LG&E KU
PPL companies

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Mr. Jeff DeRouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602-0615

December 15, 2011

Re: ***Joint Application of PPL Corporation, E.ON AG, E.ON US Investments Corp., E.ON U.S. LLC, Louisville Gas and Electric Company, and Kentucky Utilities Company for Approval of an Acquisition of Ownership and Control of Utilities***
Case No. 2010-00204

Dear Mr. DeRouen:

Pursuant to the Commission's Order dated September 30, 2010 in the aforementioned case, Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU"), (collectively, the "Companies") submit one (1) copy each of the Securities and Exchange Commission ("SEC") Form 10-Q for PPL Corporation and its current and former subsidiaries for Quarter's Ended March 31, 2011, June 30, 2011, and September 30, 2011. This information is being made pursuant to Appendix C, Commitment No. 21.

Please confirm your receipt of this filing by placing the File Stamp of your Office with date received on the extra copies. Should you have any questions regarding the information filed herewith, please call me or Don Harris at (502) 627-2021.

Sincerely,

Rick E. Lovekamp

Form 10-Q

Quarterly Report to the Securities and Exchange Commission

For the Quarter Ended March 31, 2011

PPL Corporation

PPL Energy Supply, LLC

PPL Electric Utilities Corporation

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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal quarterly period ended March 31, 2011

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from _________ to ___________

Commission File Number	Registrant; State of Incorporation; Address and Telephone Number	IRS Employer Identification No.
1-11459	**PPL Corporation** (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
1-32944	**PPL Energy Supply, LLC** (Exact name of Registrant as specified in its charter) (Delaware) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-3074920
1-905	**PPL Electric Utilities Corporation** (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-0959590

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

PPL Corporation	Yes X	No ____
PPL Energy Supply, LLC	Yes X	No ____
PPL Electric Utilities Corporation	Yes X	No ____

Indicate by check mark whether the registrants have submitted electronically and posted on their corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrants were required to submit and post such files).

PPL Corporation	Yes X	No ____
PPL Energy Supply, LLC	Yes ____	No ____
PPL Electric Utilities Corporation	Yes ____	No ____

Indicate by check mark whether the registrants are large accelerated filers, accelerated filers, non-accelerated filers, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

	Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company
PPL Corporation	[X]	[ ]	[ ]	[ ]
PPL Energy Supply, LLC	[ ]	[ ]	[X]	[ ]
PPL Electric Utilities Corporation	[ ]	[ ]	[X]	[ ]

Indicate by check mark whether the registrants are shell companies (as defined in Rule 12b-2 of the Exchange Act).

PPL Corporation	Yes ____	No X
PPL Energy Supply, LLC	Yes ____	No X
PPL Electric Utilities Corporation	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.

PPL Corporation	Common stock, $.01 par value, 577,151,364 shares outstanding at April 29, 2011.
PPL Energy Supply, LLC	PPL Corporation indirectly holds all of the membership interests in PPL Energy Supply, LLC.
PPL Electric Utilities Corporation	Common stock, no par value, 66,368,056 shares outstanding and all held by PPL Corporation at April 29, 2011.

This document is available free of charge at the Investor Center on PPL's website at www.pplweb.com. However, information on this website does not constitute a part of this Form 10-Q.

PPL CORPORATION
PPL ENERGY SUPPLY, LLC
PPL ELECTRIC UTILITIES CORPORATION

FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2011

Table of Contents

GLOSSARY OF TERMS AND ABBREVIATIONS

PPL Corporation and its current and former subsidiaries

Central Networks - collectively Central Networks East plc, Central Networks Limited and certain other related assets and liabilities. On April 1, 2011, PPL WEM Holdings plc (formerly WPD Investment Holdings Limited) purchased all of the outstanding ordinary share capital of these companies from E.ON AG subsidiaries. Central Networks West plc (subsequently renamed Western Power Distribution (West Midlands) plc), wholly owned by Central Networks Limited (subsequently renamed WPD Midlands Holdings Limited), and Central Networks East plc (subsequently renamed Western Power Distribution (East Midlands) plc) are British regional electricity distribution utility companies.

E. W. Brown - a generating station in Kentucky with capacity of 1,631 MW. LG&E and KU are participants in a sale-leaseback transaction involving two combustion turbines at the station.

KU - Kentucky Utilities Company, a public utility subsidiary of LKE engaged in the regulated generation, transmission, distribution and sale of electricity, primarily in Kentucky. The subsidiary was acquired by PPL in November 2010.

LG&E - Louisville Gas and Electric Company, a public utility subsidiary of LKE engaged in the regulated generation, transmission, distribution and sale of electricity and the distribution and sale of natural gas in Kentucky. The subsidiary was acquired by PPL in November 2010.

LKE - LG&E and KU Energy LLC (formerly E.ON U.S. LLC), a subsidiary of PPL and the parent of LG&E and KU. PPL acquired E.ON U.S. LLC in November 2010 and changed the name to LG&E and KU Energy LLC. Within the context of this document, references to LKE also relate to the consolidated entity.

PPL - PPL Corporation, the parent holding company of PPL Electric, PPL Energy Funding, LKE and other subsidiaries.

PPL Capital Funding - PPL Capital Funding, Inc., a wholly owned financing subsidiary of PPL.

PPL Electric - PPL Electric Utilities Corporation, a public utility subsidiary of PPL that transmits and distributes electricity in its Pennsylvania service territory and provides electric supply to retail customers in this territory as a PLR.

PPL Energy Funding - PPL Energy Funding Corporation, a subsidiary of PPL and the parent company of PPL Energy Supply, PPL Global (effective January 2011) and other subsidiaries.

PPL EnergyPlus - PPL EnergyPlus, LLC, a subsidiary of PPL Energy Supply that markets and trades wholesale and retail electricity and gas, and supplies energy and energy services in competitive markets.

PPL Energy Supply - PPL Energy Supply, LLC, a subsidiary of PPL Energy Funding and the parent company of PPL Generation, PPL EnergyPlus and other subsidiaries. In January 2011, PPL Energy Supply distributed its membership interest in PPL Global, representing 100% of the outstanding membership interests of PPL Global, to PPL Energy Supply's parent, PPL Energy Funding.

PPL Gas Utilities - PPL Gas Utilities Corporation, a regulated utility that provided natural gas distribution, transmission and storage services, and the competitive sale of propane, which was a subsidiary of PPL until its sale in October 2008.

PPL Generation - PPL Generation, LLC, a subsidiary of PPL Energy Supply that owns and operates U.S. generating facilities through various subsidiaries.

PPL Global - PPL Global, LLC, a subsidiary of PPL Energy Funding that primarily owns and operates a business in the U.K., WPD, that is focused on the regulated distribution of electricity. In January 2011, PPL Energy Supply, PPL Global's former parent, distributed its membership interest in PPL Global, representing 100% of the outstanding membership interest of PPL Global, to its parent, PPL Energy Funding.

PPL Martins Creek - PPL Martins Creek, LLC, a subsidiary of PPL Generation that owns generating operations in Pennsylvania.

PPL Montana - PPL Montana, LLC, an indirect subsidiary of PPL Generation that generates electricity for wholesale sales in Montana and the Pacific Northwest.

PPL Services - PPL Services Corporation, a subsidiary of PPL that provides shared services for PPL and its subsidiaries.

PPL Susquehanna - PPL Susquehanna, LLC, the nuclear generating subsidiary of PPL Generation.

PPL WEM - PPL WEM Holdings plc (formerly WPD Investment Holdings Limited), an indirect, wholly owned U.K. subsidiary of PPL Global. PPL WEM directly wholly owns WPD (East Midlands) and indirectly wholly owns WPD (West Midlands).

PPL WW Holdings - PPL WW Holdings Limited (formerly Western Power Distribution Holdings Limited), an indirect, wholly owned U.K. subsidiary of PPL Global. PPL WW Holdings indirectly wholly owns WPD (South Wales) and WPD (South West).

WPD - refers to PPL WW Holdings and its subsidiaries.

WPD Midlands - refers to Central Networks, which was renamed after the acquisition.

WPD (East Midlands) - Western Power Distribution (East Midlands) plc, a British regional electricity distribution utility company. The company, formerly Central Networks East plc, was acquired and renamed in April 2011.

WPD (South Wales) - Western Power Distribution (South Wales) plc, a British regional electricity distribution utility company.

WPD (South West) - Western Power Distribution (South West) plc, a British regional electricity distribution utility company.

WPD (West Midlands) - Western Power Distribution (West Midlands) plc, a British regional electricity distribution utility company. The company, formerly Central Networks West plc, was acquired and renamed in April 2011.

WKE - Western Kentucky Energy Corp., a subsidiary of LKE that leased certain non-utility generating stations in western Kentucky until July 2009.

Other terms and abbreviations

£ - British pounds sterling.

2010 Equity Unit - a PPL equity unit, issued in June 2010, consisting of a Purchase Contract and, initially, a 5.0% undivided beneficial ownership interest in $1,000 principal amount of PPL Capital Funding 4.625% Junior Subordinated Notes due 2018.

2010 Purchase Contract - a contract that is a component of a 2010 Equity Unit that requires holders to purchase shares of PPL common stock on or prior to July 1, 2013.

2010 Form 10-K - Annual Report to the SEC on Form 10-K for the year ended December 31, 2010.

2011 Equity Unit - a PPL equity unit, issued in April 2011, consisting of a Purchase Contract and, initially, a 5.0% undivided beneficial ownership interest in $1,000 principal amount of PPL Capital Funding 4.32% Junior Subordinated Notes due 2019.

2011 Purchase Contract - a contract that is a component of a 2011 Equity Unit that requires holders to purchase shares of PPL common stock on or prior to May 1, 2014.

Acid Rain Program - allowance trading system established by the Clean Air Act to reduce levels of sulfur dioxide. Under this program, affected power plants are allocated allowances based on their fuel consumption during specified baseline years and a specific emissions rate.

Act 129 - became effective in October 2008. The law amends the Pennsylvania Public Utility Code and creates an energy efficiency and conservation program and smart metering technology requirements, adopts new PLR electricity supply procurement rules, provides remedies for market misconduct and makes changes to the existing Alternative Energy Portfolio Standard.

AFUDC - (Allowance for Funds Used During Construction) - the cost of equity and debt funds used to finance construction projects of regulated businesses, which is capitalized as part of construction cost.

A.M. Best - A.M. Best Company, a company that reports on the financial condition of insurance companies.

AOCI - accumulated other comprehensive income or loss.

ARO - asset retirement obligation.

Baseload generation - includes the output provided by PPL's nuclear, coal, hydroelectric and qualifying facilities.

Basis - when used in the context of derivatives and commodity trading, the commodity price differential between two locations, products or time periods.

Bcf - billion cubic feet.

Bridge Facility - the £3.6 billion Senior Bridge Term Loan Credit Agreement between PPL Capital Funding and PPL WEM, as borrowers, and PPL, as guarantor, and lenders party thereto, used to fund the April 1, 2011 acquisition of Central Networks, as amended by Amendment No. 1 thereto dated April 15, 2011.

CAIR - the EPA's Clean Air Interstate Rule.

Clean Air Act - federal legislation enacted to address certain environmental issues related to air emissions, including acid rain, ozone and toxic air emissions.

COLA - license application for a combined construction permit and operating license from the NRC for a nuclear plant.

Customer Choice Act - the Pennsylvania Electricity Generation Customer Choice and Competition Act, legislation enacted to restructure the state's electric utility industry to create retail access to a competitive market for generation of electricity.

DEP - Department of Environmental Protection, a Pennsylvania state government agency.

Depreciation not normalized - the flow-through income tax impact related to the state regulatory treatment of depreciation-related timing differences.

Dodd-Frank Act - the Dodd-Frank Wall Street Reform and Consumer Protection Act that was signed into law in July 2010.

DOE - Department of Energy, a U.S. government agency.

DRIP - Dividend Reinvestment and Direct Stock Purchase Plan.

ECR - Environmental Cost Recovery. Pursuant to Kentucky Revised Statutes 278.183, effective January 1993, Kentucky electric utilities are entitled to the current recovery of costs of complying with the Clean Air Act, as amended, and those federal, state or local environmental requirements which apply to coal combustion and by-products from the production of energy from coal.

E.ON AG - a German corporation and the parent of E.ON US Investments, the former parent of Central Networks.

E.ON US Investments - E.ON US Investments Corp., a Delaware corporation and the former parent of E.ON U.S. LLC. PPL acquired E.ON U.S. LLC in November 2010 and changed its name to LG&E and KU Energy LLC.

Economic Stimulus Package - The American Recovery and Reinvestment Act of 2009, generally referred to as the federal economic stimulus package, which was signed into law in February 2009.

EMF - electric and magnetic fields.

EPA - Environmental Protection Agency, a U.S. government agency.

EPS - earnings per share.

ESOP - Employee Stock Ownership Plan.

Euro - the basic monetary unit among participating members of the European Union.

FERC - Federal Energy Regulatory Commission, the federal agency that regulates, among other things, interstate transmission and wholesale sales of electricity, hydroelectric power projects and related matters.

Fitch - Fitch, Inc., a credit rating agency.

FTR - financial transmission rights, which are financial instruments established to manage price risk related to electricity transmission congestion. They entitle the holder to receive compensation or require the holder to remit payment for certain congestion-related transmission charges based on the level of congestion in the transmission grid.

Fundamental Change - as it relates to the terms of the 2011 and 2010 Equity Units, will be deemed to have occurred if any of the following occurs with respect to PPL, subject to certain exceptions: (i) a change of control; (ii) a consolidation with or merger into any other entity; (iii) common stock ceases to be listed or quoted; or (iv) a liquidation, dissolution or termination.

GAAP - generally accepted accounting principles in the U.S.

GBP - British pound sterling.

GHG - greenhouse gas(es).

GWh - gigawatt-hour, one million kilowatt-hours.

Health Care Reform - The Patient Protection and Affordable Care Act (HR 3590) and the Health Care and Education Reconciliation Act of 2010 (HR 4872), signed into law in March 2010.

Intermediate and peaking generation - includes the output provided by PPL's oil- and natural gas-fired units.

IRS - Internal Revenue Service, a U.S. government agency.

ISO - Independent System Operator.

KPSC - Kentucky Public Service Commission, the state agency that has jurisdiction over the regulation of rates and service of utilities in Kentucky.

LIBOR - London Interbank Offered Rate.

Long Island generation business - includes a 79.9 MW gas-fired plant in the Edgewood section of Brentwood, New York and a 79.9 MW oil-fired plant in Shoreham, New York and related tolling agreements. This business was sold in February 2010.

MACT - maximum achievable control technology.

MISO - (Midwest Independent System Operator) - an independent system operator and the regional transmission organization that provides open-access transmission service and monitors the high voltage transmission system in all or parts of Illinois, Indiana, Iowa, Michigan, Minnesota, Missouri, Montana, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin and Manitoba, Canada.

Montana Power - The Montana Power Company, a Montana-based company that sold its generating assets to PPL Montana in December 1999. Through a series of transactions consummated during the first quarter of 2002, Montana Power sold its electricity delivery business to NorthWestern.

Moody's - Moody's Investors Service, Inc., a credit rating agency.

MW - megawatt, one thousand kilowatts.

NDT - PPL Susquehanna's nuclear plant decommissioning trust.

NERC - North American Electric Reliability Corporation.

NorthWestern - NorthWestern Corporation, a Delaware corporation, and successor in interest to Montana Power's electricity delivery business, including Montana Power's rights and obligations under contracts with PPL Montana.

NPDES - National Pollutant Discharge Elimination System.

NPNS - the normal purchases and normal sales exception as permitted by derivative accounting rules.

NRC - Nuclear Regulatory Commission, the federal agency that regulates nuclear power facilities.

NUGs - non-utility generators, generating plants not owned by public utilities, whose electrical output must be purchased by utilities under the PURPA if the plant meets certain criteria.

OCI - other comprehensive income or loss.

Ofgem - Office of Gas and Electricity Markets, the British agency that regulates transmission, distribution and wholesale sales of electricity and related matters.

OVEC - Ohio Valley Electric Corporation, located in Piketon, Ohio, an entity in which LKE indirectly owns an 8.13% interest, which is accounted for as a cost method investment. OVEC owns and operates two coal-fired power plants, the Kyger Creek Station in Ohio and the Clifty Creek Station in Indiana, with combined nameplate capacities of 2,390 MW. LKE is contractually entitled to 8.13% of the generation capacity and output.

