President,
General Counsel and
Corporate Secretary

SEC Form 8-K – July 20, 2006

UNITED STATES
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): **July 20, 2006**

Kentucky Utilities Company

(Exact name of registrant as specified in its charter)

Kentucky and Virginia	**1-3464**	**61-0247570**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

One Quality Street, Lexington, Kentucky	**40507**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(857) 255-2100**

(Former name or former address, if changed since last report)

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 (see General Instruction A.2. below):

☐ 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 2.03. Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant.

On July 20, 2006, Kentucky Utilities Company (the "Company") completed a financing transaction resulting in the issuance of $16,693,620 in new pollution control indebtedness. The indebtedness, the Company's First Mortgage Bonds, Pollution Control Series No. 20, due June 1, 2036, will currently carry a variable, auction rate of interest.

As part of the transaction, the County of Carroll, Kentucky (the "County") has issued $16,693,620 in new pollution control bonds (the "County Bonds") relating to facilities to be constructed at the Company's Ghent generating station. Pursuant to a Loan Agreement dated as of June 1, 2006 (the "Loan Agreement"), the Company has borrowed from the County the proceeds from sale of the County Bonds. Under the Loan Agreement, the Company has agreed to repay the loan by making principal, interest, premium payments or any purchase price payments as and when due with respect to the County Bonds. The payment obligations of the Company under the Loan Agreement are absolute and unconditional.

The Company's obligations with respect to the County Bonds are secured by the Company's issuance of the above-mentioned $16,693,620 in first mortgage bonds (the "Company Bonds") with identical principal amount, maturity and interest provisions as the County Bonds. The Company Bonds are issued pursuant to a Supplemental Indenture dated July 1, 2006, to the Company's existing first mortgage bond indenture among the Company and its first mortgage bond trustee.

The Loan Agreement, the Supplemental Indenture and other transaction documents contain standard representations, covenants and events of default for facilities of this type, including acceleration of indebtedness upon certain events of default. Events of default under the Loan Agreement or other transaction documents include a failure to punctually make payments associated with County Bonds when due; a continuing failure or default regarding performance of applicable covenants, conditions or agreements in the Loan Agreement, the insurance agreement or other relevant transaction documents; any acceleration of payments with respect to the Company Bonds or other first mortgage bonds; and certain bankruptcy or insolvency-related conditions relating to the Company.

Item 9.01 Financial Statements and Exhibits

Exhibits:

4.1 Supplemental Indenture dated July 1, 2006 from Kentucky Utilities Company to U.S. Bank National Association, Chicago, Illinois, as trustee.

4.2 Loan Agreement dated as of June 1, 2006 between Kentucky Utilities Company and the County of Carroll, Kentucky.

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.

KENTUCKY UTILITIES COMPANY

Dated: July 21, 2006

By: /s/ John R. McCall
John R. McCall
Executive Vice President, General
Counsel and Corporate Secretary

SEC Form 8-K – July 7, 2006

UNITED STATES
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): **July 7, 2006**

Louisville Gas and Electric Company

(Exact name of registrant as specified in its charter)

Kentucky	**1-2893**	**61-0264150**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

220 West Main Street, P.O. Box 32010, Louisville, Kentucky	**40232**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(502) 627-2000**

(Former name or former address, if changed since last report)

Kentucky Utilities Company

(Exact name of registrant as specified in its charter)

Kentucky and Virginia	**1-3464**	**61-0247570**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

One Quality Street, Lexington, Kentucky	**40507**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(857) 255-2100**

(Former name or former address, if changed since last report)

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 (see General Instruction A 2. below):

☐ 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)) 'his combined Form 8-K is separately filed by Louisville Gas and Electric Company and Kentucky Utilities Company. Information contained ıerein relating to any individual registrant is filed by such registrant on its own behalf and each registrant makes no representation as to nformation relating to the other registrant

Item 8.01 Other Events.

As previously disclosed, Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU", and collectively with LG&E, the "Companies") have been involved in proceedings before the Kentucky Public Service Commission ("KPSC") and the Federal Energy Regulatory Commission ("FERC") seeking authority to withdraw from the Midwest Independent Transmission System Operator, Inc (MISO"). The Companies now estimate that they may complete their exit from MISO during late summer 2006 During spring and early summer 2006, the Companies received a number of regulatory rulings concerning aspects of the MISO exit process which have resolved or advanced certain matters involved in the pending withdrawal process

In May 2006, the KPSC issued an order in its proceeding analyzing the costs versus benefits of MISO membership to the Companies, which order approved the request of LG&E and KU to withdraw from MISO The order authorized the Companies, upon a MISO exit, to establish a regulatory asset for an exit fee, subject to adjustment for possible future MISO credits, and a regulatory liability for certain revenues which may be collected via current base rates, as a result of the inclusion of amounts associated with certain MISO Schedule 10 charges In July 2006, the KPSC issued an order approving the Companies' contractual arrangements with Tennessee Valley Authority ("TVA") and Southwest Power Pool, Inc ("SPP") to provide services to the Companies as reliability coordinator and independent transmission organization, respectively, upon a withdrawal from MISO This order was subject to certain conditions based upon a satisfactory outcome of pending FERC proceedings involving the Companies' market-based rate authority In July 2006, the KPSC issued further orders denying MISO's request for a rehearing regarding the May 2006 order and denying MISO's request for intervenor status in the proceeding concerning the Companies' TVA/SPP arrangements

In July 2006, the FERC issued an order in the Companies' market-based rate proceeding accepting the Companies' proposal to address certain market power issues the FERC had claimed would arise upon an exit from MISO. In particular, LG&E and KU received permission to sell power at market-based rates at the interface of control areas in which they may be deemed to have market power, subject to a restriction that such power not be collusively re-sold back into such control areas. Upon a MISO exit, the relevant control areas would be LG&E's and KU's joint control area, as well as the control area of Big Rivers Electric Corporation ("BREC") in western Kentucky (the latter due to a long-term contractual arrangement between BREC and Western Kentucky Energy Corp., an affiliate of the Companies) In July 2006, the FERC issued a further decision accepting, in substantial part, certain of the Companies' steps, including compliance and other filings, which constituted conditions to the FERC's March 2006 order conditionally approving their exit from MISO. There remain certain further conditions that must be satisfied under the FERC's exit orders, which conditions the Companies currently anticipate they can accomplish. Finally, also in July 2006, the FERC issued an order denying MISO's request for a rehearing regarding the FERC's March 2006 order.

The Companies have currently tendered and not withdrawn a contractual notice to MISO providing for a withdrawal date of September 1, 2006 On or about the date of a completed exit from MISO, and following initial calculation and invoicing from MISO, the Companies would pay an exit fee to MISO in an amount of up to approximately $41 million (allocated approximately $16 million for LG&E and $25 million for KU.) The ultimate amount would be determined based upon the actual date of exit and, following payment, is subject to confirmation, correction and true-up, as agreed between the Companies and MISO Pursuant to the May 2006 KPSC order, concurrently with payment of a MISO exit fee, the Companies will establish a regulatory asset relating to such fee

While LG&E and KU believe they can reasonably achieve the remaining conditions imposed by the FERC relating to MISO withdrawal by he late summer, including possibly as early as September 1, 2006, the actual timing or occurrence of withdrawal cannot be assured.

Statements made in this report that state the Companies' or management's intentions, expectations or predictions of the future are 'orward-looking statements. The Companies' actual results could differ materially from those projected in the forward-looking statements, and here can be no assurance that estimates of future results will be achieved. The Companies' SEC filings contain additional information concerning factors that could cause actual results to differ materially from those in the forward-looking statements.

SIGNATURES

-suant 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 ersigned hereunto duly authorized.

LOUISVILLE GAS AND ELECTRIC COMPANY

Dated: July 12, 2006

By: /s/ John R. McCall
John R. McCall
Executive Vice President,
General Counsel and
Corporate Secretary

KENTUCKY UTILITIES COMPANY

Dated: July 12, 2006

By: /s/ John R. McCall
John R. McCall
Executive Vice President,
General Counsel and
Corporate Secretary

SEC Form 8-K – June 23, 2006

UNITED STATES
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): June 23, 2006

Kentucky Utilities Company

(Exact name of registrant as specified in its charter)

Kentucky and Virginia	1-3464	61-0247570
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

One Quality Street, Lexington, Kentucky	40507
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (857) 255-2100

(Former name or former address, if changed since last report)

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 (see General Instruction A.2. below):

☐ 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))

tem 2.03. Creation of a Direct Financial Obligation or an Obligation under an off-balance sheet arrangement of a registrant.

On June 23, 2006, KU completed a financing transaction involving the issuance of $50 million in long-term indebtedness The ndebtedness is represented by a $50 million, 30-year, unsecured loan from Fidelia Corporation ("Fidelia"), an indirect subsidiary of E.ON AG ıd an affiliate of KU, which will carry a 6.33% rate of interest. KU is using the proceeds in connection with distribution and transmission ystem upgrades or expansions and other capital projects, including pollution control faciities at its Ghent generating station.

As part of the transaction, KU entered into a Loan Agreement with Fidelia, under which agreement the Company has agreed to repay the oan by making principal and interest payments as and when due with respect to the indebtedness.

The Loan Agreement contains standard representations, covenants and events of default for arrangements of this type, including ıcceleration of indebtedness upon certain events of default. Events of default under the Loan Agreement or other transaction documents include ı failure to punctually make payments associated with the loan when due; certain bankruptcy or insolvency-related conditions relating to the Company, and departure of the Company from the E.ON group.

Item 9.01 Financial Statements and Exhibits

Exhibits:

1.1 Loan Agreement dated June 23, 2006 between Kentucky Utilities Company and Fidelia Corporation.

1.2. Copy of Promissory Note from KU to Fidelia Corporation, dated as of June 23, 2006.

SIGNATURES

'ursuant 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 ındersigned hereunto duly authorized

KENTUCKY UTILITIES COMPANY

)ated: June 29, 2006

By: /s/ John R. McCall
John R. McCall
Executive Vice President,
General Counsel and
Corporate Secretary

Report of Certain Material Changes
January 2008 – July 2008

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JUL 08 2008

PUBLIC SERVICE COMMISSION

Kentucky Utilities Company
State Regulation and Rates
220 West Main Street
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www.eon-us.com

Lonnie E. Bellar
Vice President
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lonnie.bellar@eon-us.com

Ms. Stephanie L. Stumbo
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

July 7, 2008

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Ms. Stumbo:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to June 2008, KU believes there are no reportable events.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

Lonnie E. Bellar

an e·on company

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JUN 09 2008

PUBLIC SERVICE COMMISSION

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Ms. Stephanie L. Stumbo
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

June 6, 2008

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Ms. Stumbo:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to May 2008, KU converted its Mercer County 2000 Series A tax exempt bonds from an auction rate mode to a weekly rate mode and purchased the bonds from a remarketing agent. The Company expects to hold the bonds until a permanent solution is determined for mitigating the additional interest expense caused by auction rate market disruptions resulting from credit concerns about the monoline bond insurers.

KU also entered into a new loan with Fidelia Corporation, an affiliated company. The new loan, in the amount of $75 million, matures in May 2023 and carries an interest rate of 5.85%.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

Lonnie E. Bellar

an e·on company

Ms. Stephanie L. Stumbo
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

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MAY 15 2008

PUBLIC SERVICE COMMISSION

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Lonnie E. Bellar
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lonnie.bellar@eon-us.com

May 15, 2008

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Ms. Stumbo:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to April 2008, KU converted its Carroll County 2006 Series C tax exempt bonds from an auction rate mode to a weekly rate mode and purchased the bonds from a remarketing agent. The Company expects to hold the bonds until a permanent solution is determined for mitigating the additional interest expense caused by auction rate market disruptions resulting from credit concerns about the monoline bond insurers.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

an e·on company

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APR 07 2008

PUBLIC SERVICE COMMISSION

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Ms. Stephanie L. Stumbo
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

April 6, 2008

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Ms. Stumbo:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to March 2008, KU believes there are no reportable events.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

Lonnie E. Bellar

an e·on company

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PUBLIC SERVICE
COMMISSION

Ms. Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

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Lonnie E. Bellar
Vice President
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lonnie.bellar@eon-us.com

March 14, 2008

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Ms. O'Donnell:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to February 2008, KU believes it would have filed a Form 8-K for the following events:

- KU's planned conversion of two pollution control bond series to a fixed interest rate mode (the Carroll County 2007 Series A and Trimble County 2007 Series A bonds, respectively).

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

Lonnie E. Bellar

an e·on company

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FEB 06 2008

PUBLIC SERVICE COMMISSION

Kentucky Utilities Company
State Regulation and Rates
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Lonnie E. Bellar
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lonnie.bellar@eon-us.com

Ms. Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

February 6, 2008

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Ms. O'Donnell:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to January 2008, KU believes there are no reportable events.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E Bellar

Lonnie E. Bellar

KU
an e·on company

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Ms. Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

January 8, 2008

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Ms. O'Donnell:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to December 2007, KU believes it would have filed a Form 8-K for the following events:

- KU entered into a loan agreement and related documentation in connection with borrowing $100 million from Fidelia Corporation, an affiliate.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

Lonnie E. Bellar

Report of Certain Material Changes
June 2007 – December 2007

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an e·on company

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PUBLIC SERVICE
COMMISSION

Ms. Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
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lonnie.bellar@eon-us.com

December 6, 2007

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Ms. O'Donnell:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to November 2007, KU believes there are no reportable events.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E Bellar

Lonnie E. Bellar

KU
an e·on company

Ms. Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

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NOV 06 2007

PUBLIC SERVICE COMMISSION

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Lonnie E. Bellar
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lonnie.bellar@eon-us.com

November 6, 2007

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Ms. O'Donnell:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to October 2007, KU believes it would have filed a Form 8-K for the following events:

- KU entered into a loan agreement and related documentation in connection with borrowing $70 million from Fidelia Corporation, an affiliate.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie Bellar

Lonnie E. Bellar

KU
an e·on company

RECEIVED

OCT 05 2007

PUBLIC SERVICE
COMMISSION

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lonnie.bellar@eon-us.com

Ms. Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

October 5, 2007

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Ms. O'Donnell:

Pursuant to the Commission's Order, dated January 22, 2007, in the aforementioned case, Kentucky Utilities Company ("KU") hereby files a report of material changes that KU would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if the company had continued to have publicly held secured debt.

In compliance with this Commission order, KU is submitting this letter as its report. With respect to September 2007, KU believes it would have filed a Form 8-K for the following events:

- KU entered into a loan agreement and related documentation in connection with borrowing $100 million from Fidelia Corporation, an affiliate.
- Formal elimination of SEC-registrant/Sarbanes-Oxley-based Senior Financial Officer Code of Ethics.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie Bellar

Lonnie E. Bellar

KU

an e·on company

Kentucky Utilities Company
State Regulation and Rates
220 West Main Street
PO Box 32010
Louisville, Kentucky 40232
www.eon-us.com

Lonnie E. Bellar
Vice President
T 502-627-4830
F 502-217-2109
lonnie.bellar@eon-us.com

Ms. Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

September 10, 2007

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

RECEIVED
SEP 11 20..
PUBLIC SERVICE
COMMISSION

Dear Ms. O'Donnell:

In its order of January 22, 2007 issued in the above-referenced proceeding, the Commission directed Kentucky Utilities Company ("KU") to file reports of material changes that they would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if each company had continued to have publicly held secured debt.

In compliance with these Commission orders, KU is submitting this letter as their report. With respect to August 2007, KU believes there are no reportable events.

Although John R. McCall will be the officer responsible for the timely filing of these materials, I will become the primary point of contact for all inquires concerning these and other state regulatory issues.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Lonnie E. Bellar

KU

an e·on company

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AUG 07 2007

PUBLIC SERVICE COMMISSION

Kentucky Utilities Company
State Regulation and Rates
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Kent W. Blake
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Ms. Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

August 7, 2007

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Ms. O'Donnell:

In its order of January 22, 2007 issued in the above-referenced proceeding, the Commission directed Kentucky Utilities Company ("KU") to file reports of material changes that they would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if each company had continued to have publicly held secured debt.

In compliance with these Commission orders, KU is submitting this letter as their report. With respect to July 2007, KU believes there are no reportable events.

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Kent W Blake

Kent W. Blake

an e·on company

Ms. Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

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JUL 06 2007
PUBLIC SERVICE COMMISSION

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July 6, 2007

Re: ***Kentucky Utilities Company - Report of Certain Material Changes***
Case No. 2006-00390

Dear Ms. O'Donnell:

In its order of January 22, 2007 issued in the above-referenced proceeding, the Commission directed Kentucky Utilities Company ("KU") to file reports of material changes that they would have had to disclose to the Securities and Exchange Commission ("SEC") on a Form 8-K if each company had continued to have publicly held secured debt.

In compliance with these Commission orders, KU is submitting this letter as their report. With respect to the month of June 2007, KU believes it would have filed a Form 8-K for the following event:

- KU entered into a loan agreement and related documentation in connection with borrowing $50 million from Fidelia Corporation, an affiliate

Should you have any questions in this regard, please do not hesitate to contact me.

Sincerely,

Kent W Blake

Kent W. Blake

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RECEIVED

JUN 22 2007

PUBLIC SERVICE COMMISSION

Ms. Elizabeth O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

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June 22, 2007

Re: ***Kentucky Utilities Company - Report of Certain Material Changes* Case No. 2006-00390**
***Louisville Gas and Electric Company – Report of Certain Material Changes* – Case No. 2006-00445**

Dear Ms. O'Donnell:

In the above-referenced cases, Kentucky Utilities Company ("KU") and Louisville Gas and Electric Company ("LG&E" and collectively with KU, the "Companies"), respectively received Commission authority, pursuant to its orders in the above-referenced cases to undertake certain financial transactions which would achieve, in part, the cessation of the Companies' periodic reporting obligations under the Securities Exchange Act of 1934 (the "SEC Reports"). Consistent with the orders and the proceedings in the cases referenced-above, the Companies agreed to provide the Commission with revised or replacement reports and disclosures, in lieu of the former SEC Reports.

In connection therewith, the Companies hereby provide this periodic report of certain material changes. This initial report is being submitted for a three month period. Subsequent reports will be filed monthly as indicated by KU in its letter to the Commission dated February 1, 2007. The two events noted below, however, were reported on a timely basis to the Commission as they were the subject of proceedings under KRS 278.300. Via this report, as set forth below, the Companies list or describe, in summary fashion, those events, if any, which occurred during the indicated calendar months which would have occasioned a filing of a Form 8-K with the Securities and Exchange Commission ("SEC"):

Description of Filing Requirement:

If the utility had any amounts charged or allocated to it by an affiliate or general or home office or paid any monies to an affiliate or general or home office during the test period or during the previous three (3) calendar years, the utility shall file:

1. A detailed description of the method and amounts allocated or charged to the utility by the affiliate or general or home office for each charge allocation or payment;

2. An explanation of how the allocator for the test period was determined; and

3. All facts relied upon, including other regulatory approval, to demonstrate that each amount charged, allocated or paid during the test period was reasonable;

Response:

1. Please see the attached schedule for a description of the amounts charged or allocated to KU. The method of allocation is set forth in the attached Cost Allocation Manual.

2. The allocator for the test period was determined using the methodology set forth in the Cost Allocation Manual.

3. The amounts charged, allocated or paid during the test period were reasonable for the following reasons: (i) the

Cost Allocation Manual has been filed with the Kentucky Public Service Commission; (ii) the allocations are made utilizing the methodology set forth in the Cost Allocation Manual; (iii) the allocations are reviewed to assure that they have been made in accordance with the Cost Allocation Manual.