PJM - (PJM Interconnection, L.L.C.) - operator of the electric transmission network and electric energy market in all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia.

PLR (Provider of Last Resort) - the role of PPL Electric in providing default electricity supply to retail customers within its delivery territory who have not chosen to select an alternative electricity supplier under the Customer Choice Act.

PP&E - property, plant and equipment.

PUC - Pennsylvania Public Utility Commission, the state agency that regulates certain ratemaking, services, accounting and operations of Pennsylvania utilities.

PURPA - Public Utility Regulatory Policies Act of 1978, legislation passed by the U.S. Congress to encourage energy conservation, efficient use of resources and equitable rates.

PURTA - The Pennsylvania Public Utility Realty Tax Act.

RAB - regulatory asset base. This term is also commonly known as RAV.

RECs - renewable energy credits.

Regulation S-X - SEC regulation governing the form and content of and requirements for financial statements required to be filed pursuant to the federal securities laws.

RMC - Risk Management Committee.

S&P - Standard & Poor's Ratings Services, a credit rating agency.

Sarbanes-Oxley - Sarbanes-Oxley Act of 2002, which sets requirements for management's assessment of internal controls for financial reporting. It also requires an independent auditor to make its own assessment.

SCR - selective catalytic reduction, a pollution control process for the removal of nitrogen oxide from exhaust gases.

Scrubber - an air pollution control device that can remove particulates and/or gases (such as sulfur dioxide) from exhaust gases.

SEC - Securities and Exchange Commission, a U.S. government agency whose primary mission is to protect investors and maintain the integrity of the securities markets.

SIFMA Index - the Securities Industry and Financial Markets Association Municipal Swap Index.

Smart meter - an electric meter that utilizes smart metering technology.

Smart metering technology - technology that can measure, among other things, time of electricity consumption to permit offering rate incentives for usage during lower cost or demand intervals. The use of this technology also strengthens network reliability.

SNCR - selective non-catalytic reduction, a pollution control process for the removal of nitrogen oxide from exhaust gases.

Superfund - federal environmental legislation that addresses remediation of contaminated sites; states also have similar statutes.

TC2 - Trimble County Unit 2, a coal-fired plant located in Kentucky with a capacity of 760 MW. LKE owns a 75% interest in TC2 or 570 MW of the capacity.

Tolling agreement - agreement whereby the owner of an electric generating facility agrees to use that facility to convert fuel provided by a third party into electricity for delivery back to the third party.

TRA - Tennessee Regulatory Authority, the state agency that has jurisdiction over the regulation of rates and service of utilities in Tennessee.

VaR - value-at-risk, a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level.

VIE - variable interest entity.

Volumetric risk - the risk that the actual load volumes provided under full-requirement sales contracts could vary significantly from forecasted volumes.

VSCC - Virginia State Corporation Commission, the state agency that has jurisdiction over the regulation of Virginia corporations, including utilities.

VWAP - as it relates to the 2011 and 2010 Equity Units issued by PPL, the per share volume-weighted-average price as displayed under the heading Bloomberg VWAP on Bloomberg page "PPL <EQUITY> AQR" (or its equivalent successor if such page is not available) in respect of the period from the scheduled open of trading on the relevant trading day until the scheduled close of trading on the relevant trading day (or if such volume-weighted-average price is unavailable, the market price of one share of PPL common stock on such trading day determined, using a volume-weighted-average method, by a nationally recognized independent investment banking firm retained for this purpose by PPL).

FORWARD-LOOKING INFORMATION

Statements contained in this Form 10-Q concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements which are other than statements of historical fact are "forward-looking statements" within the meaning of the federal securities laws. Although PPL, PPL Energy Supply and PPL Electric believe that the expectations and assumptions reflected in these statements are reasonable, there can be no assurance that these expectations will prove to be correct. Forward-looking statements are subject to many risks and uncertainties, and actual results may differ materially from the results discussed in forward-looking statements. In addition to the specific factors discussed in "Item 1A. Risk Factors" in this Form 10-Q and each Registrant's 2010 Form 10-K and in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-Q report, the following are among the important factors that could cause actual results to differ materially from the forward-looking statements.

- fuel supply cost and availability;
- continuing ability to recover fuel and natural gas supply costs and environmental expenditures in a timely manner at LG&E and KU;
- weather conditions affecting generation, customer energy use and operating costs;
- operation, availability and operating costs of existing generation facilities;
- the length of the scheduled and unscheduled outages at our plants, including the current outage at Unit 2 of our Susquehanna nuclear plant to inspect and repair turbine blades, and the timing and outcome of any similar outage for inspections at Unit 1 of the Susquehanna plant;
- transmission and distribution system conditions and operating costs;
- potential expansion of alternative sources of electricity generation;
- potential laws or regulations to reduce emissions of "greenhouse" gases or the physical effects of climate change;
- collective labor bargaining negotiations;
- the outcome of litigation against PPL and its subsidiaries;
- potential effects of threatened or actual terrorism, war or other hostilities, or natural disasters;
- the commitments and liabilities of PPL and its subsidiaries;
- market demand and prices for energy, capacity, transmission services, emission allowances, RECs and delivered fuel;
- competition in retail and wholesale power and natural gas markets;
- liquidity of wholesale power markets;
- defaults by counterparties under energy, fuel or other power product contracts;
- market prices of commodity inputs for ongoing capital expenditures;
- capital market conditions, including the availability of capital or credit, changes in interest rates, certain economic indices and decisions regarding capital structure;
- stock price performance of PPL;
- the fair value of debt and equity securities and the impact on defined benefit costs and resultant cash funding requirements for defined benefit plans;
- interest rates and their effect on pension, retiree medical and nuclear decommissioning liabilities, and interest payable on certain debt securities;
- volatility in or the impact of other changes in financial or commodity markets and economic conditions;
- the profitability and liquidity, including access to capital markets and credit facilities, of PPL and its subsidiaries;
- new accounting requirements or new interpretations or applications of existing requirements;
- changes in securities and credit ratings;
- foreign currency exchange rates;
- current and future environmental conditions, regulations and other requirements and the related costs of compliance, including environmental capital expenditures, emission allowance costs and other expenses;
- legal, regulatory, political, market or other reactions to the 2011 incident at the nuclear generating facility at Fukushima, Japan;
- political, regulatory or economic conditions in states, regions or countries where PPL or its subsidiaries conduct business;
- receipt of necessary governmental permits, approvals and rate relief;
- new state, federal or foreign legislation, including new tax, environmental, healthcare or pension-related legislation;
- state, federal and foreign regulatory developments;
- the outcome of any rate cases by PPL Electric at the PUC or FERC, by LG&E or KU at the KPSC, FERC, VSCC or the TRA, or by WPD at Ofgem in the U.K.;
- the impact of any state, federal or foreign investigations applicable to PPL and its subsidiaries and the energy industry;
- the effect of any business or industry restructuring;
- development of new projects, markets and technologies;

- performance of new ventures; and
- business dispositions or acquisitions and our ability to successfully operate such acquired businesses and realize expected benefits including PPL's 2011 acquisition of Central Networks and 2010 acquisition of LKE.

Any such forward-looking statements should be considered in light of such important factors and in conjunction with other documents of PPL, PPL Energy Supply and PPL Electric on file with the SEC.

New factors that could cause actual results to differ materially from those described in forward-looking statements emerge from time to time, and it is not possible for PPL, PPL Energy Supply or PPL Electric to predict all such factors, or the extent to which any such factor or combination of factors may cause actual results to differ from those contained in any forward-looking statement. Any forward-looking statement speaks only as of the date on which such statement is made, and PPL, PPL Energy Supply and PPL Electric undertake no obligation to update the information contained in such statement to reflect subsequent developments or information.

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PART I. FINANCIAL INFORMATION
ITEM 1. Financial Statements
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, except share data)

	Three Months Ended March 31,	
	2011	**2010**
Operating Revenues		
Utility	$ **1,536**	$ 1,014
Unregulated retail electric and gas	**147**	104
Wholesale energy marketing		
Realized	**1,038**	1,359
Unrealized economic activity (Note 14)	**57**	424
Net energy trading margins	**11**	11
Energy-related businesses	**121**	94
Total Operating Revenues	**2,910**	3,006
Operating Expenses		
Operation		
Fuel	**475**	230
Energy purchases		
Realized	**671**	1,009
Unrealized economic activity (Note 14)	**(18)**	563
Other operation and maintenance	**583**	444
Depreciation	**208**	124
Taxes, other than income	**73**	72
Energy-related businesses	**113**	88
Total Operating Expenses	**2,105**	2,530
Operating Income	**805**	476
Other Income (Expense) - net	**(5)**	8
Other-Than-Temporary Impairments	**1**	
Interest Expense	**174**	111
Income from Continuing Operations Before Income Taxes	**625**	373
Income Taxes	**223**	126
Income from Continuing Operations After Income Taxes	**402**	247
Income (Loss) from Discontinued Operations (net of income taxes)	**3**	8
Net Income	**405**	255
Net Income Attributable to Noncontrolling Interests	**4**	5
Net Income Attributable to PPL Corporation	$ **401**	$ 250
Amounts Attributable to PPL Corporation:		
Income from Continuing Operations After Income Taxes	$ **398**	$ 242
Income (Loss) from Discontinued Operations (net of income taxes)	**3**	8
Net Income	$ **401**	$ 250
Earnings Per Share of Common Stock:		
Income from Continuing Operations After Income Taxes Available to PPL Corporation Common Shareowners:		
Basic	$ **0.82**	$ 0.64
Diluted	$ **0.82**	$ 0.64
Net Income Available to PPL Corporation Common Shareowners:		
Basic	$ **0.82**	$ 0.66
Diluted	$ **0.82**	$ 0.66
Dividends Declared Per Share of Common Stock	$ **0.350**	$ 0.350
Weighted-Average Shares of Common Stock Outstanding (in thousands)		
Basic	**484,138**	377,717
Diluted	**484,345**	377,986

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
PPL Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Cash Flows from Operating Activities		
Net income	$ **405**	$ 255
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	**208**	128
Amortization	**47**	33
Defined benefit plans - expense	**39**	27
Defined benefit plans - funding	**(438)**	(142)
Deferred income taxes and investment tax credits	**204**	(5)
Unrealized (gains) losses on derivatives, and other hedging activities	**(96)**	107
Provision for Montana hydroelectric litigation	**3**	56
Other	**7**	23
Change in current assets and current liabilities		
Accounts receivable	**(57)**	(101)
Accounts payable	**(112)**	178
Unbilled revenue	**199**	(176)
Prepayments	**(85)**	(94)
Counterparty collateral	**(195)**	351
Taxes	**10**	80
Other	**50**	61
Other operating activities		
Other assets	**(4)**	(4)
Other liabilities	**11**	21
Net cash provided by operating activities	**196**	798
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	**(428)**	(283)
Proceeds from the sale of certain non-core generation facilities	**381**	
Proceeds from the sale of the Long Island generation business		124
Purchases of nuclear plant decommissioning trust investments	**(79)**	(49)
Proceeds from the sale of nuclear plant decommissioning trust investments	**75**	44
Proceeds from the sale of other investments	**163**	
Net (increase) decrease in restricted cash and cash equivalents	**(7)**	(130)
Other investing activities	**(7)**	(16)
Net cash provided by (used in) investing activities	**98**	(310)
Cash Flows from Financing Activities		
Issuance of long-term debt		597
Issuance of common stock	**16**	14
Payment of common stock dividends	**(170)**	(131)
Net increase (decrease) in short-term debt	**187**	(36)
Other financing activities	**(20)**	(14)
Net cash provided by (used in) financing activities	**13**	430
Effect of Exchange Rates on Cash and Cash Equivalents	**13**	5
Net Increase (Decrease) in Cash and Cash Equivalents	**320**	923
Cash and Cash Equivalents at Beginning of Period	925	801
Cash and Cash Equivalents at End of Period	$ **1,245**	$ 1,724

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
PPL Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars, shares in thousands)

	March 31, 2011	December 31, 2010
Assets		
Current Assets		
Cash and cash equivalents	$ **1,245**	$ 925
Short-term investments		163
Restricted cash and cash equivalents	**33**	28
Accounts receivable (less reserve: 2011, $56; 2010, $55)		
Customer	**734**	652
Other	**68**	90
Unbilled revenues	**593**	789
Fuel, materials and supplies	**621**	643
Prepayments	**523**	435
Price risk management assets	**1,785**	1,918
Other intangibles	**55**	70
Assets held for sale		374
Regulatory assets	**35**	85
Other current assets	**55**	16
Total Current Assets	**5,747**	6,188
Investments		
Nuclear plant decommissioning trust funds	**644**	618
Other investments	**76**	75
Total Investments	**720**	693
Property, Plant and Equipment		
Regulated utility plant - electric and gas	**17,235**	15,994
Less: accumulated depreciation - regulated utility plant	**3,105**	3,002
Regulated utility plant - electric and gas, net	**14,130**	12,992
Non-regulated property, plant and equipment		
Generation	**10,188**	10,165
Nuclear fuel	**595**	578
Other	**488**	403
Less: accumulated depreciation - non-regulated property, plant and equipment	**5,550**	5,440
Non-regulated property, plant and equipment, net	**5,721**	5,706
Construction work in progress	**1,331**	2,160
Property, Plant and Equipment, net (a)	**21,182**	20,858
Other Noncurrent Assets		
Regulatory assets	**1,154**	1,145
Goodwill	**1,792**	1,761
Other intangibles (a)	**963**	966
Price risk management assets	**600**	655
Other noncurrent assets	**583**	571
Total Other Noncurrent Assets	**5,092**	5,098
Total Assets	$ **32,741**	$ 32,837

(a) At March 31, 2011 and December 31, 2010, includes $418 million and $424 million of PP&E, consisting primarily of "Generation," including leasehold improvements, and $11 million of "Other intangibles" from the consolidation of a VIE that is the owner/lessor of the Lower Mt. Bethel plant.

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
PPL Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars, shares in thousands)

	March 31, 2011	December 31, 2010
Liabilities and Equity		
Current Liabilities		
Short-term debt	$ **881**	$ 694
Long-term debt	**502**	502
Accounts payable	**941**	1,028
Taxes	**140**	134
Interest	**224**	166
Dividends	**174**	174
Price risk management liabilities	**1,010**	1,144
Counterparty collateral	**143**	338
Regulatory liabilities	**79**	109
Other current liabilities	**808**	925
Total Current Liabilities	**4,902**	5,214
Long-term Debt	**12,247**	12,161
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**2,839**	2,563
Investment tax credits	**251**	237
Price risk management liabilities	**397**	470
Accrued pension obligations	**1,094**	1,496
Asset retirement obligations	**442**	435
Regulatory liabilities	**1,032**	1,031
Other deferred credits and noncurrent liabilities	**739**	752
Total Deferred Credits and Other Noncurrent Liabilities	**6,794**	6,984
Commitments and Contingent Liabilities (Note 10)		
Equity		
PPL Corporation Shareowners' Common Equity		
Common stock - $0.01 par value (a)	**5**	5
Capital in excess of par value	**4,637**	4,602
Earnings reinvested	**4,312**	4,082
Accumulated other comprehensive loss	**(424)**	(479)
Total PPL Corporation Shareowners' Common Equity	**8,530**	8,210
Noncontrolling Interests	**268**	268
Total Equity	**8,798**	8,478
Total Liabilities and Equity	$ **32,741**	$ 32,837

(a) 780,000 shares authorized; 484,618 and 483,391 shares issued and outstanding at March 31, 2011 and December 31, 2010.

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
PPL Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars)

	PPL Corporation Shareowners						
	Common stock shares outstanding (a)	Common stock	Capital in excess of par value	Earnings reinvested	Accumulated other comprehensive loss	Non-controlling interests	Total
December 31, 2010	483,391	$ 5	$ 4,602	$ 4,082	$ (479)	$ 268	$ 8,478
Common stock issued (b)	1,227		40				40
Stock-based compensation			(5)				(5)
Net income				401		4	405
Dividends, dividend equivalents and distributions (c)				(171)		(4)	(175)
Other comprehensive income (loss)					55		55
March 31, 2011	484,618	$ 5	$ 4,637	$ 4,312	$ (424)	$ 268	$ 8,798
December 31, 2009	377,183	$ 4	$ 2,280	$ 3,749	$ (537)	$ 319	$ 5,815
Common stock issued (b)	948		33				33
Stock-based compensation			(3)				(3)
Net income				250		5	255
Dividends, dividend equivalents and distributions (c)				(133)		(5)	(138)
Other comprehensive income (loss)					249		249
March 31, 2010	378,131	$ 4	$ 2,310	$ 3,866	$ (288)	$ 319	$ 6,211

(a) Shares in thousands. Each share entitles the holder to one vote on any question presented to any shareowners' meeting.
(b) Each period includes shares of common stock issued through various stock and incentive compensation plans.
(c) "Earnings reinvested" includes dividends and dividend equivalents on PPL Corporation common stock and restricted stock units. "Noncontrolling interests" includes dividends and distributions to noncontrolling interests.

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
PPL Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Three Months Ended March 31,	
	2011	**2010**
Net income	**$ 405**	$ 255
Other comprehensive income (loss):		
Amounts arising during the period - gains (losses), net of tax (expense) benefit:		
Foreign currency translation adjustments, net of tax of $1, ($1)	**67**	(93)
Available-for-sale securities, net of tax of ($12), ($11)	**12**	10
Qualifying derivatives, net of tax of ($32), ($262)	**37**	377
Equity investees' other comprehensive income (loss), net of tax of $0, $0	**(1)**	
Reclassifications to net income - (gains) losses, net of tax expense (benefit):		
Available-for-sale securities, net of tax of $5, $2	**(7)**	(2)
Qualifying derivatives, net of tax of $51, $37	**(69)**	(60)
Equity investees' other comprehensive (income) loss, net of tax of $0, $0	**2**	
Defined benefit plans:		
Prior service costs, net of tax of ($2), ($3)	**3**	2
Net actuarial loss, net of tax of ($4), $0	**11**	14
Transition obligation, net of tax of $0, $0		1
Total other comprehensive income (loss) attributable to PPL Corporation	**55**	249
Comprehensive income (loss)	**460**	504
Comprehensive income attributable to noncontrolling interests	**4**	5
Comprehensive income (loss) attributable to PPL Corporation	**$ 456**	$ 499

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
PPL Energy Supply, LLC and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Three Months Ended March 31,	
	2011	**2010**
Operating Revenues		
Wholesale energy marketing		
Realized	**$ 1,038**	$ 1,359
Unrealized economic activity (Note 14)	**57**	424
Wholesale energy marketing to affiliate	**6**	115
Unregulated retail electric and gas	**147**	104
Net energy trading margins	**11**	11
Energy-related businesses	**110**	81
Total Operating Revenues	**1,369**	2,094
Operating Expenses		
Operation		
Fuel	**260**	230
Energy purchases		
Realized	**314**	600
Unrealized economic activity (Note 14)	**(18)**	563
Energy purchases from affiliate	**1**	1
Other operation and maintenance	**245**	298
Depreciation	**59**	57
Taxes, other than income	**16**	11
Energy-related businesses	**108**	81
Total Operating Expenses	**985**	1,841
Operating Income	**384**	253
Other Income (Expense) - net	**14**	6
Other-Than-Temporary Impairments	**1**	
Interest Income from Affiliates	**3**	
Interest Expense	**47**	53
Income from Continuing Operations Before Income Taxes	**353**	206
Income Taxes	**142**	82
Income from Continuing Operations After Income Taxes	**211**	124
Income (Loss) from Discontinued Operations (net of income taxes)	**3**	76
Net Income Attributable to PPL Energy Supply	**$ 214**	$ 200
Amounts Attributable to PPL Energy Supply:		
Income from Continuing Operations After Income Taxes	**$ 211**	$ 124
Income (Loss) from Discontinued Operations (net of income taxes)	**3**	76
Net Income	**$ 214**	$ 200

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
PPL Energy Supply, LLC and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Three Months Ended March 31,	
	2011	**2010**
Cash Flows from Operating Activities		
Net income	**$ 214**	$ 200
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	**59**	91
Amortization	**33**	35
Defined benefit plans - expense	**9**	16
Defined benefit plans - funding	**(127)**	(74)
Deferred income taxes and investment tax credits	**105**	(27)
Unrealized (gains) losses on derivatives, and other hedging activities	**(105)**	109
Provision for Montana hydroelectric litigation	**3**	56
Other	**10**	21
Change in current assets and current liabilities		
Accounts receivable	**69**	89
Accounts payable	**(92)**	92
Unbilled revenue	**122**	(254)
Prepayments	**51**	21
Taxes	**42**	123
Counterparty collateral	**(195)**	351
Other	**(4)**	102
Other operating activities		
Other assets	**(3)**	(11)
Other liabilities	**11**	21
Net cash provided by operating activities	**202**	961
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	**(127)**	(216)
Proceeds from the sale of certain non-core generation facilities	**381**	
Proceeds from the sale of the Long Island generation business		124
Purchases of nuclear plant decommissioning trust investments	**(79)**	(49)
Proceeds from the sale of nuclear plant decommissioning trust investments	**75**	44
Net (increase) decrease in notes receivable from affiliates	**(458)**	
Net (increase) decrease in restricted cash and cash equivalents	**(5)**	(134)
Other investing activities	**(11)**	(15)
Net cash provided by (used in) investing activities	**(224)**	(246)
Cash Flows from Financing Activities		
Issuance of long-term debt		597
Distributions to Member	**(81)**	(162)
Cash included in net assets of subsidiary distributed to Member	**(325)**	
Net increase (decrease) in short-term debt	**350**	(36)
Other financing activities		(8)
Net cash provided by (used in) financing activities	**(56)**	391
Effect of Exchange Rates on Cash and Cash Equivalents		5
Net Increase (Decrease) in Cash and Cash Equivalents	**(78)**	1,111
Cash and Cash Equivalents at Beginning of Period	**661**	245
Cash and Cash Equivalents at End of Period	**$ 583**	$ 1,356

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
PPL Energy Supply, LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	March 31, 2011	December 31, 2010
Assets		
Current Assets		
Cash and cash equivalents	$ 583	$ 661
Restricted cash and cash equivalents	22	19
Accounts receivable (less reserve: 2011, $18; 2010, $20)		
Customer	174	225
Other	25	24
Unbilled revenues	294	486
Accounts receivable from affiliates	59	124
Notes receivable from affiliates	458	
Fuel, materials and supplies	307	297
Prepayments	21	89
Price risk management assets	1,769	1,907
Other intangibles	11	11
Assets held for sale		374
Other current assets	9	11
Total Current Assets	3,732	4,228
Investments		
Nuclear plant decommissioning trust funds	644	618
Other investments	37	37
Total Investments	681	655
Property, Plant and Equipment (Note 8)		
Regulated utility plant - electric and gas		4,269
Less: accumulated depreciation - regulated utility plant		888
Regulated utility plant - electric and gas, net		3,381
Non-regulated property, plant and equipment		
Generation	10,192	10,169
Nuclear fuel	595	578
Other	240	314
Less: accumulated depreciation - non-regulated property, plant and equipment	5,459	5,401
Non-regulated property, plant and equipment, net	5,568	5,660
Construction work in progress	606	594
Property, Plant and Equipment, net (a)	6,174	9,635
Other Noncurrent Assets		
Goodwill (Note 8)	86	765
Other intangibles (a) (Note 8)	384	464
Price risk management assets	590	651
Other noncurrent assets	366	398
Total Other Noncurrent Assets	1,426	2,278
Total Assets	$ 12,013	$ 16,796

(a) At March 31, 2011 and December 31, 2010, includes $418 million and $424 million of PP&E, consisting primarily of "Generation," including leasehold improvements, and $11 million of "Other intangibles" from the consolidation of a VIE that is the owner/lessor of the Lower Mt. Bethel plant.

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
PPL Energy Supply, LLC and Subsidiaries

(Unaudited)
(Millions of Dollars)

	March 31, 2011	December 31, 2010
Liabilities and Equity		
Current Liabilities		
Short-term debt	**$ 700**	$ 531
Long-term debt	**500**	500
Accounts payable	**438**	592
Accounts payable to affiliates	**27**	43
Taxes	**108**	119
Interest	**64**	110
Price risk management liabilities	**987**	1,112
Counterparty collateral	**143**	338
Other current liabilities	**530**	624
Total Current Liabilities	**3,497**	3,969
Long-term Debt (Note 8)	**2,776**	5,089
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**1,240**	1,548
Investment tax credits	**96**	81
Price risk management liabilities	**367**	438
Accrued pension obligations (Note 8)	**179**	619
Asset retirement obligations	**333**	332
Other deferred credits and noncurrent liabilities	**191**	211
Total Deferred Credits and Other Noncurrent Liabilities	**2,406**	3,229
Commitments and Contingent Liabilities (Note 10)		
Equity		
Member's equity	**3,316**	4,491
Noncontrolling interests	**18**	18
Total Equity	**3,334**	4,509
Total Liabilities and Equity	**$ 12,013**	$ 16,796

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
PPL Energy Supply, LLC and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Member's equity	Non-controlling interests	Total
December 31, 2010	$ 4,491	$ 18	$ 4,509
Net income	214		214
Other comprehensive income (loss)	(20)		(20)
Distributions	(81)		(81)
Distribution of membership interest in PPL Global (a)	(1,288)		(1,288)
March 31, 2011	$ 3,316	$ 18	$ 3,334
December 31, 2009	$ 4,568	$ 18	$ 4,586
Net income	200		200
Other comprehensive income (loss)	251		251
Distributions	(162)		(162)
March 31, 2010	$ 4,857	$ 18	$ 4,875

(a) See Note 8 for additional information.

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
PPL Energy Supply, LLC and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Three Months Ended March 31,	
	2011	**2010**
Net income	**$ 214**	$ 200
Other comprehensive income (loss):		
Amounts arising during the period - gains (losses), net of tax (expense) benefit:		
Foreign currency translation adjustments, net of tax of $0, ($1)		(93)
Available-for-sale securities, net of tax of ($12), ($11)	**12**	10
Qualifying derivatives, net of tax of ($34), ($265)	**50**	382
Reclassifications to net income - (gains) losses, net of tax expense (benefit):		
Available-for-sale securities, net of tax of $5, $2	**(7)**	(2)
Qualifying derivatives, net of tax of $54, $38	**(79)**	(60)
Equity investee's other comprehensive (income) loss, net of tax of $0, $0	**2**	
Defined benefit plans:		
Prior service costs, net of tax of ($1), ($3)	**1**	1
Net actuarial loss, net of tax of $0, ($1)	**1**	12
Transition obligation, net of tax of $0, $0		1
Total other comprehensive income (loss) attributable to PPL Energy Supply	**(20)**	251
Comprehensive income (loss) attributable to PPL Energy Supply	**$ 194**	$ 451

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars)

	Three Months Ended March 31,	
	2011	**2010**
Operating Revenues		
Retail electric	**$ 554**	$ 811
Retail and wholesale electric to affiliate	**4**	2
Total Operating Revenues	**558**	813
Operating Expenses		
Operation		
Energy purchases	**251**	410
Energy purchases from affiliate	**6**	115
Other operation and maintenance	**130**	120
Depreciation	**33**	34
Taxes, other than income	**35**	47
Total Operating Expenses	**455**	726
Operating Income	**103**	87
Other Income (Expense) - net		1
Interest Income from Affiliate		1
Interest Expense	**24**	26
Income Before Income Taxes	**79**	63
Income Taxes	**23**	21
Net Income	**56**	42
Distributions on Preferred Securities	**4**	5
Net Income Available to PPL Corporation	**$ 52**	$ 37

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
PPL Electric Utilities Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Three Months Ended March 31, 2011	2010
Cash Flows from Operating Activities		
Net income	$ **56**	$ 42
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation	**33**	34
Amortization		(2)
Defined benefit plans - expense	**4**	6
Defined benefit plans - funding	**(98)**	(44)
Deferred income taxes and investment tax credits	**(29)**	17
Other	**3**	3
Change in current assets and current liabilities		
Accounts receivable	**(61)**	(86)
Accounts payable	**(52)**	(28)
Unbilled revenue	**33**	74
Prepayments	**17**	(121)
Regulatory assets and liabilities	**37**	(13)
Taxes	**27**	3
Other	**(17)**	(8)
Other operating activities		
Other assets	**1**	5
Other liabilities	**(1)**	5
Net cash provided by (used in) operating activities	**(47)**	(113)
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	**(129)**	(61)
Other investing activities	**4**	(1)
Net cash provided by (used in) investing activities	**(125)**	(62)
Cash Flows from Financing Activities		
Common stock dividends to PPL	**(18)**	(17)
Dividends on preferred securities	**(4)**	(5)
Net cash provided by (used in) financing activities	**(22)**	(22)
Net Increase (Decrease) in Cash and Cash Equivalents	**(194)**	(197)
Cash and Cash Equivalents at Beginning of Period	**204**	485
Cash and Cash Equivalents at End of Period	$ **10**	$ 288

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars, shares in thousands)

	March 31, 2011	December 31, 2010
Assets		
Current Assets		
Cash and cash equivalents	**$ 10**	$ 204
Accounts receivable (less reserve: 2011, $16; 2010, $17)		
Customer	**331**	268
Other	**21**	24
Accounts receivable from affiliates	**9**	8
Unbilled revenues	**101**	134
Materials and supplies	**51**	47
Prepayments	**119**	136
Regulatory assets	**18**	63
Other current assets	**7**	4
Total Current Assets	**667**	888
Property, Plant and Equipment		
Regulated utility plant - electric	**5,587**	5,494
Less: accumulated depreciation - regulated utility plant - electric	**2,105**	2,088
Other	**2**	2
Construction work in progress	**176**	177
Property, Plant and Equipment, net	**3,660**	3,585
Other Noncurrent Assets		
Regulatory assets	**562**	557
Intangibles	**149**	147
Other noncurrent assets	**76**	76
Total Other Noncurrent Assets	**787**	780
Total Assets	**$ 5,114**	$ 5,253

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars, shares in thousands)

	March 31, 2011	December 31, 2010
Liabilities and Equity		
Current Liabilities		
Accounts payable	**$ 184**	$ 221
Accounts payable to affiliates	**47**	73
Taxes	**50**	23
Interest	**25**	17
Regulatory liabilities	**7**	18
Other current liabilities	**94**	126
Total Current Liabilities	**407**	478
Long-term Debt	**1,472**	1,472
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**927**	932
Accrued pension obligations	**164**	259
Regulatory liabilities	**18**	14
Other deferred credits and noncurrent liabilities	**148**	154
Total Deferred Credits and Other Noncurrent Liabilities	**1,257**	1,359
Commitments and Contingent Liabilities (Note 10)		
Shareowners' Equity		
Preferred securities	**250**	250
Common stock - no par value (a)	**364**	364
Additional paid-in capital	**879**	879
Earnings reinvested	**485**	451
Total Equity	**1,978**	1,944
Total Liabilities and Equity	**$ 5,114**	$ 5,253

(a) 170,000 shares authorized; 66,368 shares issued and outstanding at March 31, 2011 and December 31, 2010.

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF SHAREOWNERS' EQUITY
PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Common stock shares outstanding (a)	Preferred securities	Common stock	Additional paid-in capital	Earnings reinvested	Total
December 31, 2010	66,368	$ 250	$ 364	$ 879	$ 451	$ 1,944
Net income (b)					56	56
Cash dividends declared on preferred securities					(4)	(4)
Cash dividends declared on common stock					(18)	(18)
March 31, 2011	66,368	$ 250	$ 364	$ 879	$ 485	$ 1,978
December 31, 2009	66,368	$ 301	$ 364	$ 824	$ 407	$ 1,896
Net income (b)					42	42
Cash dividends declared on preferred securities					(5)	(5)
Cash dividends declared on common stock					(17)	(17)
March 31, 2010	66,368	$ 301	$ 364	$ 824	$ 427	$ 1,916

(a) Shares in thousands. All common shares of PPL Electric stock are owned by PPL.
(b) PPL Electric's net income approximates comprehensive income.

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of the financial statements.