Kentucky Utilities Company
Intercompany Charges Billed From:

	Test Year 05/07-04/08	Year Jan. 07 - Dec. 07	Year Jan. 06 - Dec. 06	Year Jan. 05 - Dec. 05
Louisville Gas and Electric Company	$ 84,870,755	$ 151,017,870	$ 294,191,542	$ 259,674,065
E.ON U.S. Services Inc.	$ 287,287,142	$ 468,422,206	$ 330,435,769	$ 170,614,695

Cost Allocation Manual

E.ON U.S. SERVICES INC.

Cost Allocation Manual

CAM	Cost Allocation Manual
Capital Corp	E.ON U.S. Capital Corp.
EMS	Energy Management System
E.ON	E.ON AG
E.ON U.S.	E.ON U.S. LLC
E.ON U.S. Foundation	E.ON U.S. Foundation Inc.
FERC	Federal Energy Regulatory Commission
HR	Human Resources
IT	Information Technology
KU	Kentucky Utilities Company
LEM	LG&E Energy Marketing Inc.
LG&E	Louisville Gas and Electric Company
PUHCA 2005	Public Utility Holding Company Act of 2005
SA	Service Agreement
SEC	Securities Exchange Commission
SERVCO	E.ON U.S. Services Inc.
WKE	Western Kentucky Energy Corp. and its Affiliates

E.ON U.S. Services Inc.
Cost Allocation Manual

Table of Contents

E.ON U.S. Services Inc.
Cost Allocation Manual

I. INTRODUCTION

PUHCA 2005 states that centralized service companies must maintain and make available to the FERC their books, accounts and other records in the specific manner and preserve them for the required periods as the FERC prescribes in 18 Code of Federal Regulations Part 368 of the FERC Uniform System of Accounts. These records must be in sufficient detail to permit examination, audit, and verification, as necessary and appropriate for the protection of utility customers with respect to jurisdictional rates. The purpose of this CAM is to document the methods, policies and procedures that SERVCO will follow in performing certain services for affiliate companies. In developing this CAM the overriding goal was to protect investors and consumers by ensuring the methods, policies and procedures contained in this CAM were PUHCA 2005 compliant so that SERVCO costs are fully segregated, and fairly and equitably allocated among the affiliate companies. SERVCO was authorized to conduct business as a service company for E.ON U.S. (formerly LG&E Energy LLC) and its various subsidiaries and affiliates by order of the SEC on December 6, 2000, and commenced operations January 1, 2001.

Periodic changes to the CAM may be necessary due to future management decisions, interpretations by state or federal regulatory bodies, changes in structure or activities of affiliates, or other internal procedures.

II. DESCRIPTION OF SERVICES

Service descriptions are organized by SERVCO responsibility areas, or provider departments and include the costs associated with providing that service.

Operations Organization

Retail Business Services

<u>Customer Services</u> – providing call center and customer communication services for both electric and gas customers.

<u>Sales and Marketing Services</u> – providing programs for establishing strategies, oversight for marketing, sales and branding of utility and related services, and conducting marketing and sales programs for economic development, and demand side management.

<u>Economic Development and Major Accounts Services</u> – maintains community development, partnerships with state, regional, and local economic development allies, and customized products and services.

Meter Reading Services – providing meter reading and meter data services.

Meter Operations Services – conducts the testing of meters, completion of all customer requested service/field credit orders and the installation of commercial/industrial meters.

Meter Asset Management Services – maintains inventory, quality and environmental issues, policy and standards, technical support, and logistics.

Cash Remittance Services – provides remittance processing, customer payments, and collection services.

Billing Integrity Services – administering and providing customer billings and credit reviews.

Energy Services

Project Engineering Services – coordinating and managing all major generation construction.

System Laboratory Services – providing system laboratory services to the generating stations.

Generation Engineering Services – providing engineering management for new and existing generation assets.

Combustion Turbines Operations and Maintenance Services

Fuel Procurement Services – procuring coal, natural gas, oil and other bulk materials for generation facilities and ensuring compliance with price and quality provisions of fuel contracts.

Transmission Strategy and Planning Services

Transmission Protection and Substation Services

Transmission Line Services

Transmission Reliability and Compliance Services

Transmission System Operations Services – providing transmission system control center services.

Transmission EMS Services

Energy Marketing Services

Energy Marketing Services - providing market services to take advantage of the highest excess generation prices in the open market.

Market Forecasting Services – providing management services for financial forecasts of the utility market.

Load Forecasting Services – providing short- and long-term load forecasting services.

Generation Planning Services – providing short- and long-term generation planning services.

Distribution Operations Services

Network Trouble and Dispatch Services – providing dispatch services, reporting outage situations and coordinating restoration.

Mapping and Records Management Services – providing and maintaining the mapping of the electric infrastructure.

Electric Engineering Services – providing development engineering and construction standards, distribution system planning and analysis, substation construction project management and telecommunications systems design and analyses.

Distribution Asset Management Services – leads management and investment decisions regarding distribution assets, including resource allocation, development of uniform standards and procedures, determining performance targets and managing assets information and data.

Substation Construction and Maintenance Services – providing engineering and design services for substation construction, maintenance and operations areas.

Finance Organization

Finance and Corporate Development Services

Budgeting Services - providing services related to managing, coordinating and reporting for the budgeting process.

Financial Planning Services – providing services related to financial planning and forecasting services, investment analysis and investment planning reports.

Financial Systems – providing business support and electronic data processing services for all financial systems including Oracle Applications, PowerPlant and PowerTax.

Corporate Controller Organization Services

Internal Financial and Management Reporting Services – providing internal financial reports including standard and ad hoc management reporting.

External Financial Reporting Services – providing financial reports required or used by various external constituencies such as the FERC, the Kentucky Public Service Commission, the Virginia State Corporation Commission, U.S. Department of Energy (DOE), Internal Revenue Service, Nationally Recognized Municipal Securities Information Repository and financial institutions.

Accounting and Reporting Services – providing to management U.S. Generally Accepted Accounting Principles (GAAP), FERC, and International Financial Reporting Standards (IFRS) accounting research and interpretation and promulgation of accounting and internal control procedures. Perform U.S. GAAP and IFRS general ledger account and project analyses, reconciliations, and consolidation.

Sundry Billing Services – processing miscellaneous and non-standard billings and maintaining and monitoring associated accounts receivable.

Property Accounting Services – maintaining, analyzing and reporting related to continuing property records.

Energy Marketing Accounting Services – performing month-end validation of all power transactions and resolving any discrepancies; preparing invoices and wires; validating bills from other counterparties; preparing accounting, allocation and analysis of off system sales, off system purchases, and intercompany sales and purchases; and preparing various FERC, Fuel Adjustment Clause, Southwest Power Pool, and DOE reports.

Revenue Accounting Services – managing and analyzing internal and external revenue reporting.

Corporate Tax and Payroll Organization Services

Payroll Services – providing payroll services including the managing of payroll systems.

Tax Accounting, Compliance and Reporting Services – preparation of consolidated and subsidiary federal, state and local income tax returns; current and deferred tax accounting; utility gross receipts; sales/use tax; E.ON U.S. Foundation returns and supporting roles for business development, special requests and tax legislation.

Tax Planning Services – providing detailed forecasting of foreign, federal and state taxes, as well as, capital based and property tax planning.

Tax – Special Projects Services – providing business or project development, asset dispositions, tax credit studies, review/analysis of proposed tax legislation, etc.

Audit Services – providing independent and objective assurance along with consulting services and internal controls system review.

Information Technology Services

Information Technology - Corporate Functions Services – services associated with corporate functions, not specific companies or work groups, and include groups such as IT Security, IT Finance and Administration, IT Training, and IT Strategy and Planning. This is where corporate standards, security policies and procedures and programs are developed and administered for the corporation.

Information Technology - Administrative Services – services associated with non-project management and administrative support. Total administrative services are proportionally recovered based on the level of charges assigned from the other products and services.

Information Technology - Enhancements – provides discretionary, project-based work done in IT. These projects create new client value or add business value to existing products/services.

Information Technology - Application Services – services associated with each of the existing applications that IT provides to the business, for example Oracle Applications, PeopleSoft, etc. These services incur costs related to application license fees and application support costs.

Information Technology - Client Services – services associated with existing end user tools and related productivity software that the users can identify and interact with, such as a personal computer, telephone, email and file and print services.

Information Technology - Platform Services – services associated with shared computing platforms, databases, network and IT Service Desk.

Corporate Finance and Treasury Services

Cash Management and Investment Services – providing management and monitoring of cash flows including review and acquisition of business entity cash requirements and procurement of short-term financing and credit lines.

Corporate Finance Services – providing overall finance options including evaluation of new financing vehicles and instruments, analysis of existing financing positions and raising long-term funds for all entities.

Risk Management Services – managing outside providers of risk services comprised of providing insurance and assisting affiliated entities in managing property and liability risks including claims, security, environmental, safety and consulting services.

Credit Administration Services – providing management of credit risk for wholesale energy sales and major vendors.

Energy Marketing Trading Controls Services – performing daily, weekly, monthly and ad hoc reporting on the trading portfolios related to total exposure, trading limits, and mark-to-market calculations. Other activities include performing an independent valuation and validation of significant transactions, and valuation algorithms, ensuring trading system security and performing trading system enhancements.

Energy Marketing Contract Administration Services – negotiating contracts with counterparties, administrating contracts, and maintaining contracts within the trading systems. Additional activities include assisting various departments with contract disputes and preparing and validating confirmations.

Supply Chain and Logistics Services

Procurement and Major Contracts Services – providing for and administering major contract negotiations, requests for quotes, supplier relations and order placement services.

Strategic Sourcing Services – providing strategic sourcing services such as maintaining and analyzing the supplier base and performing supplier selection activities including contract negotiations and ongoing compliance.

Materials Logistics Services – providing order management, materials handling and logistics, and inventory management services.

Sourcing Support Services – providing order management and general field support services for system policy and maintenance management, developing and monitoring of key performance metrics, and supplying day to day variance and reconciliation reporting services.

Accounts Payable Services – processing payments for purchase orders, check requests, employees' expense reimbursements, etc., and providing ad-hoc research and analysis services.

General Counsel / Secretary Organization

Compliance, Legal, and Environmental Affairs Services

Compliance and Legal Services – providing various legal and compliance services for all affiliated entities including in-house counsel and staff assistance in the areas of, among others, corporate and securities law, employment law, energy, public utility and regulatory law, contract law, litigation, environmental law and intellectual property law, evaluating legal claims and managing legal fees for outside counsel, as well as, compliance assessment and risk management, code of conduct, anti-fraud, ethics and helpline management, etc.

Environmental Affairs Services – providing management services related to performing analyses, monitoring and advocacy of regulatory and legislative environmental matters including securing of permits and approvals, providing environmental technical expertise, and representing the company in industry groups and before regulatory agencies dealing with environmental issues.

Regulatory Affairs and Government Affairs Management Services

Regulatory Affairs Services – providing management services for compliance with all laws, regulations and other policy requirements, including regulatory filings, expert testimony, tariff administration and compliance, pricing support, and development and monitoring of positions regarding ongoing regulatory matters.

Government Affairs Management Services – maintaining relationships with government policy makers and conducting lobbying activities.

Corporate Communications and Public Affairs Management Services

Internal Communications Services

External and Brand Communications Services – providing all administrative and management support for external communication services, brand image management and corporate events.

Public Affairs Management Services – providing community relations functions, communicating public information to local organizations and providing oversight and communications to employees.

Administration Organization

Operating Services

Facilities and Building Services – providing building and grounds maintenance including coordination of office furniture and equipment purchases/leases, space utilization and layout, and building code and fire protection services.

Security Services – providing security personnel, security and monitoring devices for all affiliated entities.

Production Mail Services – providing production mail services for customer bills and other large customer mailings.

Document Services – providing document printing, reproduction services including mail delivery, scanning, off-site storage and document service desk support.

Right-of-Way Services – obtaining and retaining easements or fee simple property for placement and operation of company and affiliate equipment as well as managing real estate assets and maintaining real estate records.

Transportation Services

Transportation Services – providing and operating transportation fleet for all affiliated companies including developing fleet policy, administering regulatory compliance programs, managing repair and maintenance of vehicles and procuring vehicles.

Human Resource Services

Human Resources – Compensation Services – providing services relating to the establishment and oversight of compensation policies for executives and employees.

Human Resources – Benefits Services – providing services relating to the establishment and oversight of benefits policies for employees, including administrative billings to vendors and retiree and survivor services, and maintenance of all personnel records.

Human Resources – Health and Safety Services – providing services relating to the establishment and oversight of health and safety policies for employees.

Human Resources – Organization Development and Training Services – providing training services to improve organizational effectiveness with an emphasis on employee and leadership development, leadership succession planning, and the change management process.

Human Resources – Corporate Headquarters Services – providing services relating to operational and strategic human resources management for corporate staff.

Human Resources – Energy Services – providing services relating to operational and strategic human resources management for Energy Services employees.

Human Resources – Energy Delivery Services – providing services relating to operational and strategic human resources management for Energy Delivery employees.

Technical and Safety Training Services – providing training services on technical and safety matters primarily for the Energy Delivery and Energy Services businesses.

Industrial Relations Management Services – providing communication and oversight for union matters, negotiation of union contracts, and union dispute resolution services.

Executive Management Services – providing executive leadership to the corporation which is comprised of the compensation and benefits of the corporate officers and executive assistants.

III. CORPORATE ORGANIZATION

OVERVIEW

E.ON U.S. and its utility subsidiaries are engaged principally in the generation, transmission, distribution and sale of electricity. LG&E is also engaged in the storage, distribution, and sale of natural gas. E.ON U.S. and its subsidiaries are subject to the regulatory provisions of PUHCA 2005. LG&E and KU are subject to regulation by the FERC and state utility commissions in Kentucky. KU is also subject to regulation by state utility commissions in Virginia and Tennessee.

E.ON U.S. has four direct subsidiaries: LG&E, KU, LEM, and Capital Corp., which includes WKE, E.ON U.S. Natural Gas Trading, Inc. and the Argentine Gas Distribution businesses. E.ON U.S. has an affiliate relationship with E.ON U.S. Foundation due to overseeing all operations of the foundation.

UTILITY OPERATIONS

LG&E, incorporated in Kentucky in 1913, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy and the storage, distribution and sale of natural gas. LG&E is a wholly-owned subsidiary of E.ON U.S. At December 31, 2007, LG&E supplied natural gas to approximately 326,000 customers and electricity to approximately 401,000 customers in Louisville and adjacent areas in Kentucky. LG&E's service area covers approximately 700 square miles in 17 counties in Kentucky.

KU, incorporated in Kentucky in 1912 and in Virginia in 1991, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee. KU is a wholly-owned subsidiary of E.ON U.S. At December 31, 2007, KU provided electricity to approximately 506,000 customers in 77 counties in central, southeastern and western Kentucky, to approximately 30,000 customers in 5 counties in southwestern Virginia and 5 customers in Tennessee.

SERVICE COMPANY

SERVCO, a Kentucky corporation is a centralized service company registered under the PUHCA 2005 and is authorized to conduct business as a service company for E.ON U.S. and its various subsidiaries and affiliates by order of the SEC dated December 6, 2000, and commencing operation January 1, 2001. SERVCO is the service company for affiliated entities, including E.ON U.S., LG&E, KU, Capital Corp, and LEM and provides a variety of administrative, management, engineering, construction, environmental and support services. SERVCO provides its services at cost, as permitted under PUHCA 2005.

Development of the SERVCO organization was predicated on the fact that if the employee performed activities benefiting more than one affiliate, that employee would become a part of the SERVCO organization. In many respects, employees residing in typical finance, administrative and general, management and other support departments are fully subject to SERVCO organizational placement.

Many operational employees dedicated to providing a service to just one affiliate, by definition, are not subject to SERVCO placement. However management and support staff overseeing the business activities of more than one of these operational groups are subject to SERVCO placement.

OTHER BUSINESS OPERATIONS

E.ON U.S. Foundation, a charitable foundation exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, makes charitable contributions to qualified entities.

SERVCO also transacts business with E.ON AG and its affiliates on behalf of E.ON U.S.

LEM engages in asset based energy marketing which primarily involves the marketing of power generated by non-utility physical assets controlled by E.ON U.S. and its affiliates.

Capital Corp. is the primary holding company for the E.ON U.S.'s non-utility businesses. Its businesses include:

WKE and affiliates. WKE has a 25-year lease of and operates the generating facilities of Big Rivers Electric Corporation, a power generation cooperative in western Kentucky, and a coal-fired facility owned by the City of Henderson. E.ON U.S. plans to discontinue the operations of WKE.

Argentine Gas Distribution. Through its Argentine Gas Distribution operations, Capital Corp. owns interests in entities which distribute natural gas to approximately one million customers in Argentina through two distribution companies (Distribuidora de Gas Del Centro S.A. and Distribuidora de Gas Cuyana S.A.).

Natural Gas Trading: E.ON U.S. Natural Gas Trading Inc. engages in non-utility financial and physical trading of natural gas.

IV. TRANSACTIONS WITH AFFILIATES

OVERVIEW

E.ON U.S. formed SERVCO, as a service company to provide goods and services for affiliated companies within the E.ON U.S. system. SERVCO and affiliated companies (or their parent entities) may enter into SAs, which may establish the general terms and conditions for providing those services, including those mentioned in Section II of the CAM.

At formation certain LG&E, KU and E.ON U.S. employees became employees of SERVCO and such employees continued to provide goods and services to the regulated and non-regulated entities. SERVCO provides a variety of administrative, management, engineering, construction, environmental and support services. SERVCO also coordinates the intercompany billings with E.ON and their affiliates which mainly include transactions for expatriate services.

Regulated affiliates receive services at cost, pursuant to the service agreements. Non-regulated affiliates generally receive services at cost; however, certain services may permit pricing at fair-market value. The provisions included in contracts or service agreements govern transactions between SERVCO and the regulated and non-regulated affiliates.

Definitions of Cost

Tariff Rate – The price charged to customers under applicable tariffs on file with federal or state regulatory commissions.
Fair Market Value – The price held out by a providing entity to the general public in the normal course of business (i.e. the price at which a reasonable buyer and a reasonable seller are willing to transact in the normal course of business).
Cost – The charge used for transactions with affiliates for which no tariff rate or fair market value is applicable. SERVCO follows the definition of cost defined in PUHCA 2005.