Combined Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Interim Financial Statements

(PPL, PPL Energy Supply and PPL Electric)

Terms and abbreviations appearing in Combined Notes to Condensed Consolidated Financial Statements are explained in the glossary. Dollars are in millions, except per share data, unless otherwise noted.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all of the information and footnotes required by accounting principles generally accepted in the U.S. for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation in accordance with accounting principles generally accepted in the U.S. are reflected in the condensed consolidated financial statements. All adjustments are of a normal recurring nature, except as otherwise disclosed. Each Registrant's Balance Sheet at December 31, 2010 is derived from that Registrant's 2010 audited Balance Sheet. The financial statements and notes thereto should be read in conjunction with the financial statements and notes contained in each Registrant's 2010 Form 10-K. The results of operations for the three months ended March 31, 2011, are not necessarily indicative of the results to be expected for the full year ending December 31, 2011, or other future periods, because results for interim periods can be disproportionately influenced by various factors and developments and seasonal variations.

The classification of certain prior period amounts has been changed to conform to the presentation in the March 31, 2011 financial statements.

(PPL)

In November 2010, PPL completed the acquisition of LKE. See Notes 1 and 10 in PPL's 2010 Form 10-K for additional information. LKE's operating results for the three months ended March 31, 2011 are included in PPL's results of operations with no comparable amounts for the same period in 2010.

(PPL Energy Supply)

In January 2011, PPL Energy Supply distributed its membership interest in PPL Global, representing 100% of the outstanding membership interest of PPL Global, to PPL Energy Supply's parent, PPL Energy Funding. The distribution was made based on the book value of the assets and liabilities of PPL Global with financial effect as of January 1, 2011. See Note 8 for additional information.

(PPL and PPL Energy Supply)

"Income (Loss) from Discontinued Operations (net of income taxes)" on the Statements of Income includes the activities of various businesses that were sold or distributed in 2011 and 2010. See Note 8 for additional information. The Statements of Cash Flows do not separately report the cash flows of the Discontinued Operations.

2. Summary of Significant Accounting Policies

(PPL, PPL Energy Supply and PPL Electric)

The following accounting policy disclosures represent updates to Note 1 in each Registrant's 2010 Form 10-K and should be read in conjunction with that discussion.

General

Business and Consolidation *(PPL)*

On April 1, 2011, PPL, through its indirect, wholly owned subsidiary PPL WEM, completed its acquisition of all of the outstanding ordinary share capital of Central Networks East plc and Central Networks Limited, the sole owner of Central Networks West plc, together with certain other related assets and liabilities, from subsidiaries of E.ON AG. See Notes 7 and 18 for additional information.

Accounts Receivable *(PPL, PPL Energy Supply and PPL Electric)*

PPL Electric's customers may elect to procure generation supply from an alternative supplier. As a result of a PUC-approved purchase of accounts receivable program, PPL Electric has purchased certain accounts receivable from alternative suppliers at a nominal discount, which reflects a provision for uncollectible accounts. The alternative suppliers (including PPL Electric's affiliate, PPL EnergyPlus) have no continuing involvement or interest in the purchased accounts receivable. The purchased accounts receivable are initially recorded at fair value using a market approach based on the purchase price paid and are classified as Level 2 in the fair value hierarchy. PPL Electric receives a nominal fee for administering its program. During the three months ended March 31, 2011, PPL Electric purchased $265 million of accounts receivable from unaffiliated third parties. Additionally, PPL Electric purchased $63 million from its affiliate, PPL EnergyPlus. During the three months ended March 31, 2010, PPL Electric purchased $76 million of accounts receivable from unaffiliated third parties. Additionally, PPL Electric purchased $33 million from its affiliate, PPL EnergyPlus.

3. Segment and Related Information

(PPL and PPL Energy Supply)

See Note 2 in each Registrant's 2010 Form 10-K for a discussion of reportable segments. In January 2011, PPL Energy Supply distributed its membership interest in PPL Global to its parent, PPL Energy Funding. Following the distribution, PPL Energy Supply operates in a single business segment, the Supply segment. PPL Energy Supply's 2010 segment information was restated to reflect PPL Global as a Discontinued Operation. See Note 8 for additional information. PPL continues to include PPL Global in the International Regulated segment.

Financial data for the segments are:

	Three Months Ended March 31,			
	PPL		PPL Energy Supply	
	2011	2010	2011	2010
Income Statement Data				
Revenues from external customers				
Kentucky Regulated (a)	$ 766			
International Regulated	225	$ 213		
Pennsylvania Regulated	554	811		
Supply (b)	1,365	1,982	$ 1,369	$ 2,094
Total	2,910	3,006	1,369	2,094
Intersegment electric revenues				
Pennsylvania Regulated	4	2		
Supply (c)	6	115		
Net Income Attributable to PPL/PPL Energy Supply				
Kentucky Regulated (a)	75			
International Regulated (b)	55	76		68 (d)
Pennsylvania Regulated	52	37		
Supply (b) (d)	219	137	214	132
Total	$ 401	$ 250	$ 214	$ 200

	PPL		PPL Energy Supply	
	March 31, 2011	December 31, 2010	March 31, 2011	December 31, 2010
Balance Sheet Data				
Total Assets				
Kentucky Regulated (a)	$ 10,457	$ 10,318		
International Regulated	5,055	4,800		$ 4,800
Pennsylvania Regulated	5,040	5,189		
Supply	12,189	12,530	$ 12,013	11,996
Total	$ 32,741	$ 32,837	$ 12,013	$ 16,796

(a) This segment primarily represents the operating activities and assets of LKE, which was acquired in November 2010. Net income attributable to PPL includes the allocation of interest expense from the 2010 Equity Units issued to fund the acquisition and interest rate swaps.
(b) Includes unrealized gains and losses from economic activity. See Note 14 for additional information.
(c) See "PLR Contracts" in Note 11 for a discussion of the basis of accounting between reportable segments.
(d) Either includes Discontinued Operations or is reported in Discontinued Operations. See Note 8 for additional information.

4. Earnings Per Share

(PPL)

Basic EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding during the period. Diluted EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of shares outstanding that are increased for additional shares that would be outstanding if potentially dilutive non-participating securities were converted to common shares. In 2011 and 2010, these securities included stock options and performance units granted under incentive compensation plans. Additionally, in 2011, these securities included the 2010 Purchase Contract component of the 2010 Equity Units. The 2010 Purchase Contracts will be dilutive only if the average VWAP of PPL's common stock for a certain period exceeds $28.80. Because the average VWAP has not exceeded $28.80 since issuance, the 2010 Purchase Contracts were excluded from the diluted EPS calculations. Subject to antidilution adjustments, as of March 31, 2011 the maximum number of shares issuable to settle the 2010 Purchase Contracts was 58,167,000 shares, including 47,915,900 shares that could be issued under standard provisions of the 2010 Purchase Contracts and 10,251,100 shares that could be issued under make-whole provisions in the event of early settlement upon a Fundamental Change.

Reconciliations of the amounts of income and shares of PPL common stock (in thousands) used in the calculation are:

	Three Months Ended March 31,	
	2011	2010
Income (Numerator)		
Income from continuing operations after income taxes attributable to PPL	$ 398	$ 242
Less amounts allocated to participating securities	2	1
Income from continuing operations after income taxes available to PPL common shareowners	$ 396	$ 241
Income (loss) from discontinued operations (net of income taxes) available to PPL	$ 3	$ 8
Net income attributable to PPL	$ 401	$ 250
Less amounts allocated to participating securities	2	1
Net income available to PPL common shareowners	$ 399	$ 249
Shares of Common Stock (Denominator)		
Weighted-average shares - Basic EPS	484,138	377,717
Add incremental non-participating securities:		
Stock options and performance units	207	269
Weighted-average shares - Diluted EPS	484,345	377,986
Basic EPS		
Available to PPL common shareowners:		
Income from continuing operations after income taxes	$ 0.82	$ 0.64
Income (loss) from discontinued operations (net of income taxes)		0.02
Net Income	$ 0.82	$ 0.66
Diluted EPS		
Available to PPL common shareowners:		
Income from continuing operations after income taxes	$ 0.82	$ 0.64
Income (loss) from discontinued operations (net of income taxes)		0.02
Net Income	$ 0.82	$ 0.66

The following stock options to purchase PPL common stock and performance units were excluded from the computations of diluted EPS because the effect would have been antidilutive.

	Three Months Ended March 31,	
(Shares in thousands)	2011	2010
Stock options	6,614	4,154
Performance units	6	77

During the three months ended March 31, 2011, PPL issued 344,380 shares of common stock related to the exercise of stock options, vesting of restricted stock and restricted stock units and conversion of stock units granted to directors under its stock-based compensation plans. In addition, PPL issued 301,319 and 581,711 shares of common stock related to its ESOP and its DRIP.

See Note 7 for information on the April 2011 issuance of common stock and 2011 Equity Units.

5. Income Taxes

(PPL)

Reconciliations of income tax expense are:

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Reconciliation of Income Tax Expense		
Federal income tax on Income from Continuing Operations Before Income Taxes at statutory tax rate - 35%	$ 219	$ 131
Increase (decrease) due to:		
State income taxes, net of federal income tax benefit	25	14
State valuation allowance adjustments (a)	11	(8)
Impact of lower U.K. income tax rates	(8)	(4)
U.S. income tax on foreign earnings - net of foreign tax credit (b)	(6)	2
Federal and state tax reserve adjustments (c)	(1)	(8)
Domestic manufacturing deduction (d)		(4)
Health Care Reform (e)		8
Federal income tax credits	(5)	(2)
Amortization of investment tax credit	(3)	(1)
Depreciation not normalized (a)	(4)	
Other	(5)	(2)
Total increase (decrease)	4	(5)
Total income taxes from continuing operations	$ 223	$ 126

(a) In February 2011, the Pennsylvania Department of Revenue issued interpretive guidance on the treatment of bonus depreciation for Pennsylvania income tax purposes. In accordance with Corporation Tax Bulletin 2011-01, Pennsylvania allows 100% bonus depreciation for qualifying assets in the same year bonus depreciation is allowed for federal tax purposes. Due to the reduction in projected Pennsylvania taxable income for tax years 2011 and 2012 related to the 100% bonus depreciation deduction, PPL adjusted its deferred tax valuation allowances for Pennsylvania net operating losses. As a result, during the three months ended March 31, 2011 PPL recorded $11 million of deferred tax expense.

Additionally, the 100% Pennsylvania bonus depreciation deduction created a current state income tax benefit for the flow-through impact of Pennsylvania regulated state tax depreciation.

(b) During the three months ended March 31, 2011, PPL recorded a $7 million federal income tax benefit related to U.K. pension contributions.

(c) During the three months ended March 31, 2010, PPL recorded a $6 million federal income tax benefit related to claims associated with foreign earnings.

(d) In December 2010, Congress enacted legislation allowing 100% bonus depreciation on qualified assets. The increased tax depreciation eliminates the estimated tax benefit related to the domestic manufacturing deduction in 2011.

(e) Beginning in 2013, provisions within Health Care Reform eliminated the tax deductibility of retiree health care costs to the extent of federal subsidies received by plan sponsors that provide retiree prescription drug benefits equivalent to Medicare Part D Coverage. As a result, PPL recorded deferred income tax expense during the three months ended March 31, 2010. See Note 9 for additional information.

(PPL Energy Supply)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Reconciliation of Income Tax Expense		
Federal income tax on Income from Continuing Operations Before Income Taxes at statutory tax rate - 35%	$ 124	$ 72
Increase (decrease) due to:		
State income taxes, net of federal income tax benefit	17	11
State valuation allowance adjustments (a)	6	
Domestic manufacturing deduction (b)		(4)
Health Care Reform (c)		5
Federal income tax credits	(5)	(2)
Total increase (decrease)	18	10
Total income taxes from continuing operations	$ 142	$ 82

(a) In February 2011, the Pennsylvania Department of Revenue issued interpretive guidance on the treatment of bonus depreciation for Pennsylvania income tax purposes. In accordance with Corporation Tax Bulletin 2011-01, Pennsylvania allows 100% bonus depreciation for qualifying assets in the same year bonus depreciation is allowed for federal tax purposes. Due to the reduction in projected Pennsylvania taxable income for tax years 2011 and 2012 related to the 100% bonus depreciation deduction, PPL Energy Supply adjusted its deferred tax valuation allowances for Pennsylvania net operating losses. As a result, during the three months ended March 31, 2011 PPL Energy Supply recorded $6 million of deferred tax expense.

(b) In December 2010, Congress enacted legislation allowing 100% bonus depreciation on qualified assets. The increased tax depreciation eliminates the estimated tax benefit related to the domestic manufacturing deduction in 2011.

(c) Beginning in 2013, provisions within Health Care Reform eliminated the tax deductibility of retiree health care costs to the extent of federal subsidies received by plan sponsors that provide retiree prescription drug benefits equivalent to Medicare Part D Coverage. As a result, PPL Energy Supply recorded deferred income tax expense during the three months ended March 31, 2010. See Note 9 for additional information.

(PPL Electric)

Reconciliation of Income Tax Expense	Three Months Ended March 31, 2011	2010
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$ 28	$ 22
Increase (decrease) due to:		
State income taxes, net of federal income tax benefit	4	3
Federal and state tax reserve adjustments	(2)	(2)
Federal and state income tax return adjustments	(2)	
Depreciation not normalized (a)	(3)	
Other	(2)	(2)
Total increase (decrease)	(5)	(1)
Total income taxes	$ 23	$ 21

(a) In February 2011, the Pennsylvania Department of Revenue issued interpretive guidance on the treatment of bonus depreciation for Pennsylvania income tax purposes. In accordance with Corporation Tax Bulletin 2011-01, Pennsylvania allows 100% bonus depreciation for qualifying assets in the same year bonus depreciation is allowed for federal tax purposes. The 100% Pennsylvania bonus depreciation deduction created a current state income tax benefit for the flow-through impact of Pennsylvania regulated state tax depreciation.

Unrecognized Tax Benefits *(PPL, PPL Energy Supply and PPL Electric)*

Changes to unrecognized tax benefits were as follows:

	Three Months Ended March 31, 2011	2010
PPL		
Beginning of period	$ 251	$
Additions based on tax positions of prior years		
Reductions based on tax positions of prior years		
Reductions based on tax positions related to the current year	(1)	
Settlements		
Lapse of applicable statutes of limitations	(2)	
Effects of foreign currency translation	3	
End of period	$ 251	$
PPL Energy Supply		
Beginning of period	$ 183	$
Reductions based on tax positions of prior years		
Settlements		
Derecognition (a)	(155)	
Effects of foreign currency translation		
End of period	$ 28	$
PPL Electric		
Beginning of period	$ 62	$
Additions based on tax positions of prior years		
Reductions based on tax positions of prior years		
Reductions based on tax positions related to the current year	(1)	
Lapse of applicable statutes of limitations	(2)	
End of period	$ 59	$

(a) Represents unrecognized tax benefits derecognized as a result of PPL Energy Supply's distribution of its membership interest in PPL Energy Supply's parent, PPL Energy Funding. See Note 8 for additional information on the distribution.

At March 31, 2011, it was reasonably possible that during the next 12 months the total amount of unrecogniz could increase by as much as $26 million or decrease by up to $229 million for PPL, increase by as much as decrease by up to $26 million for PPL Energy Supply and increase by as much as $27 million or decrease b million for PPL Electric. These changes could result from subsequent recognition, derecognition and/or ch measurement of uncertain tax positions related to the creditability of foreign taxes, the timing and utilizatic credits and the related impact on alternative minimum tax and other credits, the timing and/or valuation of intercompany transactions and unitary filing groups. The events that could cause these changes are direct taxing authorities, litigation, legal or administrative guidance by relevant taxing authorities and the lapse statute of limitation.

At March 31, the total unrecognized tax benefits and related indirect effects that, if recognized, would d tax rate were:

	2011	2010
ply	$ 181	$ 109
	12	87
	12	13

ry Assets and Liabilities

, Electric)

table provides information about the regulatory assets and liabilities of PPL and PPL Electric at March 31, mber 31, 2010. See Note 3 in each Registrant's 2010 Form 10-K for additional information.