This section separately details the nature and frequency for services provided by SERVCO to affiliated companies, as described below:

Ongoing – Provided on a prearranged, continuous basis (i.e., daily)
Frequent – Provided as requested on a regular basis (i.e., several times per month)
Infrequent – Provided as requested on an irregular basis (i.e., several times per year)

All charges by SERVCO to affiliated entities follow the principle of fully distributed cost. Primary affiliates receiving the service are designated below as:

R – Regulated (LG&E and KU)
NR – Non-regulated (Capital Corp., LEM and E.ON U.S. Foundation)
C – Corporate (E.ON and its subsidiaries and affiliates, E.ON U.S. and Capital Corp.)
A – All

TRANSACTIONS PROVIDED BY SERVCO TO AFFILIATES

Product or Service	Frequency	Primary Affiliate
Customer Services	Ongoing	R
Sales and Marketing Services	Frequent	R, NR
Economic Development and Major Accounts Services	Frequent	R
Meter Reading Services	Ongoing	R
Meter Operations Services	Ongoing	R
Meter Asset Management Services	Ongoing	R
Cash Remittance Services	Ongoing	R
Billing Integrity Services	Ongoing	R
Transportation Services	Ongoing	A
Project Engineering Services	Infrequent	R
System Laboratory Services	Ongoing	R
Generation Engineering Services	Ongoing	R
Combustion Turbine Operations and Maintenance Services	Ongoing	R
Fuel Procurement Services	Ongoing	R
Transmission Strategy and Planning Services	Ongoing	R
Transmission Protection and Substation Services	Ongoing	R
Transmission Line Services	Ongoing	R
Transmission Reliability and Compliance Services	Ongoing	R
Transmission System Operations Services	Ongoing	R
Transmission EMS Services	Ongoing	R
Energy Marketing Services	Ongoing	R
Market Forecasting Services	Frequent	R
Load Forecasting Services	Frequent	R
Generation Planning Services	Ongoing	R
Network Trouble and Dispatch Services	Ongoing	R
Mapping and Records Management Services	Ongoing	R
Electric Engineering Services	Ongoing	R
Distribution Asset Management Services	Ongoing	R
Substation Construction and Maintenance Services	Frequent	R
Distribution Management Services	Ongoing	R
Budgeting Services	Frequent	A
Financial Planning Services	Frequent	A
Financial Systems	Ongoing	A
Internal Financial and Management Reporting Services	Frequent	A
External Financial Reporting Services	Frequent	A
Accounting and Reporting Services	Ongoing	C

Sundry Billings Services	Ongoing	A
Property Accounting Services	Ongoing	R
Energy Marketing Accounting Services	Ongoing	A
Revenue Accounting Services	Ongoing	R
Payroll Services	Ongoing	A
Tax Accounting, Compliance and Reporting Services	Ongoing	A
Tax Planning Services	Infrequent	A
Tax – Special Projects Services	Infrequent	A
Audit Services	Ongoing	A
IT Corporate Functions Services	Ongoing	A
IT Administrative Services	Ongoing	A
IT Project Services	Frequent	A
IT Application Services	Ongoing	A
IT Client Services	Ongoing	A
IT Platform Services	Ongoing	A
Cash Management and Investment Services	Ongoing	A
Corporate Finance Services	Ongoing	A
Risk Management Services	Ongoing	A
Credit Administration Services	Ongoing	A
Energy Marketing Trading Controls Services	Ongoing	A
Energy Marketing Contract Administration Services	Ongoing	A
Compliance and Legal Services	Ongoing	A
Environmental Affairs Services	Frequent	R
Regulatory Affairs Services	Ongoing	R
Government Affairs Management Services	Frequent	C
Internal Communications Services	Frequent	C
External and Brand Communications	Frequent	C
Public Affairs Management Services	Frequent	C
Facilities and Building Services	Ongoing	A
Security Services	Ongoing	A
Production Mail Services	Ongoing	R
Document Services	Ongoing	A
Right of Way Services	Ongoing	A
Transportation Services	Ongoing	A
Procurement and Major Contracts Services	Ongoing	A
Strategic Sourcing Services	Ongoing	A
Materials Logistics Services	Ongoing	R
Sourcing Support Services	Ongoing	R
Accounts Payable Services	Ongoing	A
HR Compensation Services	Frequent	A

HR Benefits Services	Frequent	A
HR Health and Safety Services	Frequent	A
HR Organizational Development and Training Services	Frequent	A
HR Corporate Headquarters Services	Frequent	A
HR Energy Services	Frequent	R
HR Energy Delivery Services	Frequent	R
Technical and Safety Training Services	Frequent	R
Industrial Relations Management Services	Frequent	R
Executive Management Services	Ongoing	A

V. COST APPORTIONMENT METHODOLOGY

OVERVIEW

The costs of services provided by SERVCO will be directly assigned, distributed or allocated by activity, project, program, work order or other appropriate basis. The primary basis for charges to affiliates is the direct charge method (see section VI for time reporting procedures). The methodologies listed below pertain to all other costs which are not directly assigned but which make up the fully distributed cost of providing the product or service.

Directly Assignable – Expenses incurred for activities and services exclusively for the benefit of one affiliate. In many respects, these types of expenses relate to non-SERVCO employees that perform dedicated services to one affiliate, although SERVCO employees also directly report where feasible.

Directly Attributable – Expenses incurred for activities and services that benefit more than one affiliate and which can be apportioned using direct measures of costs causation.

Indirectly Attributable – Expenses incurred for activities and services that benefit more than one affiliate and which can be apportioned using general measures of cost causation.

Unattributable – Expenses or portions thereof incurred for activities and services that have been determined as not appropriate for apportionment. The unattributable portions of these costs relate primarily to activities such as corporate diversification, political or philanthropic endeavors and, as such, may be charged, in whole or in part, to Capital Corp.

SERVCO will allocate the costs of service among the affiliated companies using one of several methods that most accurately distributes the costs. The method of cost allocation varies based on the department rendering the service. Any of the methods may be adjusted for any known and reasonably quantifiable events, or at such time as may be required due to significant changes in the business, but are generally determined annually. The allocation methods used by SERVCO are as follows:

Contract Ratio – Based on the sum of the physical amount (i.e. tons of coal, cubic feet of natural gas) of the contract for both coal and natural gas for the immediately preceding twelve consecutive calendar months, the numerator of which is for an operating company or an affected affiliate company and the denominator of which is for all operating companies and affected affiliate companies.

Departmental Charge Ratio – A specific SERVCO department ratio based upon various factors such as labor hours, labor dollars, departmental or entity headcount, etc. The departmental charge ratio typically applies to indirectly attributable costs such as departmental administrative, support, and/or material and supply costs that benefit more than one affiliate and that require allocation using general measures of cost causation. Methods for assignment are department-specific depending on the type of product or service being performed and are documented and monitored by the Budget Coordinators for each department.

Electric Peak Load Ratio – Based on the sum of the monthly electric maximum system demands for the immediately preceding twelve consecutive calendar months, the numerator of which is for an operating company and the denominator of which is for all operating companies.

Energy Marketing Ratio – Based on the absolute value of equivalent megawatt hours purchased or sold for the immediate preceding twelve consecutive calendar months, the numerator of which is for an operating company or an affiliate and the denominator of which is for all operating companies and affected affiliate companies.

Information Systems Chargeback Rates – Rates for services, including but not limited to software, consulting, mainframe and personal computer services, are based on the costs of labor, materials and information services overheads related to the provision of each service. Such rates are applied based on the specific equipment employed and the measured usage of services by client entities.

Non-Fuel Material and Services Expenditures – A ratio based on non-fuel material and services expenditures, net of reimbursements, for the immediately preceding twelve consecutive calendar months. The numerator is equal to such expenditures for a specific entity and/or line-of-business as appropriate and the denominator is equal to such expenditures for all applicable entities.

Number of Customers Ratio – A ratio based on the number of retail electric and/or gas customers. This ratio will be determined based on the actual number of customers at the end of the previous calendar year. In some cases, the ratio may be calculated based on the type of customer class being served (i.e. Residential, Commercial or Industrial).

Number of Employees Ratio – A ratio based on the number of employees benefiting from the performance of a service. This ratio will be determined based on actual counts of applicable employees at the end of the previous calendar year. A two-step assignment methodology is utilized to properly allocate SERVCO employee costs to the proper legal entity.

Number of Meters Ratio – Ratio based on the number or types of meters being utilized by all levels of customer classes within the system for the immediately preceding twelve consecutive calendar months. The numerator is equal to the number of meters for each utility and the denominator is equal to the total meters for KU and LG&E.

Number of Transactions Ratio – Based on the sum of transactions occurring in the immediately preceding twelve consecutive calendar months, the numerator of which is for an operating company or an affected affiliate company and the denominator of which is for all operating companies and affected affiliate companies. For example, services with regard to Procurement and Major Contracts would define a transaction as the number of contracts negotiated. Services pertaining to Materials Logistics would define the transaction as the number of items ordered, picked and disbursed out of the warehouse. Services pertaining to Accounts Payable would define the transaction as the number of invoices processed. The Regulatory Accounting and Reporting Department is responsible for maintaining and monitoring specific product/service methodology documentation for actual transactions related to SERVCO billings.

Payroll Ratio – Based on the sum of the payroll costs for the immediately preceding twelve consecutive calendar months, the numerator of which is for an operating company or an affected affiliate company and the denominator of which is for all operating companies and affected affiliate companies.

Project Ratio – Based on the total costs for any departmental or affiliate project for the immediately preceding twelve consecutive calendar months, the numerator of which is for an operating company or an affected affiliate company and the denominator of which is for all operating companies and affected affiliate companies.

Regulatory Mandate Ratios – Based on federal or state mandated percentage allocations based on regulatory proceedings and requirements. These ratios are typically developed in concert with regulatory authorities representing the results of merger or joint asset ownership negotiations and are supported by specific contracts regarding legal entity allocation requirements. Contract terms are maintained by the Regulatory Accounting and Reporting Department.

Retail Revenue Ratio – Based on utility revenues, excluding energy marketing revenues, for the immediate preceding twelve consecutive calendar months, the numerator of which is for an operating company or an affiliate and the denominator of which is for all operating companies and affected affiliate companies.

Revenue Ratio – Based on the sum of the revenue for the immediately preceding twelve consecutive calendar months, the numerator of which is for an operating company or an affected affiliate company and the denominator of which is for all operating companies and affected affiliate companies.

Total Assets Ratio – Based on the total assets at year end for the preceding year, the numerator of which is for an operating company or affected affiliate company and the denominator of which is for all operating companies and affected affiliate companies. In the event of joint ownership of a specific asset, asset ownership percentages will be utilized to assign costs.

Transportation Resource Management System Chargeback Rate – Rates for use of transportation equipment are based on the costs associated with providing and operating transportation fleet for all affiliated companies including developing fleet policy, administering regulatory compliance programs, managing repair and maintenance of vehicles and procuring vehicles. Such rates are applied based on the specific equipment employment and the measured usage of services by the various company entities.