	PPL		PPL Electric	
	March 31, 2011	December 31, 2010	March 31, 2011	December 31, 2010
Assets:				
ly charge	$ 6	$ 45	$ 6	$ 45
e rider	8	10	8	10
rmula rate	2	8	2	8
ost recovery	6	5		
	13	17	2	
ory assets	$ 35	$ 85	$ 18	$ 63
ry Assets:				
lans	$ 591	$ 592	$ 261	$ 262
through future rates	263	254	263	254
	131	129	7	7
on reacquired debt	60	61	26	27
;	41	43		
	19	22		
	49	44	5	7
atory assets	$ 1,154	$ 1,145	$ 562	$ 557
bilities:				
	$ 35	$ 46		
recovery	10	12		
s (a)	9	11		
	7	10	$ 7	$ 10
gement	13	10		
	4	9		
e charge		8		8
	1	3		
liabilities	$ 79	$ 109	$ 7	$ 18
iabilities:				
removal of utility plant	$ 632	$ 623		
	205	213		
ment - OVEC (a)	122	124		
s	38	40		
ider	18	14	$ 18	$ 14
	10	10		
	7	7		
y liabilities	$ 1,032	$ 1,031	$ 18	$ 14

ts and liabilities were recorded as offsets to certain intangible assets and liabilities that were recorded at fair value upon the

najor snow storm hit KU's Virginia service area causing approximately 30,000 customer outages. 9 Virginia Annual Information Filing (AIF), KU requested that the VSCC establish a regulatory asset covery approximately $6 million in incremental operation and maintenance expenses related to the farch 2011, the VSCC issued a Staff Report on KU's 2009 AIF stating that they consider storm nary, non-recurring and material to KU. The Staff Report also recommended establishing a regulatory th recovery over a five year period upon approval in the next base rate case. In March 2011, a illion was established for actual costs incurred. In April 2011, KU filed an application with the nual increase in electric base rates for its Virginia jurisdictional customers including recovery of the storm costs over five years. While KU cannot predict the amount of the allowed rate increase, KU expects the new rates to go into effect in January 2012.

7. Financing Activities

Credit Arrangements and Short-term Debt

(PPL, PPL Energy Supply and PPL Electric)

PPL, PPL Energy Supply and PPL Electric maintain credit facilities to enhance liquidity and provide credit support, and as a backstop to commercial paper programs, when necessary. The following credit facilities were in place at March 31, 2011:

	Expiration Date		Capacity		Borrowed (a)		Letters of Credit Issued		Unused Capacity
PPL									
LG&E and KU Credit Facilities									
LG&E Syndicated Credit Facility (b)	Dec. 2014	$	400					$	400
KU Syndicated Credit Facility (c)	Dec. 2014		400			$	198		202
Total LG&E and KU Credit Facilities		$	800			$	198	$	602
WPD Credit Facilities									
PPL WW Holdings 5-year Syndicated Credit Facility (d)	Jan. 2013	£	150	£	113		n/a	£	37
WPD (South West) 3-year Syndicated Credit Facility	July 2012		210				n/a		210
Uncommitted Credit Facilities			63			£	3		60
Total WPD Credit Facilities (e)		£	423	£	113	£	3	£	307
PPL Energy Supply (f)									
Syndicated Credit Facility (g)	Dec. 2014	$	3,000	$	700	$	145	$	2,155
3-year Bilateral Credit Facility	Mar. 2013		200		n/a		102		98
Total PPL Energy Supply Credit Facilities (h)		$	3,200	$	700	$	247	$	2,253
PPL Electric (f)									
Syndicated Credit Facility	Dec. 2014	$	200			$	13	$	187
Asset-backed Credit Facility (i)	July 2011		150				n/a		150
Total PPL Electric Credit Facilities		$	350			$	13	$	337

(a) Amounts borrowed are recorded as "Short-term debt" on the Balance Sheets.

(b) LG&E repaid the $163 million borrowing that was outstanding under this facility at December 31, 2010 with proceeds received from the remarketing of certain tax-exempt bonds. See "Long-term Debt and Equity Securities" below for further discussion.

(c) In April 2011, KU entered into a new $198 million letter of credit facility that will be used to issue letters of credit to support outstanding tax exempt bonds. The facility matures in April 2014. In May 2011, letters of credit totaling $198 million were issued under the new facility, replacing letters of credit issued under KU's Syndicated Credit Facility at March 31, 2011. The new facility contains a financial covenant requiring KU's debt to total capitalization not to exceed 70%, as calculated in accordance with the credit facility. KU pays customary commitment and letter of credit fees under the new facility.

(d) The cash borrowing outstanding at March 31, 2011 was a USD-denominated borrowing of $181 million, which equated to £113 million at the time of borrowing and bears interest at approximately 1.07%.

(e) At March 31, 2011, the unused capacity of the WPD credit facilities was approximately $500 million.

(f) All credit facilities at PPL Energy Supply and PPL Electric also apply to PPL on a consolidated basis.

(g) PPL Energy Supply's outstanding borrowings under this facility increased by $350 million, net of repayments, since December 31, 2010. The borrowings outstanding at March 31, 2011 bear interest at a weighted average rate of approximately 2.51%.

(h) In March 2011, PPL Energy Supply's $300 million 5-year Structured Credit Facility expired. PPL Energy Supply's obligations under this facility were supported by a $300 million letter of credit issued on PPL Energy Supply's behalf under a separate but related $300 million five-year credit agreement, which also expired in March 2011.

(i) PPL Electric participates in an asset-backed commercial paper program through which PPL Electric obtains financing by selling and contributing its eligible accounts receivable and unbilled revenue to a special purpose, wholly owned subsidiary on an ongoing basis. The subsidiary has pledged these assets to secure loans from a commercial paper conduit sponsored by a financial institution.

At March 31, 2011 and December 31, 2010, $276 million and $248 million of accounts receivable and $101 million and $133 million of unbilled revenue were pledged by the subsidiary under the credit agreement related to PPL Electric's and the subsidiary's participation in the asset-backed commercial paper program. Based on the accounts receivable and unbilled revenue pledged at March 31, 2011, the amount available for borrowing under the facility was limited to $119 million. PPL Electric's sale to its subsidiary of the accounts receivable and unbilled revenue is an absolute sale of assets, and PPL Electric does not retain an interest in these assets. However, for financial reporting purposes, the subsidiary's financial results are consolidated in PPL Electric's financial statements. PPL Electric performs certain record-keeping and cash collection functions with respect to the assets in return for a servicing fee from the subsidiary.

(PPL)

In April 2011, following the completion of the acquisition of Central Networks, WPD (East Midlands) and WPD (West Midlands) each entered into a £300 million 5-year syndicated credit facility. Under the facilities, WPD (East Midlands) and WPD (West Midlands) each have the ability to make cash borrowings and to request the lenders to issue up to £80 million of letters of credit in lieu of borrowing. Each company pays customary commitment and utilization fees under its respective facility, and borrowings generally bear interest at LIBOR-based rates plus a spread, depending upon the respective company's senior unsecured long-term debt rating. Each credit facility contains financial covenants that require the respective company to maintain an interest coverage ratio of consolidated earnings before interest, income taxes, depreciation and amortization to interest expense of at least 3.0 to 1 and total net debt not in excess of 85% of its RAB, in each case calculated in accordance with the credit facilities.

(PPL and PPL Energy Supply)

PPL Energy Supply maintains a $500 million Facility Agreement expiring June 2017, whereby PPL Energy Supply has the ability to request up to $500 million of committed letter of credit capacity at fees to be agreed upon at the time of each request, based on certain market conditions. At March 31, 2011, PPL Energy Supply had not requested any capacity for the issuance of letters of credit under this arrangement.

PPL Energy Supply, PPL EnergyPlus, PPL Montour and PPL Brunner Island maintain an $800 million secured energy marketing and trading facility, whereby PPL EnergyPlus will receive credit to be applied to satisfy collateral posting obligations related to its energy marketing and trading activities with counterparties participating in the facility. The credit amount is guaranteed by PPL Energy Supply, PPL Montour and PPL Brunner Island. PPL Montour and PPL Brunner Island have granted liens on their respective generating facilities to secure any amount they may owe under their guarantees. The facility expires in November 2015, but is subject to automatic one-year renewals under certain conditions. There were no secured obligations outstanding under this facility at March 31, 2011.

(PPL and PPL Electric)

PPL Electric maintains a commercial paper program for up to $200 million to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by PPL Electric's Syndicated Credit Facility, which expires in December 2014, based on available capacity. PPL Electric had no commercial paper outstanding at March 31, 2011.

Bridge Facility

(PPL)

In March 2011, concurrently and in connection with entering into the agreement to acquire Central Networks, PPL entered into a commitment letter with certain lenders pursuant to which the lenders committed to provide PPL with 364-day unsecured bridge financing of up to £3.6 billion solely to (i) fund the acquisition and (ii) pay certain fees and expenses in connection with the acquisition. The bridge financing commitment was subsequently syndicated to a group of banks, including the initial commitment lenders. Upon the syndication of the commitment, in March 2011, PPL Capital Funding and PPL WEM, as borrowers, and PPL, as guarantor, entered into a £3.6 billion Bridge Facility. During the three months ended March 31, 2011, PPL recorded $43 million of fees in connection with the Bridge Facility in "Other current assets" on the Balance Sheet, of which $7 million was amortized to "Interest Expense" on the Statement of Income.

On April 1, 2011, concurrent with the closing of the Central Networks acquisition, PPL Capital Funding borrowed an aggregate of £1.75 billion and PPL WEM borrowed £1.85 billion under the Bridge Facility. Borrowings bear interest at LIBOR-based rates for periods of one, two, three or six months plus a spread, which is based on PPL Capital Funding's senior unsecured debt rating and the length of time from the date of the acquisition closing that borrowings remain outstanding. The initial borrowings bear interest at approximately 2.62%. The borrowers may be required to pay the lenders additional fees under the Bridge Facility that are dependent upon the amount of borrowings and length of time outstanding. See Note 18 for additional information on the acquisition.

In accordance with the terms of the Bridge Facility, PPL Capital Funding's borrowings of £1.75 billion were repaid with approximately $2.8 billion of proceeds received from PPL's issuance of common stock and 2011 Equity Units in April 2011, as discussed in "Long-term Debt and Equity Securities" below. Pursuant to Amendment No. 1 to the Bridge Facility, PPL elected to retain a portion of the proceeds from the issuance of its common stock and 2011 Equity Units in excess of the amount repaid under the Bridge Facility. Later in April 2011, PPL WEM repaid £650 million of its Bridge Facility borrowing. Such repayment was funded primarily with proceeds received from PPL WEM's issuance of senior notes, which is also discussed below. As of May 6, 2011, £1.2 billion of borrowings remain outstanding under the Bridge Facility, and continue to bear interest at approximately 2.62% through June 3, 2011, or the date of repayment if earlier.

The Bridge Facility matures 364 days after the closing of the Central Networks acquisition. Subject to certain conditions, PPL Capital Funding may request, on behalf of PPL WEM, that the maturity date of the remaining £1.2 billion of borrowings under the Bridge Facility be extended for an additional six months. The Bridge Facility contains a financial covenant requiring PPL to maintain a ratio of debt to total capitalization, as defined therein, not to exceed 70%. The Bridge Facility also contains customary representations, covenants, and events of default and requires the prepayment of advances and/or the permanent reduction of commitments under the facility with the net cash proceeds received from disposals of assets, incurrence of debt and issuance of equity securities, subject to certain exceptions.

In anticipation of the repayment of a portion of the borrowings under the Bridge Facility with U.S. dollar proceeds received from PPL's issuance of common stock and 2011 Equity Units and PPL WEM's issuance of senior notes, PPL entered into forward contracts to purchase GBP in order to economically hedge the foreign currency exchange rate risk related to the repayment. See Note 14 for further discussion.

Long-term Debt and Equity Securities

(PPL)

In January 2011, LG&E remarketed $163 million of variable rate tax-exempt revenue bonds, which were issued on its behalf by Louisville/Jefferson County, Kentucky, to unaffiliated investors in a term rate mode, bearing interest at 1.90% into 2012. At December 31, 2010, such bonds were held by LG&E and reflected as "Short-term investments" on the Balance Sheet. The proceeds from the remarketing were used to repay a $163 million borrowing under LG&E's syndicated credit facility.

In April 2011, LKE, LG&E and KU each filed a Form S-4 Registration Statement with the SEC, as agreed in registration rights agreements entered into in connection with the issuances of senior notes and first mortgage bonds in November 2010 in transactions not registered under the Securities Act of 1933. The Forms S-4 relate to an offer to exchange the senior notes or first mortgage bonds issued in November 2010 with similar but registered securities. See Note 7 in PPL's 2010 Form 10-K for additional information.

In connection with the closing of the acquisition of Central Networks, PPL assumed, through consolidation, £250 million of senior notes previously issued by WPD (East Midlands), formerly Central Networks East plc, and £250 million of senior notes previously issued by WPD (West Midlands), formerly Central Networks West plc, equating to an aggregate principal amount of approximately $800 million at the time of closing.

In April 2011, PPL issued 92 million shares of its common stock at a public offering price of $25.30 per share, for a total of $2.328 billion. Proceeds from the issuance were $2.258 billion, net of the $70 million underwriting discount. PPL also issued 19.55 million of 2011 Equity Units at a stated amount per unit of $50.00 for a total of $978 million. Proceeds from the issuance were $948 million, net of the $30 million underwriting discount. PPL used the net proceeds to repay PPL Capital Funding's borrowings under the Bridge Facility, as discussed above, to pay certain acquisition-related fees and expenses and for general corporate purposes.

Each 2011 Equity Unit consists of a 2011 Purchase Contract and, initially, a 5.0% undivided beneficial ownership interest in $1,000 principal amount of PPL Capital Funding 4.32% Junior Subordinated Notes due 2019 (2019 Notes).

Each 2011 Purchase Contract obligates the holder to purchase, and PPL to sell, for $50.00 a number of shares of PPL common stock to be determined by the average VWAP of PPL's common stock for the 20-trading day period ending on the third trading day prior to May 1, 2014, subject to antidilution adjustments and an early settlement upon a Fundamental Change as follows:

- if the average VWAP equals or exceeds approximately $30.99, then 1.6133 shares (a minimum of 31,540,015 shares);
- if the average VWAP is less than approximately $30.99 but greater than $25.30, a number of shares of common stock having a value, based on the average VWAP, equal to $50.00; and
- if the average VWAP is less than or equal to $25.30, then 1.9763 shares (a maximum of 38,636,665 shares).

If holders elect to settle the 2011 Purchase Contract prior to May 1, 2014, they will receive 1.6133 shares of PPL common stock, subject to antidilution adjustments and an early settlement upon a Fundamental Change.

A holder's ownership interest in the 2019 Notes is pledged to PPL to secure the holder's obligation under the related 2011 Purchase Contract. If a holder of a 2011 Purchase Contract chooses at any time no longer to be a holder of the 2019 Notes, such holder's obligation under the 2011 Purchase Contract must be secured by a U.S. Treasury security.

Each 2011 Purchase Contract also requires PPL to make quarterly contract adjustment payments at a rate of 4.43% per year on the $50.00 stated amount of the 2011 Equity Unit. PPL has the option to defer these contract adjustment payments until the 2011 Purchase Contract settlement date. Deferred contract adjustment payments will accrue additional contract adjustment payments at the rate of 8.75% per year until paid. Until any deferred contract adjustment payments have been paid, PPL may not declare or pay any dividends or distributions on, or redeem, purchase or acquire or make a liquidation payment with respect to, any of its capital stock, subject to certain exceptions.

The 2019 Notes are fully and unconditionally guaranteed by PPL as to payment of principal and interest. The 2019 Notes initially bear interest at 4.32% and are not subject to redemption prior to May 2016. Beginning May 2016, PPL Capital Funding may, at its option, redeem the 2019 Notes, in whole but not in part, at any time, at par plus accrued and unpaid interest. The 2019 Notes are expected to be remarketed in 2014 into two tranches, such that neither tranche will have an aggregate principal amount of less than the lesser of $250 million and 50% of the aggregate principal amount of the 2019 Notes to be remarketed. One tranche will mature on or about the third anniversary of the settlement of the remarketing, and the other tranche will mature on or about the fifth anniversary of such settlement. Upon a successful remarketing, the interest rate on the 2019 Notes may be reset and the maturity of the tranches may be modified as necessary. In connection with a remarketing, PPL Capital Funding may elect with respect to each tranche, to extend or eliminate the early redemption date and/or calculate interest on the notes of a tranche on a fixed or floating rate basis. If the remarketing fails, holders of the 2019 Notes will have the right to put their notes to PPL Capital Funding on May 1, 2014 for an amount equal to the principal amount plus accrued interest.