The following product and service listing details the type of assignments being employed.

Product or Service	**Assignment Method**
Customer Services	Number of Customers Ratio
Sales and Marketing Services	Departmental Charge Ratio
Economic Development and Major Account Services	Departmental Charge Ratio
Meter Reading Services	Departmental Charge Ratio
Meter Operations Services	Number of Meters Ratio
Meter Asset Management Services	Number of Meters Ratio
Cash Remittance Services	Revenue Ratio
Billing Integrity Services	Number of Customers Ratio
Project Engineering Services	Total Assets Ratio
System Laboratory Services	Departmental Charge Ratio
Generation Engineering Services	Departmental Charge Ratio
Combustion Turbine Operations and Maintenance Services	Total Assets Ratio
Fuel Procurement Services	Contract Ratio
Transmission Strategy and Planning Services	Departmental Charge Ratio
Transmission Protection and Substation Services	Departmental Charge Ratio
Transmission Line Services	Departmental Charge Ratio
Transmission Reliability and Compliance Services	Departmental Charge Ratio
Transmission System Operations Services	Departmental Charge Ratio
Transmission EMS Services	Regulatory Mandate Ratios
Regulatory Energy Marketing Services	Regulatory Mandate Ratios
Market Forecasting Services	Departmental Charge Ratio
Load Forecasting Services	Departmental Charge Ratio
Generation Planning Services	Electric Peak Load Ratio
Network Trouble and Dispatch Services	Departmental Charge Ratio
Mapping and Records Management Services	Departmental Charge Ratio

E.ON U.S. Services Inc.
Cost Allocation Manual

Product or Service	Assignment Method
Electric Engineering Services	Departmental Charge Ratio
Distribution Asset Management Services	Total Assets Ratio
Substation Construction and Maintenance Services	Departmental Charge Ratio
Distribution Management Services	Departmental Charge Ratio
Budgeting Services	Revenue, Total Assets and Payroll Ratios
Financial Planning Services	Revenue, Total Assets and Payroll Ratios
Financial Systems	Number of Employees Ratio
Internal Financial and Management Reporting Services	Revenue, Total Assets and Payroll Ratios
External Financial Reporting Services	Revenue, Total Assets and Payroll Ratios
Accounting and Reporting Services	Revenue, Total Assets and Payroll Ratios
Accounts and Projects Services	Revenue, Total Assets and Payroll Ratios
Sundry Billings Services	Revenue, Total Assets and Payroll Ratios
Property Accounting Services	Departmental Charge Ratio
Accounts Payable Services	Number of Transactions Ratio
Energy Marketing Accounting Services	Energy Marketing Ratio
Revenue Accounting Services	Retail Revenue Ratio
Payroll Services	Payroll Ratio
Tax Accounting, Compliance and Reporting Services	Departmental Charge Ratio
Tax Planning Services	Departmental Charge Ratio
Tax – Special Projects Services	Direct Charges Only
Audit Services	Project Ratio
IT Corporate Functions Services	Information Systems Chargeback Rates
IT Administrative Services	Information Systems Chargeback Rates
IT Project Services	Information Systems Chargeback Rates
IT Application Services	Information Systems Chargeback Rates
IT Client Services	Information Systems Chargeback Rates
IT Platform Services	Information Systems Chargeback Rates
Cash Management and Investment Services	Revenue, Total Assets and Payroll Ratios
Corporate Finance Services	Revenue, Total Assets and Payroll Ratios
Risk Management Services	OUTSOURCED – Direct Charges Only
Credit Administration Services	Energy Marketing Ratio
Energy Marketing Trading Controls Services	Energy Marketing Ratio
Energy Marketing Contract Administration Services	Energy Marketing Ratio
Strategic Planning Services	Direct Charges Only
Compliance and Legal Services	Departmental Charge Ratio
Environmental Affairs Services	Departmental Charge Ratio
Regulatory Affairs Services	Revenue Ratio
Government Affairs Management Services	Departmental Charge Ratio

E.ON U.S. Services Inc.
Cost Allocation Manual

Product or Service	Assignment Method
Internal Communication Services	Departmental Charge Ratio
External and Brand Communication Services	Departmental Charge Ratio
Public Affairs Management Services	Departmental Charge Ratio
Facilities and Building Services	Departmental Charge Ratio
Security Services	Departmental Charge Ratio
Production Mail Services	Number of Customers Ratio
Document Services	Number of Employees Ratio
Right-of-Way Services	Departmental Charge Ratio
Transportation Services	Transportation Resource Management System Chargeback Rates
Procurement and Major Contracts Services	Non-Fuel Material and Services Expenditures Ratio
Strategic Sourcing Services	Non-Fuel Material and Services Expenditures Ratio
Materials Logistics Services	Number of Transactions Ratio
Sourcing Support Services	Non-Fuel Material and Services Expenditures Ratio
Accounts Payable Services	Number of Transactions Ratio
HR Compensation Services	Number of Employees Ratio
HR Benefits Services	Number of Employees Ratio
HR Health and Safety Services	Number of Employees Ratio
HR Organization Development and Training Services	Number of Employees Ratio
HR Corporate Headquarters Services	Number of Employees Ratio
HR Energy Services	Number of Employees Ratio
HR Energy Delivery Services	Number of Employees Ratio
Technical and Safety Training Services	Number of Employees Ratio
Industrial Relations Management Services	Departmental Charge Ratio
Executive Management Services	Departmental Charge Ratio

VI. TIME DISTRIBUTION, BILLING AND ASSET TRANSFER POLICIES

OVERVIEW

SERVCO utilizes ORACLE or other financial systems in which project/task combinations are set up to equate to products and services. In some cases, departments have set up many project/tasks that map to products and services. In many cases, there is a one to one relationship between the project/task and the product. The ORACLE system also automatically captures the home company (providing the service) and the charge company (receiving the service). Regardless of the method of reporting, charges related to specific products reside on the company receiving the service and therefore can be identified for billing purposes as well as for preparation of SERVCO financial statements. This ensures that:

1. Separation of costs between regulated and non-regulated affiliates will be maintained
2. Intercompany transactions and related billings are structured so that non-regulated activities are not subsidized by regulated affiliates
3. Adequate audit trails exist on the books and records

BILLING POLICIES

Billings for transactions between SERVCO and affiliates are issued on a timely basis with documentation sufficient to provide the receiving party with enough detail to understand the nature of the billing, the relevant components, and other information as required by affiliates. Financial settlements for transactions are made within 30 days. Interest charges at a reasonable rate may apply.

ASSET TRANSFERS

Unless otherwise permitted by regulatory authority or exception, (i) transfers or sales of assets from regulated affiliates to non-regulated affiliates will be priced at the greater of cost or fair market value; (ii) transfers or sales of assets from non-regulated affiliates to regulated affiliates will be priced at the lower of cost or fair market value and (iii) transfers of assets between regulated affiliates shall be priced at no more than cost less depreciation. Settlement of liabilities will be treated in the same manner.

TIME DISTRIBUTION

SERVCO has three methods of distribution to record employee salaries and wages while providing services for the affiliated entities: Positive time reporting, allocation time reporting and exception time reporting. Each department's job activities will dictate the type of time reporting method used.

Positive Time Reporting

Positive time reporting or direct time reporting requires all employees of a department to track all chargeable hours every day. Time may be charged to the nearest quarter hour.

Departments that have positive time reporting have labor-based activities that are easily trackable given the project/task code combinations noted above. All employees are given appropriate project numbers that are associated with the service that is being provided. The proper coding for direct assignment of costs is on various source documents, including the Virtual Online Time System (VOLTS) and disbursement requests. Each department or project manager is responsible for ensuring employees charge the appropriate charge codes for the services performed. This form of time reporting is documented in the VOLTS, which upon completion, is approved by the employees' immediate supervisor.

Allocation Time Reporting

Allocation time reporting allows for certain departments to set up a predefined allocation percentage to affiliated company project/tasks. This is typically the case when the department is transaction-based, therefore, performing routine, similar tasks benefiting multiple affiliates. Each department will use its ratio (see ratio assignment listing in section V) that was assigned by its budget coordinator to allocate the appropriate time to individual charge numbers that are associated to that department's services. Unless otherwise permitted by regulatory authority or exception, the selection of ratios and the calculation of allocation percentages should be derived from or bear relationship to an empirical analysis of a prior representative period. These allocation percentages are reviewed on an annual basis to update to actual allocation percentages when needed.

Exception Time Reporting

If an employee was working on a completely new project that had not been defined within the monthly or annual allocation process, then the employee would be given the new allocation with project/task code, update his/her time allocation accordingly and get his/her manager's approval. If an allocation from a previous pay period needs to be adjusted then that correction can be entered into the VOLTS by using the "in and out" function.

Kentucky Utilities Company
Case No. 2008-00251
Historical Test Period Filing Requirements

Filing Requirement
807 KAR 5:001 Section 10(6)(u)
Sponsoring Witness: W. Steven Seelye

Description of Filing Requirement:

If the utility provides gas, electric or water utility service and has annual gross revenues greater than $5,000,000, a cost of service study based on a methodology generally accepted within the industry and based on current and reliable data from a single time period.

Response:

Please refer to the testimonies and exhibits of W. Steven Seelye.

Kentucky Utilities Company
Case No. 2008-00251
Historical Test Period Filing Requirements

Filing Requirement
807 KAR 5:001 Section 10(6)(v)
Sponsoring Witness: Lonnie E. Bellar

Description of Filing Requirement:

Local exchange carriers with fewer than 50,000 access lines shall not be required to file cost of service studies, except as specifically directed by the commission. Local exchange carriers with more than 50,000 access lines shall file:

1. A jurisdictional separations study consistent with Part 36 of the Federal Communications Commission's rules and regulations; and

2. Service specific cost studies to support the pricing of all services that generate annual revenue greater than $1,000,000, except local exchange access:

a. Based on current and reliable data from a single time period; and

b. Using generally recognized fully allocated, embedded, or incremental cost principles.

Response:

Not applicable to KU's Application.

Kentucky Utilities Company
Case No. 2008-00251
Historical Test Period Filing Requirements

Filing Requirement
807 KAR 5:001 Section 10(7)(a)
Sponsoring Witness: Valerie L. Scott

Description of Filing Requirement:

Upon good cause shown, a utility may request pro forma adjustments for known and measurable changes to ensure fair, just and reasonable rates based on the historical test period. The following information shall be filed with applications requesting pro forma adjustments or a statement explaining why the required information does not exist and is not applicable to the utility's application:

(a) A detailed income statement and balance sheet reflecting the impact of all proposed adjustments;

Response:

See attached.

KENTUCKY UTILITIES COMPANY
Income Statement
12 Months Ending April 30, 2008

		Jurisdictional Electric		Adjustments Inc (Dec)	Adjusted
1	OPERATING REVENUES				
2	Sales to Ultimate Consumers	1,100,598,589			1,100,598,589
3	Sales for Resale	47,398,641			47,398,641
4	Miscellaneous	6,158,811			6,158,811
5	Total Operating Revenues	1,154,156,041	(1)	(133,458,131)	1,020,697,910
6					
7	OPERATING EXPENSES				
8	Operation and Maintenance	788,240,011	(2)	(108,178,360)	680,061,651
9	Depreciation and Amortization	108,502,421	(3)	236,248	108,738,669
10	Taxes Other Than Income Taxes	31,059,519	(4)	332,338	31,391,857
11	Income Taxes	52,212,463	(5)	(10,208,629)	42,003,834
12	Total Utility Operating Expenses	980,014,414		(117,818,403)	862,196,011
13	Net Utility Operating Income	174,141,627		(15,639,728)	158,501,899
14					
15	Net Other Income and Deductions	-			-
16					
17	Net Interest Charges	56,236,895			56,236,895
18					
19	Net Income	117,904,732		(15,639,728)	102,265,004
20					
21	Net Income Available for Common	117,904,732		(15,639,728)	102,265,004

Net other income and deductions are not assigned to Kentucky jurisdiction

(1) See Bellar Exhibit 1 for the following:	
Schedule 1.00	(6,878,000)
Schedule 1.01	18,568,431
Schedule 1.02	3,405,550
See Conroy Exhibit 1 for the following:	
Schedule 1.03	(116,253,633)
Schedule 1.04	98,267
Schedule 1.05	(54,342,557)
Schedule 1.06	21,935,653
Schedule 1.07	(371,295)
See Charnas Exhibit 1 for the following:	
Schedule 1.08	90,748
Schedule 1.09	17,682,129
Schedule 1.10	(4,429,150)
See Seelye Exhibit 1 for the following:	
Schedule 1.11	(8,721,229)
Schedule 1.12	(4,243,045)
	(133,458,131)

(2) See Conroy Exhibit 1 for the following:	
Schedule 1.03	(96,155,056)
Schedule 1.05	(16,467,656)
Schedule 1.06	8,506,554
See Seelye Exhibit 1 for the following:	
Schedule 1.11	(4,355,146)
Schedule 1.12	(2,747,550)
See Scott Exhibit 1 for the following:	
Schedule 1.15	1,456,169
Schedule 1.16	(152,671)
Schedule 1.17	1,114,405
Schedule 1.23	1,961,979
Schedule 1.25	2,721,857
See Charnas Exhibit 1 for the following:	
Schedule 1.08	(8,127)
Schedule 1.10	(4,437,148)
Schedule 1.18	(2,731,370)
Schedule 1.19	664,233
Schedule 1.20	(436,901)
Schedule 1.21	(37,986)
Schedule 1.22	(497,965)
Schedule 1.27	324,904
Schedule 1.28	(9,585)
Schedule 1.29	978,329
Schedule 1.30	65,522
Schedule 1.31	198,608
See Bellar Exhibit 1 for the following:	
Schedule 1.26	1,199,403
See Scott / Bellar Exhibit 1 for the following:	
Schedule 1.24	(1,338,790)
See Rives Exhibit 1 for the following:	
Schedule 1.32	2,005,628
	(108,178,360)

(3) See Charnas Exhibit 1 for the following:	
Schedule 1.14	236,248

(4) See Scott Exhibit 1 for the following:	
Schedule 1.15	93,800
Schedule 1.33	447,054
Schedule 1.34	(208,516)
	332,338

(5) See Scott Exhibit 1 for the following:	
Schedule 1.39	(9,719,707)
Schedule 1.40	(1,198,199)
Schedule 1.41	709,277
	(10,208,629)

KENTUCKY UTILITIES
Pro-forma Balance Sheet

		Jurisdictional 4/30/2008	Pro-forma Adjustments	Adjusted Balance
1	ASSETS			
1	UTILITY PLANT			
2	Utility Plant	4,495,693,653		4,495,693,653
3	Less Accumulated Depreciation	(1,707,655,598)	(236,248) (1)	(1,707,891,846)
4	Asset Retirement Obligation-Net Assets	-		-
5	Reclass of Accumulated Depreciation Associated			-
6	with Cost of Removal for Underlying ARO Assets	-		-
7	Net Utility Plant	2,788,038,055	(236,248)	2,787,801,807
8				
9	*OTHER PROPERTY AND INVESTMENTS*			
10				
11	CURRENT ASSETS			
12	Cash	5,698,328		5,698,328
13	Accounts Receivable-Less Reserve	115,074,736		115,074,736
14	Materials & Operating Supplies	69,053,666		69,053,666
15	Allowance Inventory	193,051		193,051
16	Prepayments	2,995,614		2,995,614
17	Miscellaneous Current & Accrued Assets	-		-
18	Total Current Assets	193,015,395	-	193,015,395
19				
20	OTHER ASSETS			
21	Unamortized Debt Expense	5,973,023		5,973,023
22	Unamortized Loss on Bonds	9,334,065		9,334,065
23	Accumulated Deferred Income Taxes	47,013,194		47,013,194
24	Deferred Regulatory Assets	72,540,934		72,540,934
25	Asset Retirement Obligation-Regulatory Assets	-		-
26	Other Deferred Debits	51,635,693		51,635,693
27	**Total Other Assets**	186,496,909	-	186,496,909
28	TOTAL ASSETS	3,167,550,359	(236,248)	3,167,314,111
29				
30	LIABILITIES AND SHAREHOLDERS' EQUITY			
31	CAPITALIZATION			
32	Common Shareholders' Equity	(1,330,865,653)	*15,639,728 (2)*	*(1,315,225,925)*
33	Preferred Stock	-		-
34	Long-term Debt	(1,096,927,811)		(1,096,927,811)
35	Accounts Receivable Securitization	-		-
36				
37	CURRENT LIABILITIES			
38	Notes Payable to Associated Companies	(82,069,905)		(82,069,905)
39	TOTAL CAPITAL STRUCTURE	(2,509,863,369)	15,639,728	(2,494,223,641)
40				
41	Accounts Payable	(120,123,692)	(25,612,109) (3)	(145,735,801)
42	Taxes Accrued	(11,062,555)	10,208,629 (4)	(853,926)
43	*Customer Deposits*	(19,033,545)		(19,033,545)
44	Interest Accrued	(10,025,605)		(10,025,605)
45	Dividends Declared	-		-
46	Misc. Current & Accrued Liabilities	(12,964,868)		(12,964,868)
47	Total Current Liabilities	(173,210,265)	(15,403,480)	(188,613,745)
48				
49	DEFERRED CREDITS AND OTHER			
50	Accumulated Deferred Income Taxes	(308,318,833)		(308,318,833)
51	Investment Tax Credit	(49,714,508)		(49,714,508)
52	Regulatory Liabilities	(33,032,374)		(33,032,374)
53	Asset Retirement Obligation-Regulatory Liabilities	-		-
54	Customer Advances for Construction	(2,405,862)		(2,405,862)
55	Asset Retirement Obligations	(26,805,403)		(26,805,403)
56	Asset Retirement Obligations-Liabilities	-		-
57	Miscellaneous Long Term Liability Due to			-
58	Associated Company	(2,864,809)		(2,864,809)
59	Other Deferred Credits	(18,334,472)		(18,334,472)
60	Accum Provision for Post-Retirement Benefits	(77,420,748)		(77,420,748)
61	Total Deferred Credits	(518,897,009)	-	(518,897,009)
62				
63	JURISDICTIONAL ADJUSTMENT TO BALANCE	34,420,284		34,420,284
64	**TOTAL LIABILITIES**	(3,167,550,359)	236,248	(3,167,314,111)

(a) *Capitalization from Rives Exhibit 2, page 1 of 1, column 1 x column 9.*

(1) See line 9, adjustments, Electric Income Statement.
(2) See line 21, adjustments, Electric Income Statement.
(3) See lines 5, 8, 10, adjustments, Electric Income Statement.
(4) See line 11, adjustments, Electric Income Statement.
(5) Consistent with LG&E's Rate Case 2000-080, only income statement pro-forma adjustments are shown

Kentucky Utilities Company
Case No. 2008-00251
Historical Test Period Filing Requirements

Filing Requirement
807 KAR 5:001 Section 10(7)(b)
Sponsoring Witness: Valerie L. Scott

Description of Filing Requirement:

Upon good cause shown, a utility may request pro forma adjustments for known and measurable changes to ensure fair, just and reasonable rates based on the historical test period. The following information shall be filed with applications requesting pro forma adjustments or a statement explaining why the required information does not exist and is not applicable to the utility's application:

(b) The most recent capital construction budget containing at least the period of time as proposed for any pro forma adjustment for plant additions.

Response:

Not applicable since no pro forma adjustments for plant additions are proposed.