Prior to May 2016, PPL Capital Funding may elect at one or more times to defer interest payments on the 2019 Notes for one or more consecutive interest periods until the earlier of the third anniversary of the interest payment due date and May 2016. Deferred interest payments will accrue additional interest at a rate equal to the interest rate then applicable to the 2019 Notes. Until any deferred interest payments have been paid, PPL may not, subject to certain exceptions, (i) declare or pay any dividends or distributions on, or redeem, purchase or acquire or make a liquidation payment with respect to, any of its capital stock, (ii) make any payment of principal of, or interest or premium, if any, on, or repay, purchase or redeem any of its debt securities that upon its liquidation ranks equal with, or junior in interest to, the subordinated guarantee of the 2019 Notes by PPL as of the date of issuance and (iii) make any payments regarding any guarantee by PPL of securities of any of its subsidiaries (other than PPL Capital Funding) if the guarantee ranks equal with, or junior in interest to, the 2019 Notes as of the date of their issuance.

Also in April 2011, PPL WEM issued $460 million of 3.90% Senior Notes due 2016 and $500 million of 5.375% Senior Notes due 2021. PPL WEM received proceeds of $953 million, net of discounts and underwriting fees, from the combined issuance of the notes. The net proceeds were used to repay a portion of PPL WEM's borrowing under the Bridge Facility as discussed above. In connection with the issuance of the senior notes, PPL entered into cross currency interest rate swaps for the entire aggregate principal amount of each series of notes in order to hedge PPL WEM's risk of variability in the GBP functional currency equivalent cash flows related to its U.S. dollar interest and principal payments on the notes.

Legal Separateness

(PPL, PPL Energy Supply and PPL Electric)

The subsidiaries of PPL are separate legal entities. PPL's subsidiaries are not liable for the debts of PPL. Accordingly, creditors of PPL may not satisfy their debts from the assets of PPL's subsidiaries absent a specific contractual undertaking by a subsidiary to pay PPL's creditors or as required by applicable law or regulation. Similarly, absent a specific contractual undertaking or as required by applicable law or regulation, PPL is not liable for the debts of its subsidiaries. Accordingly, creditors of PPL's subsidiaries may not satisfy their debts from the assets of PPL absent a specific contractual undertaking by PPL to pay the creditors of its subsidiaries or as required by applicable law or regulation.

Similarly, the subsidiaries of PPL Energy Supply and PPL Electric are separate legal entities. These subsidiaries are not liable for the debts of PPL Energy Supply and PPL Electric. Accordingly, creditors of PPL Energy Supply and PPL Electric may not satisfy their debts from the assets of their subsidiaries absent a specific contractual undertaking by a subsidiary to pay the creditors or as required by applicable law or regulation. In addition, absent a specific contractual undertaking or as required by applicable law or regulation, PPL Energy Supply and PPL Electric are not liable for the debts of their subsidiaries. Accordingly, creditors of these subsidiaries may not satisfy their debts from the assets of PPL Energy Supply or PPL Electric absent a specific contractual undertaking by that parent to pay the creditors of its subsidiaries or as required by applicable law or regulation.

Distributions and Capital Contributions

(PPL)

In February 2011, PPL declared its quarterly common stock dividend, effective April 1, 2011, at 35.0 cents per share (equivalent to $1.40 per annum). Future dividends, declared at the discretion of the Board of Directors, will be dependent upon future earnings, cash flows, financial and legal requirements and other factors.

(PPL Energy Supply)

During the three months ended March 31, 2011, PPL Energy Supply distributed $81 million to its parent company, PPL Energy Funding. In January 2011, PPL Energy Supply also distributed to PPL Energy Funding its membership interest in PPL Global, including cash and cash equivalents of $325 million. See Note 8 for additional information.

(PPL Electric)

During the three months ended March 31, 2011, PPL Electric paid common stock dividends of $18 million to PPL.

8. Acquisitions, Development and Divestitures

(PPL, PPL Energy Supply and PPL Electric)

PPL and its subsidiaries continuously evaluate strategic options and, from time to time, negotiate with third parties regarding acquisitions and dispositions of businesses and assets, joint ventures and development projects, which may or may not result in consummated transactions. Any resulting transactions may impact future financial results. See below for information on the sales of businesses that were presented as discontinued operations by PPL and PPL Energy Supply.

Acquisitions *(PPL)*

Acquisition of Central Networks

See Note 18 for information on PPL's April 1, 2011 acquisition of Central Networks.

Acquisition of LKE

See Notes 1 and 10 in PPL's 2010 Form 10-K for information on PPL's November 2010 acquisition of LKE.

Development

(PPL)

In January 2011, LKE began dispatching TC2 to meet customer demand. See Note 8 in PPL's 2010 Form 10-K for additional information.

(PPL and PPL Energy Supply)

The NRC continues to review the COLA submitted by a PPL Energy Supply subsidiary for the proposed Bell Bend nuclear generating unit to be built adjacent to the Susquehanna plant. At March 31, 2011 and December 31, 2010, $114 million and $109 million of costs associated with the licensing application were capitalized and are included on the Balance Sheets in noncurrent "Other intangibles." PPL believes it is probable that these costs are ultimately recoverable following NRC approval of the COLA either through construction of the new nuclear unit, transfer of the COLA rights to a joint venture, or sale of the COLA rights to another party. The PPL Energy Supply subsidiary remains active in the DOE Federal loan guarantee application process. See Note 8 in each Registrant's 2010 Form 10-K for additional information.

(PPL and PPL Electric)

PPL Electric anticipates that delays in obtaining the necessary National Park Service approvals for the Susquehanna-Roseland transmission line will delay its in-service date to 2014 or later. In the first quarter of 2011, PJM issued an updated assessment of the new line within its 2010 Regional Transmission Expansion Plan, which confirms that the line is needed by 2012 to prevent overloads on other power lines in the region. PJM has developed a strategy to manage potential reliability problems until the line is built. PPL Electric cannot predict what additional actions, if any, PJM might take in the event of a continued delay to its scheduled in-service date for the new line. See Note 8 in each Registrant's 2010 Form 10-K for additional information.

Discontinued Operations

(PPL and PPL Energy Supply)

Sale of Certain Non-core Generation Facilities

In March 2011, PPL Energy Supply subsidiaries completed the sale of their ownership interests in certain non-core generation facilities, which were included in the Supply segment, for $381 million. The transaction included the natural gas-fired facilities in Wallingford, Connecticut and University Park, Illinois and an equity interest in Safe Harbor Water Power Corporation, which owns a hydroelectric facility in Conestoga, Pennsylvania. In connection with the completion of the sale, PPL Energy Supply recorded an insignificant after-tax loss in the first quarter of 2011. See Note 9 in each Registrant's 2010 Form 10-K for additional information, including after-tax impairment charges totaling $64 million recorded in the third and fourth quarters of 2010.

Following are the components of Discontinued Operations in the Statements of Income.

	Three Months Ended March 31,	
	2011	2010
Operating revenues	$ 19	$ 28
Operating expenses	9	12
Operating income	10	16
Other income (expense) - net		1
Interest expense (a)	3	3
Income before income taxes	7	14
Income tax expense	4	6
Income (Loss) from Discontinued Operations	$ 3	$ 8

(a) Represents allocated interest expense based upon debt attributable to the generation facilities sold.

Upon completion of the sale, assets primarily consisting of $357 million of PP&E and a $14 million equity method investment, which were classified as held for sale at December 31, 2010, were removed from the Balance Sheet.

Sale of Long Island Generation Business

In February 2010, a PPL Energy Supply subsidiary completed the sale of its Long Island generation business, which was included in the Supply segment. The definitive sales agreement included provisions that reduced the $135 million purchase price monthly, commencing September 1, 2009. After adjusting for these price-reduction provisions, proceeds from the sale approximated $124 million. There was no significant impact on earnings in the first quarter of 2010 from the operation of this business or as a result of this sale.

Distribution of Membership Interest in PPL Global to Parent *(PPL Energy Supply)*

In January 2011, PPL Energy Supply distributed its membership interest in PPL Global, representing 100% of the outstanding membership interests of PPL Global, to PPL Energy Supply's parent, PPL Energy Funding. The distribution was made based on the book value of the assets and liabilities of PPL Global with financial effect as of January 1, 2011. The purpose of the distribution was to better align PPL's organizational structure with the manner in which it manages these businesses and reports segment information in its consolidated financial statements. Following the distribution, PPL Energy Supply retained its core business, which is the generation and marketing of power, primarily in the northeastern and northwestern U.S.

Following are the components of Discontinued Operations in the Statement of Income.

	Three Months Ended March 31, 2010
Operating revenues	$ 213
Operating expenses	91
Operating income	122
Other income (expense) - net	1
Interest expense (a)	31
Income before income taxes	92
Income tax expense	24
Income (Loss) from Discontinued Operations	$ 68

(a) No interest was allocated, as PPL Global is sufficiently capitalized.

In connection with the distribution, the following assets and liabilities were removed from PPL Energy Supply's Balance Sheet in the first quarter of 2011. Except for "Cash and cash equivalents," which has been reflected as a financing activity, the remaining distribution represents a non-cash transaction excluded from PPL Energy Supply's 2011 Statement of Cash Flows.

Cash and cash equivalents	$ 325
Accounts receivable	46
Unbilled revenues	70
Other current assets	21
PP&E, net	3,502
Goodwill	679
Other intangibles	80
Other noncurrent assets	77
Total Assets	4,800
Short-term debt	181
Accounts payable	86
Accrued interest	71
Other current liabilities	112
Long-term debt	2,313
Deferred income tax liabilities - noncurrent	399
Accrued pension obligations	320
Other deferred credits and noncurrent liabilities	30
Total Liabilities	3,512
Net assets distributed	$ 1,288

9. Defined Benefits

(PPL and PPL Energy Supply)

Net periodic defined benefit costs (credits) were:

	Three Months Ended March 31,					
	Pension Benefits				Other Postretirement Benefits	
	U.S.		U.K.			
	2011	2010	2011	2010	2011	2010
PPL						
Service cost	$ 24	$ 15	$ 5	$ 5	$ 3	$ 2
Interest cost	55	37	39	39	8	7
Expected return on plan assets	(62)	(44)	(52)	(50)	(6)	(5)
Amortization of:						
Transition obligation						2
Prior service cost	6	5	1	1		2
Actuarial (gain) loss	6	1	14	12	2	1
Net periodic defined benefit costs (credits)	$ 29	$ 14	$ 7	$ 7	$ 7	$ 9
PPL Energy Supply						
Service cost	$ 1	$ 1		$ 5		
Interest cost	2	2		39		
Expected return on plan assets	(2)	(2)		(50)		
Amortization of:						
Prior service cost				1		
Actuarial (gain) loss		1		12		
Net periodic defined benefit costs (credits)	$ 1	$ 2		$ 7		

(PPL Energy Supply)

See Note 8 for information on PPL Energy Supply's January 2011 distribution of its membership interest in PPL Global to its parent, PPL Energy Funding, which included associated accrued pension obligations.

(PPL Energy Supply and PPL Electric)

In addition to the specific plans it sponsors, PPL Energy Supply and its subsidiaries are also allocated costs of defined benefit plans sponsored by PPL Services, based on their participation in those plans, which management believes are reasonable. PPL Electric does not directly sponsor any defined benefit plans. PPL Electric was allocated costs of defined benefit plans sponsored by PPL Services, based on its participation in those plans, which management believes are reasonable. PPL Services allocated the following amounts to PPL Energy Supply and PPL Electric, including amounts applied to accounts that are further distributed between capital and expense.

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
PPL Energy Supply	$ 7	$ 9
PPL Electric	6	7

Expected Cash Flows - U.K. Pension Plans

(PPL)

During the first quarter of 2011, WPD updated its expected pension contributions for 2011 to $84 million from $15 million. An insignificant amount was contributed during the first quarter, with the balance contributed in April 2011. The increased contributions are being made to prepay future contribution requirements to fund pension plan deficits.

Health Care Reform *(PPL, PPL Energy Supply and PPL Electric)*

In March 2010, Health Care Reform was signed into law. Many provisions of Health Care Reform do not take effect for an extended period of time, and most will require the publication of implementing regulations and/or issuance of program guidelines.

Beginning in 2013, provisions within Health Care Reform eliminated the tax deductibility of retiree health care costs to the extent of federal subsidies received by plan sponsors that provide retiree prescription drug benefits equivalent to Medicare Part D Coverage. As a result, in the first quarter of 2010:

- PPL decreased deferred tax assets by $13 million, increased regulatory assets by $9 million, increased deferred tax liabilities by $4 million and recorded income tax expense of $8 million;
- PPL Energy Supply decreased deferred tax assets by $5 million and recorded income tax expense of $5 million; and
- PPL Electric decreased deferred tax assets by $5 million, increased regulatory assets by $9 million and increased deferred tax liabilities by $4 million.

PPL and its subsidiaries will continue to monitor the potential impact of any changes to the existing provisions and implementation guidance related to Health Care Reform on their benefit programs.

10. Commitments and Contingencies

Energy Purchases, Energy Sales and Other Commitments

Energy Purchase Commitments

(PPL)

Pursuant to a power purchase agreement with OVEC, extended in February 2011 to 2040, pending regulatory approvals, LG&E and KU may be conditionally responsible for their pro-rata share of certain obligations of OVEC under defined circumstances. These contingent liabilities may include unpaid OVEC indebtedness as well as shortfall amounts in certain excess decommissioning costs and postretirement benefits other than pension. LG&E's and KU's contingent proportionate share of OVEC's outstanding debt was $111 million at March 31, 2011.

(PPL and PPL Electric)

In 2009, the PUC approved PPL Electric's procurement plan for the period January 2011 through May 2013. Through April 2011, PPL Electric has conducted seven of its 14 planned competitive solicitations. The solicitations include a mix of long-term and short-term purchases ranging from five months to ten years to fulfill PPL Electric's obligation to provide for customer supply as a PLR.

Legal Matters

(PPL, PPL Energy Supply and PPL Electric)

PPL and its subsidiaries are involved in legal proceedings, claims and litigation in the ordinary course of business. PPL and its subsidiaries cannot predict the outcome of such matters, or whether such matters may result in material liabilities, unless otherwise noted.

(PPL)

Trimble County Unit 2 Construction

In June 2006, LKE entered into a construction contract regarding the TC2 project. The contract is generally in the form of a 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. During 2009 and 2010, LKE received several contractual notices from the TC2 construction contractor asserting historical force majeure and excusable event claims for a number of adjustments to the contract price, construction schedule, commercial operations date, liquidated damages or other relevant provisions. In September 2010, LKE and the construction contractor agreed to a settlement to resolve the force majeure and excusable event claims occurring through July 2010, under the TC2 construction contract, which settlement provided for a limited, negotiated extension of the contractual commercial operations date and/or relief from liquidated damage calculations. With limited exceptions, LKE took care, custody and control of TC2 in January 2011. LG&E and KU and the contractor agreed to further amend the construction agreement whereby the contractor will complete certain actions relating to identifying and completing any necessary modifications to allow operation of TC2 on all fuels in accordance with initial specifications prior to certain dates, and amending the provisions relating to liquidated damages. The remaining issues are still under discussion with the contractors and PPL cannot currently predict the ultimate outcome of these matters.

Trimble County Unit 2 Transmission

LG&E's and KU's Certificate of Public Convenience and Necessity (CCN) and condemnation rights relating to a transmission line associated with the TC2 construction have been challenged by certain property owners in Hardin County, Kentucky. Certain proceedings relating to CCN challenges and federal historic preservation permit requirements have concluded with outcomes in LG&E's and KU's favor. With respect to the remaining issues in dispute, during 2008 KU obtained various successful rulings at the Hardin County Circuit Court confirming its condemnation rights. In August 2008, several landowners appealed such rulings to the Kentucky Court of Appeals. In May 2010, the Kentucky Court of Appeals issued an Order affirming the Hardin Circuit Court's finding that KU had the right to condemn easements on the properties. In May 2010, the landowners filed a petition for reconsideration with the Kentucky Court of Appeals. In July 2010, the Kentucky Court of Appeals denied that petition. In August 2010, the landowners filed for discretionary review of that denial by the Kentucky Supreme Court. In March 2011, the Kentucky Supreme Court issued an order declining the discretionary review request, thus closing this matter.