Kentucky Utilities Company
Case No. 2008-00251
Historical Test Period Filing Requirements

Filing Requirement
807 KAR 5:001 Section 10(7)(c)
Sponsoring Witness: Valerie L. Scott

Description of Filing Requirement:

Upon good cause shown, a utility may request pro forma adjustments for known and measurable changes to ensure fair, just and reasonable rates based on the historical test period. The following information shall be filed with applications requesting pro forma adjustments or a statement explaining why the required information does not exist and is not applicable to the utility's application:

(c) For each proposed pro forma adjustment reflecting plant additions provide the following information:

1. The starting date of the construction of each major component of plant;

2. The proposed in-service date;

3. The total estimated cost of construction at completion;

4. The amount contained in construction work in progress at the end of the test period;

5. A schedule containing a complete description of actual plant retirements and anticipated plant retirements related to the pro forma plant additions including the actual or anticipated date of retirement;

6. The original cost, cost of removal and salvage for each component of plant to be retired during the period of the proposed pro forma adjustment for plant additions;

Kentucky Utilities Company
Case No. 2008-00251
Historical Test Period Filing Requirements

Filing Requirement
807 KAR 5:001 Section 10(7)(c)
Sponsoring Witness: Valerie L. Scott

Description of Filing Requirement (continued):

7. An explanation of any differences in the amounts contained in the capital construction budget and the amounts of capital construction cost contained in the pro forma adjustment period; and

8. The impact on depreciation expense of all proposed pro forma adjustments for plant additions and retirements;

Response:

Not applicable since no pro forma adjustments for plant additions are proposed.

Kentucky Utilities Company
Case No. 2008-00251
Historical Test Period Filing Requirements

Filing Requirement
807 KAR 5:001 Section 10(7)(d)
Sponsoring Witness: Valerie L. Scott

Description of Filing Requirement:

Upon good cause shown, a utility may request pro forma adjustments for known and measurable changes to ensure fair, just and reasonable rates based on the historical test period. The following information shall be filed with applications requesting pro forma adjustments or a statement explaining why the required information does not exist and is not applicable to the utility's application:

(d) The operating budget for each period encompassing the pro forma adjustments.

Response:

See attached.

KU
Income Statement

(000's)

	2007 Budget								2008 Budget			
	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget	Budget
	5	6	7	8	9	10	11	12	1	2	3	4
	May-2007	Jun-2007	Jul-2007	Aug-2007	Sep-2007	Oct-2007	Nov-2007	Dec-2007	Jan-2008	Feb-2008	Mar-2008	Apr-2008
Revenues:												
Electric Revenues	$96,922	$108,220	$125,744	$128,880	$103,028	$98,992	$100,723	$112,403	$119,618	$109,103	$105,803	$102,597
Gas Revenues	$0	$0	$0	$0	$0	$0	$0	$0	0	0	0	0
Total Revenues	96,922	108,220	125,744	128,880	103,028	98,992	100,723	112,403	119,618	109,103	105,803	102,597
Cost of Revenues:												
Fuel Electric Costs	31,993	38,581	49,412	50,619	35,795	33,505	32,442	36,088	40,658	37,624	34,050	31,793
Ash Disposal Costs	0	0	0	0	0	0	0	0	0	0	0	0
Purchased Power Costs	16,967	16,600	18,346	19,616	15,254	16,631	18,036	18,937	16,421	13,152	15,404	16,411
Transmission Expense	795	894	909	869	852	802	874	707	555	680	805	1,007
Scrubber, SCR Ammonia and Waste disposal Costs-NonLabor	553	666	673	673	438	191	94	179	220	204	225	354
Emissions Allowances	87	99	118	114	89	98	100	99	33	31	28	27
Total Electric Cost of Revenues	50,395	56,839	69,458	71,912	52,427	51,227	51,547	56,009	57,888	51,691	50,512	49,592
Gas Supply Expenses	0	0	0	0	0	0	0	0	0	0	0	0
Other Cost of Sales NonLabor	0	0	0	0	0	0	0	0	0	0	0	0
Total Cost of Revenues	50,395	56,839	69,458	71,912	52,427	51,227	51,547	56,009	57,888	51,691	50,512	49,592
Gross Margin:												
Electric Margin	46,526	51,381	56,286	56,968	50,600	47,765	49,176	56,394	61,730	57,413	55,291	53,005
Gas Margin	0	0	0	0	0	0	0	0	0	0	0	0
Total Gross Margin	46,526	51,381	56,286	56,968	50,600	47,765	49,176	58,394	61,730	57,413	55,291	53,005
Operating expenses:												
Outside Services-Maintenance	4,071	3,227	2,116	1,997	2,192	3,781	4,313	5,368	1,235	2,115	4,970	5,063
Outside Services-Other	2,300	2,856	1,811	2,245	2,859	1,847	2,161	2,670	2,068	1,928	2,155	2,175
Personnel Expenses	10,862	10,217	10,288	11,359	9,559	11,686	10,043	9,194	10,858	10,151	9,946	10,641
Pension Interest	(237)	(223)	(224)	(247)	(208)	(255)	(219)	(200)	(326)	(305)	(298)	(319)
FAS106 Interest	299	281	283	313	263	322	277	253	420	393	385	412
Non Labor-Maintenance	1,607	1,062	949	1,099	1,487	1,938	1,932	3,318	887	872	1,565	1,929
Non Labor-Other	2,987	7,708	3,631	3,265	3,713	3,365	3,057	3,537	4,926	4,530	4,518	4,691
Depreciation, Amortization and Impairment	9,977	10,280	10,331	10,364	10,385	10,413	10,453	10,554	10,577	10,601	10,618	10,637
Property and other taxes	1,142	1,142	1,146	1,146	1,146	1,146	1,146	1,146	1,167	1,167	1,167	1,167
Total Operating Expenses	33,008	36,551	30,330	31,540	31,396	34,244	33,162	35,839	31,812	31,452	35,025	36,395
Operating Profit	13,518	14,829	25,956	25,428	19,204	13,521	16,015	20,555	29,918	25,961	20,266	16,610
Equity in Unconsolidated Subs	2,114	2,389	3,359	3,422	2,273	2,369	2,264	2,351	2,698	2,575	1,943	1,669
Gain on sale of Fixed Assets	20	23	0	0	20	13	0	0	0	0	20	0
Income From Investments	0	10	0	0	10	0	0	10	0	0	13	0
Other income (expense)	470	452	502	586	588	603	746	582	193	826	1,039	1,003
Total Other Income (expense)	2,605	2,874	3,862	4,008	2,891	2,984	3,010	2,943	2,891	3,400	3,015	2,672
Interest income	21	20	20	20	21	21	21	21	18	20	22	21
I/C Interest income	0	0	0	0	0	0	0	0	0	0	0	0
Total Interest Income	21	20	20	20	21	21	21	21	18	20	22	21
Interest Expense	(956)	(951)	(975)	(962)	(918)	(935)	(889)	(906)	(1,100)	(1,023)	(1,079)	(1,033)
I/C Interest Exp - Non US Midwest	(2,953)	(2,953)	(2,953)	(3,449)	(3,449)	(3,449)	(3,821)	(3,821)	(4,791)	(4,791)	(4,791)	(4,791)
I/C Interest Exp - US Midwest	(244)	(301)	(487)	(176)	(214)	(289)	(148)	(131)	(310)	(331)	(275)	(216)
Interest Expense	(4,152)	(4,205)	(4,415)	(4,587)	(4,581)	(4,673)	(4,858)	(4,857)	(6,202)	(6,145)	(6,146)	(6,041)
Pretax Income (loss)	11,992	13,518	25,423	24,870	17,535	11,854	14,167	18,661	26,625	23,236	17,157	13,263
Current Tax Expense	(4,665)	(4,939)	(9,889)	(9,675)	(6,502)	(4,611)	(5,519)	(6,940)	(10,357)	(9,039)	3,950	(5,159)
Deferred Tax Expense	49	2,601	49	49	2,601	49	49	2,601	26	26	(6,942)	26
Total Income Tax Expense (Benefit)	(4,615)	(2,338)	(9,840)	(9,625)	(3,901)	(4,562)	(5,469)	(4,339)	(10,331)	(9,013)	(2,992)	(5,133)
Income from Cont. Ops. before Minority Int. & Preferred Dividends	7,376	11,180	15,583	15,245	13,634	7,292	8,717	14,322	16,294	14,224	14,166	8,130
Minority Interest	0	0	0	0	0	0	0	0	0	0	0	0
Preferred Dividends	0	0	0	0	0	0	0	0	0	0	0	0
Income from Continuing Operations	7,376	11,180	15,583	15,245	13,634	7,292	8,717	14,322	16,294	14,224	14,166	8,130
Income/Loss from Discontinued Operations (net of tax)	0	0	0	0	0	0	0	0	0	0	0	0
Income/Loss from Disposal of Disco Ops (net of tax)	0	0	0	0	0	0	0	0	0	0	0	0
Total Discontinued Operations	0	0	0	0	0	0	0	0	0	0	0	0
Net Income	$7,376	$11,180	$15,583	$15,245	$13,634	$7,292	$8,717	$14,322	$16,294	$14,224	$14,166	$8,130

Kentucky Utilities Company
Case No. 2008-00251
Historical Test Period Filing Requirements

Filing Requirement
807 KAR 5:001 Section 10(7)(e)
Sponsoring Witness: W. Steven Seelye

Description of Filing Requirement:

Upon good cause shown, a utility may request pro forma adjustments for known and measurable changes to ensure fair, just and reasonable rates based on the historical test period. The following information shall be filed with applications requesting pro forma adjustments or a statement explaining why the required information does not exist and is not applicable to the utility's application:

(e) The number of customers to be added to the test period-end level of customers and the related revenue requirements impact for all pro forma adjustments with complete details and supporting work papers.

Response:

Please refer to the testimonies and exhibits of W. Steven Seelye.