(PPL and PPL Energy Supply)

Spent Nuclear Fuel Litigation

Federal law requires the U.S. government to provide for the permanent disposal of commercial spent nuclear fuel, but there is no definitive date by which a repository will be operational. As a result, it was necessary to expand Susquehanna's on-site spent fuel storage capacity. To support this expansion, PPL Susquehanna contracted for the design and construction of a spent fuel storage facility employing dry cask fuel storage technology. The facility is modular, so that additional storage capacity can be added as needed. The facility began receiving spent nuclear fuel in 1999. PPL Susquehanna estimates that there is sufficient storage capacity in the spent nuclear fuel pools and the on-site dry cask storage facility at Susquehanna to accommodate spent fuel discharged through approximately 2017 under current operating conditions. If necessary, the on-site dry cask storage facility can be expanded, assuming appropriate regulatory approvals are obtained, such that, together, the spent fuel pools and the expanded dry fuel storage facility will accommodate all of the spent fuel expected to be discharged through the current licensed life of the plant.

In 1996, the U.S. Court of Appeals for the District of Columbia Circuit (D.C. Circuit Court) ruled that the Nuclear Waste Policy Act imposed on the DOE an unconditional obligation to begin accepting spent nuclear fuel on or before January 31, 1998. In 1997, the D.C. Circuit Court ruled that the contracts between the utilities and the DOE provide a potentially adequate remedy if the DOE failed to begin accepting spent nuclear fuel by January 31, 1998. The DOE did not, in fact, begin to accept spent nuclear fuel by that date. The DOE continues to contest claims that its breach of contract resulted in recoverable damages. In January 2004, PPL Susquehanna filed suit in the U.S. Court of Federal Claims for unspecified damages suffered as a result of the DOE's breach of its contract to accept and dispose of spent nuclear fuel. Discovery in the case has concluded but the trial court has stayed the proceedings pending the outcome of settlement discussions between the parties. PPL cannot predict the outcome of these proceedings.

Montana Hydroelectric Litigation

In November 2004, PPL Montana, Avista Corporation (Avista) and PacifiCorp commenced an action for declaratory judgment in Montana First Judicial District Court seeking a determination that no lease payments or other compensation for their hydroelectric facilities' use and occupancy of riverbeds in Montana can be collected by the State of Montana. This lawsuit followed dismissal on jurisdictional grounds of an earlier federal lawsuit seeking such compensation in the U.S. District Court of Montana. The federal lawsuit alleged that the beds of Montana's navigable rivers became state-owned trust property upon Montana's admission to statehood, and that the use of them should, under a 1931 regulatory scheme enacted after all but one of the hydroelectric facilities in question were constructed, trigger lease payments for use of land beneath. In July 2006, the Montana state court approved a stipulation by the State of Montana that it was not seeking compensation for the period prior to PPL Montana's December 1999 acquisition of the hydroelectric facilities.

Following a number of adverse trial court rulings, in 2007 Pacificorp and Avista each entered into settlement agreements with the State of Montana providing, in pertinent part, that each company would make prospective lease payments for use of the State's navigable riverbeds (subject to certain future adjustments), resolving the State's claims for past and future compensation.

Following an October 2007 trial of this matter on damages, in June 2008, the Montana District Court awarded the State retroactive compensation of approximately $35 million for the 2000-2006 period and approximately $6 million for 2007 compensation. Those unpaid amounts continue to accrue interest at 10% per year. The Montana District Court also deferred determination of compensation for 2008 and future years to the Montana State Land Board. In October 2008, PPL Montana appealed the decision to the Montana Supreme Court, requesting a stay of judgment and a stay of the Land Board's authority to assess compensation for 2008 and future periods.

In March 2010, the Montana Supreme Court substantially affirmed the June 2008 Montana District Court decision. As a result, in the first quarter of 2010, PPL Montana recorded a pre-tax charge of $56 million ($34 million after tax or $0.08 per share, basic and diluted, for PPL), representing estimated rental compensation for the first quarter of 2010 and prior years, including interest. Rental compensation was estimated for periods subsequent to 2007, although such estimated amounts may differ from amounts ultimately determined by the Montana State Land Board. The portion of the pre-tax charge that related to prior years totaled $54 million ($32 million after tax). The pre-tax charge recorded on the Statement of Income was $49 million in "Other operation and maintenance" and $7 million in "Interest Expense." PPL Montana continues to accrue interest expense for the prior years and rent expense for the current year. PPL Montana's total loss accrual at March 31, 2011 was $78 million.

In August 2010, PPL Montana filed a petition for a writ of certiorari with the U.S. Supreme Court requesting the Court's review of this matter. Several amicus briefs have been filed supporting PPL Montana's petition, including, among others, a combined brief by the Edison Electric Institute and National Hydropower Association. In October 2010, the State of Montana and PPL Montana filed their respective reply briefs. In November 2010, the Supreme Court requested the U.S. Solicitor General to provide its views on behalf of the federal government whether the Court should grant or deny PPL Montana's petition. It is not known when that brief might be filed in 2011 or what the position of the Solicitor General will be. The stay of the judgment granted during the proceedings before the Montana Supreme Court has been extended by agreement with the State of Montana, to cover the anticipated period of the proceeding before the U.S. Supreme Court. PPL cannot predict the outcome of this matter.

PJM/MISO Billing Dispute *(PPL, PPL Energy Supply and PPL Electric)*

In 2009, PJM reported that it had discovered a modeling error in the market-to-market power flow calculations between PJM and the MISO. The error was a result of incorrect modeling of certain generation resources that have an impact on power flows across the PJM/MISO border. Informal settlement discussions on this issue terminated in March 2010. Also in March 2010, MISO filed two complaints with the FERC concerning the modeling error and related matters with a demand for $130 million of principal plus interest. In April 2010, PJM filed answers to the complaints and filed a related complaint against MISO. In its answers and complaint, PJM denies that any compensation is due to MISO and seeks recovery in excess of $25 million from MISO for alleged violations by MISO regarding market-to-market power flow calculations. PPL participates in markets in both PJM and MISO. The amount and timing of any payments by PJM to MISO or by MISO to PJM relating to these modeling errors is uncertain, as is the method by which PJM or MISO would allocate any such payments to PJM and MISO participants. In June 2010, the FERC ordered the complaints to be consolidated and set for settlement discussions, followed by hearings if the discussions are unsuccessful. In January 2011, the parties to this dispute filed a settlement with the FERC under which no compensation would be paid to either PJM or MISO and providing for certain improvements in how the calculations are administered going forward. The settlement requires FERC approval. PPL cannot predict the outcome of this matter.

Regulatory Issues

Enactment of Financial Reform Legislation *(PPL and PPL Energy Supply)*

In July 2010, the Dodd-Frank Act was signed into law. Of particular relevance to PPL and PPL Energy Supply, the Dodd-Frank Act includes provisions that require most over-the-counter derivative transactions to be executed through an exchange and to be centrally cleared. The Dodd-Frank Act, however, provides an exemption from mandatory clearing and exchange trading requirements for over-the-counter derivative transactions used to hedge or mitigate commercial risk. Although the phrase "to hedge or mitigate commercial risk" is not defined in the Dodd-Frank Act, the 2010 rules proposed by the Commodity Futures Trading Commission set forth an inclusive, multi-pronged definition for the phrase. Based on this proposed definition and other requirements in the proposed rule, it is anticipated that transactions utilized by PPL and PPL Energy Supply should qualify if they are not entered into for speculative purposes. The Dodd-Frank Act also provides that the Commodity Futures Trading Commission may impose collateral and margin requirements for over-the-counter derivative transactions, including those that are used to hedge commercial risk. However, during drafting of the Dodd-Frank Act, certain members of Congress adopted report language and issued a public letter stating that it was not their intention to impose margin and collateral requirements on counterparties that utilize these transactions to hedge commercial risk. Final rules on major provisions in the Dodd-Frank Act, including imposition of collateral and margin requirements, will be established through rulemakings and, in most cases, will not take effect until at least 12 months after the date of enactment. PPL and PPL Energy Supply may be required to post additional collateral if they are subject to margin requirements as ultimately adopted in the implementing regulations of the Dodd-Frank Act. PPL and PPL Energy Supply will continue to evaluate the provisions of the Dodd-Frank Act and monitor developments related to its implementation. At this time, PPL and PPL Energy Supply cannot predict the impact that the new law or its implementing regulations will have on their business or operations, or the markets in which they transact business.

Kentucky Activities *(PPL)*

Integrated Resource Planning (IRP) regulations in Kentucky require major utilities to make triennial IRP filings with the KPSC. In April 2011, LG&E and KU filed their 2011 joint IRP with the KPSC. The IRP provides historical and projected demand, resource and financial data, and other operating performance and system information. Pursuant to a December 2008 Order, KU will file with the VSCC the 2011 joint IRP by September 2011, along with certain supplemental information as required by this Order. Impending environmental regulation could result in the retirements of older, smaller coal-fired units and therefore the IRP assumes approximately 800 MWs of potential retirements of coal-fired capacity in 2016 and replacement by combined-cycle gas units. In addition, the IRP assumes approximately 500 MW of peak demand reductions by 2017 through existing or expanded demand side management or energy efficiency programs. Implementation of the major findings of the IRP is subject to further analysis and decision-making and further regulatory approvals.

On May 2, 2011, LG&E and KU filed notices of intent to file ECR plans with the KPSC. The plans are expected to be filed on or after June 1, 2011.

Virginia Activities *(PPL)*

In April 2011, KU filed an application with the VSCC requesting an annual increase in electric base rates for its Virginia jurisdictional customers in an amount of $9 million or approximately 14%. The proposed increase reflects a rate of return on rate base of 8%, based on a return on equity of 11%, inclusive of expenditures to complete TC2, all new flue gas desulfurization controls, recovery of a 2009 storm regulatory asset and various other adjustments to revenue and expenses for the test year ended December 31, 2010. While KU cannot predict the amount of the allowed increase, it expects the new rates to go into effect in January 2012.

Pennsylvania Activities *(PPL and PPL Electric)*

Act 129

Act 129 requires electric utilities to meet specified goals for reduction in customer electricity usage and peak demand by specified dates. Utilities not meeting the requirements of Act 129 are subject to significant penalties.

Under Act 129, Electric Distribution Companies (EDCs) must develop and file an energy efficiency and conservation plan (EE&C Plan) with the PUC and contract with conservation service providers to implement all or a portion of the EE&C Plan. Act 129 requires EDCs to cause reduced electricity consumption of 1% by 2011 and 3% by 2013, and reduced peak demand of 4.5% by 2013. EDCs will be able to recover the costs (capped at 2% of the EDC's 2006 revenue) of implementing their EE&C Plans. In October 2009, the PUC approved PPL Electric's EE&C Plan. The plan includes 14 programs, all of which are voluntary for customers. The plan includes a proposed rate mechanism for recovery of all costs incurred by PPL Electric to implement the plan. In September 2010, PPL Electric filed its Program Year 1 Annual Report and Process Evaluation Report. PPL Electric also filed a petition requesting permission to modify two components of its EE&C Plan. Various responses were filed to that petition which the PUC assigned to two Administrative Law Judges for hearings and a recommended decision. In December 2010, the Administrative Law Judges issued a recommended decision approving PPL Electric's request. Parties filed exceptions and reply exceptions to the recommended decision. The PUC issued its final order in January 2011, approving the changes proposed by PPL Electric and directing PPL Electric to re-file its plan to reflect all changes made since its initial approval. Several parties filed comments to PPL Electric's revised plan and PPL Electric filed replies to those comments. This matter remains pending before the PUC.

Act 129 also requires installation of smart meters for new construction, upon the request of consumers at their cost, or on a depreciation schedule not exceeding 15 years. Under Act 129, EDCs will be able to recover the costs of providing smart metering technology. In August 2009, PPL Electric filed its proposed smart meter technology procurement and installation plan with the PUC. All of PPL Electric's metered customers currently have smart meters installed at their service locations, and PPL Electric's current advanced metering technology generally satisfies the requirements of Act 129 and does not need to be replaced. In June 2010, the PUC entered its order approving PPL Electric's smart meter plan with several modifications. In compliance with the order, in the third quarter of 2010, PPL Electric submitted a revised plan with a cost estimate of $38 million to be incurred over a five-year period, beginning in 2009, and filed a rider to recover these costs beginning January 1, 2011. In December 2010, the PUC approved PPL Electric's rate rider to recover the costs of its smart meter program.

Act 129 also requires the Default Service Provider (DSP) to provide electric generation supply service to customers pursuant to a PUC-approved competitive procurement plan through auctions, requests for proposal and bilateral contracts at the sole discretion of the DSP. Act 129 requires a mix of spot market purchases, short-term contracts and long-term contracts (four to 20 years, with long-term contracts limited to up to 25% of the load unless otherwise approved by the PUC). The DSP will be able to recover the costs associated with a competitive procurement plan.

Under Act 129, the DSP competitive procurement plan must ensure adequate and reliable service "at least cost to customers" over time. Act 129 grants the PUC authority to extend long-term power contracts up to 20 years, if necessary, to achieve the "least cost" standard. The PUC has approved PPL Electric's procurement plan for the period January 1, 2011 through May 31, 2013, and PPL Electric has begun purchasing under that plan. In December 2010, the PUC approved PPL Electric's rate rider to recover the costs of providing default service.

PUC Investigation of Retail Market

In April 2011, the PUC opened an investigation of Pennsylvania's retail electricity market. The investigation will be conducted in two phases. Phase one will address the status of the current retail market and explore potential changes. Questions promulgated by the PUC for this phase of the investigation focus primarily on default service issues. Phase two will study how best to address issues identified by the PUC as being most relevant to improving the current retail electricity market. The investigation probably will not be completed before the end of the year. PPL Electric cannot predict the outcome of the investigation.

New Jersey Capacity Legislation *(PPL, PPL Energy Supply and PPL Electric)*

In January 2011, New Jersey enacted a law that intervenes in the wholesale capacity market exclusively regulated by the FERC: S. No. 2381, 214th Leg. (N.J. 2011) (the Act). To create incentives for the development of new, in-state electric generation facilities, the Act implements a "long-term capacity agreement pilot program (LCAPP)." The Act requires New Jersey utilities to pay a guaranteed fixed price for wholesale capacity, imposed by the New Jersey Board of Public Utilities (BPU), to certain new generators participating in PJM, with the ultimate costs of that guarantee to be borne by New Jersey ratepayers. PPL believes the intent and effect of the LCAPP is to encourage the construction of new generation in New Jersey even when, under the FERC-approved PJM economic model, such new generation would not be economic. The Act could depress capacity prices in PJM in the short term, impacting PPL Energy Supply's revenues, and harm the long-term ability of the PJM capacity market to incent necessary generation investment throughout PJM. In February 2011, the PJM Power Providers Group (P3), an organization in which PPL is a member, filed a complaint before the FERC seeking changes in PJM's capacity market rules designed to ensure that subsidized generation, such as may result from the implementation of the LCAPP, will not be able to set capacity prices artificially low as a result of their exercise of buyer market power. In April 2011, the FERC issued an order granting in part and denying in part P3's complaint and ordering changes in PJM's capacity rules consistent with a significant portion of P3's requested changes. PPL cannot predict the outcome of this proceeding.

In addition, in February 2011, PPL, with several other generating companies and utilities, filed a complaint in Federal Court in New Jersey challenging the Act on the grounds that it violates well-established principles under the Supremacy Clause and the Commerce Clause of the U.S. Constitution. In this action, the Plaintiffs request declaratory and injunctive relief barring implementation of the Act by the Commissioners of the BPU. PPL cannot predict the outcome of this proceeding.

FERC Formula Rates *(PPL and PPL Electric)*

In 2009, the FERC approved PPL Electric's request to change the method for calculating its transmission rates to formula-based rates to support continued investment in its transmission system. As part of the approval, for the period commencing with the effective date November 1, 2008 through May 31, 2011, no opposing party may formally challenge the established return on equity.

In May 2010, PPL Electric initiated the 2010 Annual Update of its formula rate. In November 2010, a group of municipal customers taking transmission service in PPL Electric's zone filed a preliminary challenge to the update, and in December, 2010 they filed a formal challenge. In January 2011, PPL Electric filed a motion to dismiss a number of the challenges and submitted responses to all of the challenges. The group of municipal customers filed answers to PPL Electric's motion to dismiss and its responses to the formal challenge. PPL Electric cannot predict the outcome of this proceeding which remains pending before the FERC.

California ISO and Western U.S. Markets *(PPL and PPL Energy Supply)*

Through its subsidiaries, PPL made $18 million of sales to the California ISO during the period October 2000 through June 2001, $17 million of which has not been paid to PPL subsidiaries. Also, there has been further litigation about additional claims of refunds for periods prior to October 2000. In January 2011, PPL and the "California Parties" (collectively, three California utility companies, the California Public Utility Commission and certain California state authorities) filed a settlement under which PPL would receive approximately $2 million of its $17 million claim, together with interest. The FERC must approve the settlement. At March 31, 2011, PPL has reserved all of the non-payment exposure related to these sales.

In June 2003, the FERC took several actions as a result of several related investigations beyond the California ISO litigation. The FERC terminated proceedings to consider whether to order refunds for spot market bilateral sales made in the Pacific Northwest, including sales made by PPL Montana, during the period December 2000 through June 2001. In August 2007, the U.S. Court of Appeals for the Ninth Circuit reversed the FERC's decision and ordered the FERC to consider additional evidence. The FERC also commenced additional investigations relating to "gaming" and bidding practices during 2000 and 2001, but neither PPL EnergyPlus nor PPL Montana believes it is a subject of these investigations.

Although PPL and its subsidiaries believe that they have not engaged in any improper trading or marketing practices affecting the western markets, PPL cannot predict the outcome of the above-described investigations, lawsuits and proceedings or whether any PPL subsidiaries will be the subject of any additional governmental investigations or named in other lawsuits or refund proceedings.

PJM RPM Litigation *(PPL, PPL Energy Supply and PPL Electric)*

In May 2008, a group of state public utility commissions, state consumer advocates, municipal entities and electric cooperatives, industrial end-use customers and a single electric distribution company (collectively, the RPM Buyers) filed a complaint before the FERC objecting to the prices for capacity under the PJM Reliability Pricing Model (RPM) that were set in the 2008-09, 2009-10 and 2010-11 RPM base residual auctions. The RPM Buyers requested that the FERC reset the rates paid to generators for capacity in those periods to a significantly lower level. Thus, the complaint requests that generators be paid less for those periods through refunds and/or prospective changes in rates. The relief requested in the complaint, if granted, could have a material effect on PPL, PPL Energy Supply and PPL Electric. PJM, PPL and numerous other parties have responded to the complaint, strongly opposing the relief sought by the RPM Buyers. In September 2008, the FERC entered an order denying the complaint. In August 2009, the RPM Buyers appealed the FERC's decision to the U.S. Court of Appeals for the Fourth Circuit, and the appeal was subsequently transferred to the U.S. Court of Appeals for the District of Columbia Circuit. In February 2011, the U.S. Court of Appeals for the District of Columbia Circuit issued an order denying the appeal. PPL cannot predict the outcome of this proceeding.

In December 2008, PJM submitted amendments to certain provisions governing its RPM capacity market. The amendments were intended to permit the compensation available to suppliers that provide capacity, including PPL Energy Supply, to increase. PJM sought approval of the amendments in time for them to be implemented for the May 2009 capacity auction (for service in June 2012 through May 2013). Numerous parties, including PPL, protested PJM's filing. Certain of the protesting parties proposed changes to the capacity market auction that would result in a reduction in compensation to capacity suppliers. The changes proposed by PJM and by other parties in response to PJM proposals could significantly affect the compensation available to suppliers of capacity participating in future RPM auctions. In March 2009, the FERC entered an order approving in part and disapproving in part the changes proposed by PJM. In August 2009, the FERC issued an order granting rehearing in part, denying rehearing in part and clarifying its March 2009 order. No request for rehearing or appeal of the August 2009 order was timely filed. In October 2010, the August 2009 Order became final and will not have a material impact on PPL, PPL Energy Supply or PPL Electric. As a result, the remaining issues in this matter are those referred to in the paragraph above.

FERC Market-Based Rate Authority *(PPL and PPL Energy Supply)*

In December 1998, the FERC authorized PPL EnergyPlus to make wholesale sales of electric power and related products at market-based rates. In that order, the FERC directed PPL EnergyPlus to file an updated market analysis within three years after the order, and every three years thereafter. Since then, periodic market-based rate filings with the FERC have been made by PPL EnergyPlus, PPL Electric, PPL Montana and most of PPL Generation's subsidiaries. These filings consisted of a Northwest market-based rate filing for PPL Montana and a Northeast market-based rate filing for most of the other PPL subsidiaries in PJM's region. In December 2010, PPL filed its market-based rate update for the Eastern region. In January 2011, PPL filed the market-based rate update for the Western region.

Currently, a seller granted market-based rate authority by the FERC may enter into power contracts during an authorized time period. If the FERC determines that the market is not workably competitive or that the seller possesses market power or is not charging "just and reasonable" rates, it may institute prospective action, but any contracts entered into pursuant to the FERC's market-based rate authority remain in effect and are generally subject to a high standard of review before the FERC can order changes. Recent court decisions by the U.S. Court of Appeals for the Ninth Circuit have raised issues that may make it more difficult for the FERC to continue its program of promoting wholesale electricity competition through market-based rate authority. These court decisions permit retroactive refunds and a lower standard of review by the FERC for changing power contracts, and could have the effect of requiring the FERC in advance to review most, if not all, power contracts. In June 2008, the U.S. Supreme Court reversed one of the decisions of the U.S. Court of Appeals for the Ninth Circuit, thereby upholding the higher standard of review for modifying contracts. The FERC has not yet taken action in response to these court decisions. At this time, PPL cannot predict the impact of these court decisions on the FERC's future market-based rate authority program or on PPL's business.

Tax Litigation *(PPL and PPL Electric)*

In January 2011, the IRS appealed, to the U.S. Court of Appeals for the Third Circuit, the U.S. Tax Court's decision that the 1997 U.K. Windfall Profits Tax (WPT) is a creditable tax for U.S. Federal income tax purposes. In its decision, the Tax Court ruled on two issues: (1) the 1997 U.K. WPT imposed on all U.K. privatized utilities, including PPL's U.K. subsidiary, was creditable against the Company's U.S. income taxes; and (2) PPL Electric's street lighting assets could be depreciated for tax purposes over seven years as permitted for "property without a class life" instead of the 20-year depreciation recovery period argued by the IRS. The IRS is not appealing the street lighting decision. PPL filed its tax returns for 1997 and all intervening years on the basis that the WPT was creditable and that the appropriate tax depreciable life for its street lighting assets was seven years. Therefore, the cash benefit resulting from these items has already been realized. PPL cannot predict the outcome of this matter.

Energy Policy Act of 2005 - Reliability Standards *(PPL, PPL Energy Supply and PPL Electric)*

NERC is responsible for establishing and enforcing mandatory reliability standards (Reliability Standards) regarding the bulk power system. The FERC oversees this process and independently enforces the Reliability Standards.

The Reliability Standards have the force and effect of law and apply to certain users of the bulk power electricity system, including electric utility companies, generators and marketers. The FERC has indicated it intends to enforce vigorously the Reliability Standards using, among other means, civil penalty authority. Under the Federal Power Act, the FERC may assess civil penalties of up to $1 million per day, per violation, for certain violations. The first group of Reliability Standards approved by the FERC became effective in June 2007.

LG&E, KU, PPL Electric and certain subsidiaries of PPL Energy Supply continue to self-report potential violations of certain applicable reliability requirements and submit accompanying mitigation plans. The resolution of a number of these potential violation reports is pending. Any regional reliability entity determination concerning the resolution of violations of the Reliability Standards remains subject to the approval of the NERC and the FERC. PPL and its subsidiaries cannot predict the outcome of these matters.

In the course of implementing its program to ensure compliance with the Reliability Standards by those PPL affiliates subject to the standards, certain other instances of potential non-compliance may be identified from time to time. PPL cannot predict the fines or penalties that may be imposed.

U.K. Overhead Electricity Networks *(PPL)*

In 2002, for safety reasons, the U.K. Government issued guidance that low voltage overhead electricity networks within three meters horizontal clearance of a building should either be insulated or relocated. This imposed a retroactive requirement on existing assets that were built with lower clearances. In 2008, the U.K. Government determined that the U.K. electricity network should comply with the guidance issued. WPD estimates that the cost of compliance will be $92 million. The projected expenditures over the next five years have been allowed to be recovered through rates, and it is expected that expenditures beyond this five-year period will also be recovered through rates. The U.K. Government has determined that WPD (South Wales) should comply by 2015 and WPD (South West) by 2018.

To improve network reliability, in 2009, the U.K. Government enforced a regulation requiring network operators to implement a risk-based program over 25 years to clear trees within falling distance of key high-voltage overhead lines. WPD estimates that the cost of compliance will be $106 million over the 25-year period. The projected expenditures over the next five years have been allowed to be recovered through rates, and it is expected that expenditures beyond this five-year period will also be recovered through rates.

New U.K. Pricing Model *(PPL)*

In October 2010, Ofgem announced a new pricing model that will be effective for the U.K. electricity distribution sector, beginning April 2015. The model, known as RIIO (Revenues = Incentives + Innovation + Outputs), is intended to encourage investment in regulated infrastructure. Key components of the model are: an extension of the price review period to eight years, increased emphasis on outputs and incentives, enhanced stakeholder engagement including network customers, a stronger incentive framework to encourage more efficient investment and innovation, expansion of the current Low Carbon Network Fund to stimulate innovation and continued use of a single weighted average cost of capital.

Environmental Matters - Domestic

(PPL, PPL Energy Supply and PPL Electric)

Due to the environmental issues discussed below or other environmental matters, PPL subsidiaries may be required to modify, curtail, replace or cease operating certain facilities or operations to comply with statutes, regulations and other requirements of regulatory bodies or courts.

(PPL and PPL Energy Supply)

Air

To comply with air related requirements described below, PPL's forecast for capital expenditures reflects a best estimate projection of expenditures that may be required within the next five years. Such projections are a combined $2.3 billion for LG&E and KU and $400 million for PPL Energy Supply. Actual costs may be significantly lower or higher depending on the final requirements. Environmental compliance costs incurred by LG&E and KU are subject to recovery through a rate recovery mechanism.

The Clean Air Act addresses, among other things, emissions causing acid deposition, installation of best available control technologies for new or substantially modified sources, attainment of national ambient air quality standards, toxic air emissions and visibility standards in the U.S. Amendments to the Clean Air Act requiring additional emission reductions had been proposed but are unlikely to be introduced or passed in this Congress. The Clean Air Act allows states to develop more stringent regulations and in some instances, as discussed below, Kentucky, Pennsylvania and Montana have done so.

Clean Air Transport Rule (formerly CAIR)

In August 2010, the EPA proposed a new Clean Air Transport Rule (Transport Rule) to replace the EPA's previous rule called CAIR, which was struck down by the U.S. Court of Appeals for the District of Columbia Circuit (the Court). CAIR subsequently was effectively reinstated by the Court pending finalization of the Transport Rule. The final Transport Rule is expected in 2011. This rule would only apply to PPL's facilities located in Kentucky and Pennsylvania.

CAIR and the new Transport Rule are meant to facilitate attainment of ambient air quality standards for ozone and fine particulates by requiring reductions in sulfur dioxide and nitrogen oxides. The Transport Rule would establish a new sulfur dioxide emission allowance cap and trade program that is completely independent of the current Acid Rain Program, and a new nitrogen oxide emission allowance cap and trade program. The EPA is seeking comment on several different approaches that would allow varying degrees of trading, but all trading would be more restrictive than previously under CAIR. As proposed, the first phase of the Transport Rule that would cap sulfur dioxide and nitrogen oxide emissions would become effective in 2012. The second phase, lowering the sulfur dioxide cap, would become effective in 2014.

PPL's review of the allocations proposed by the EPA in the Transport Rule indicates that greater reductions in sulfur dioxide would likely be required for PPL beginning in 2012 than were required under CAIR starting in 2015, because the number of allowances allocated to PPL will be lower than what was allocated to PPL under CAIR and the more restrictive trading under the Transport Rule reduces compliance flexibility. PPL may look at more aggressive operation of existing scrubbers, fuel switching and/or dual fuel capability. All of these options could impose significant costs. In January 2011, the EPA issued alternative proposals for allowance allocations which may reduce the impact. Either of these alternatives is preferable to the EPA's original method.

With respect to nitrogen oxide, the Transport Rule proposes a slightly higher amount of allowances for PPL's Pennsylvania plants but a lower amount for PPL's Kentucky plants compared to those allocated under CAIR. The Transport Rule's more restrictive trading program reduces compliance flexibility. Therefore, other compliance options, such as the installation of additional SCRs or SNCRs at one or more PPL units or the retirement of certain units, are being evaluated.

In addition to the reductions in sulfur dioxide and nitrogen oxide emissions required under the Transport Rule for PPL's Pennsylvania and Kentucky plants, PPL's plants may face further reductions in sulfur dioxide and nitrogen oxide emissions as a result of more stringent national ambient air quality standards for ozone, nitrogen oxide, sulfur dioxide and/or fine particulates. The EPA has recently finalized a new one-hour standard for sulfur dioxide, and states are required to identify areas that meet those standards and areas that are in non-attainment. For non-attainment areas, states are required to develop plans by 2014 to bring those areas into attainment by 2017. For areas in attainment or unclassifiable, states are required to develop maintenance plans by mid-2013 that demonstrate continued attainment. If additional reductions were to be required, the economic impact to PPL could be significant.

Mercury and other Hazardous Air Pollutants

Citing its authority under the Clean Air Act, in 2005, the EPA issued the Clean Air Mercury Rule (CAMR) affecting coal-fired power plants. Since CAMR was overturned in a 2008 U.S. Circuit Court decision, the EPA is now proceeding to develop standards imposing MACT for mercury emissions and other hazardous air pollutants from electric generating units. Under a recently approved settlement, the EPA is required to issue final MACT standards by November 2011. In order to develop these standards, the EPA has collected information from coal- and oil-fired electric utility steam generating units. On May 3, 2011, EPA published a proposed MACT regulation providing for stringent reductions of mercury and other hazardous air pollutants. The proposed rule also provides for a three-year compliance deadline, with the potential for a one-year extension as provided under the statute. Based on a preliminary review, it appears that the proposed rule could potentially require installation of additional controls such as baghouses and chemical injection on some units and could result in shutdown of certain units for which retrofits would not be cost-effective. The proposed rule also includes limits on hazardous air emissions from new or modified coal-fired units that may not be technologically feasible for all fuel sources. PPL is currently conducting an in-depth review of the proposed rule, but will be unable to determine the exact impact until it has reviewed the final rule.

Regional Haze and Visibility

The Clean Air Visibility Rule was issued by the EPA in June 2005 to address regional haze or regionally-impaired visibility caused by multiple sources over a wide area. The rule requires Best Available Retrofit Technology (BART) for certain electric generating units. Under the BART rule, PPL submitted to the Pennsylvania DEP its analyses of the visibility impacts of particulate matter emissions from Martins Creek Units 3 and 4, Brunner Island Units 2 and 3 and Montour Units 1 and 2. No analysis was submitted for sulfur dioxide or nitrogen oxides, because the EPA determined that meeting the requirements for CAIR also meets the BART requirements for those pollutants. Although the EPA has not yet expressly stated that a similar approach will be taken under the Transport Rule, the EPA has not requested any further studies. PPL's analyses have shown that because PPL had already upgraded its particulate emissions controls at Montour Units 1 and 2 and Brunner Island Units 2 and 3, further controls are not justified as there would be little corresponding visibility improvement. PPL has not received comments from the Pennsylvania DEP on these submissions.

Also under the BART rule, PPL submitted to the EPA its analyses of the visibility impacts of sulfur dioxide, nitrogen oxides and particulate matter emissions for Colstrip Units 1 and 2 and Corette. PPL's analyses concluded that further reductions are not warranted. The EPA responded to PPL's reports for Colstrip and Corette and requested further information and analysis. PPL completed further analysis and submitted addendums to its initial reports for Colstrip and Corette. In February 2009, PPL received an information request for additional data related to the Colstrip generating plant non-BART-affected emission sources. PPL responded to this request in March 2009. PPL has not received comments from the EPA on these submissions.

In November 2010, PPL Montana received a request from EPA Region 8, under EPA's Reasonable Further Progress goals of the Regional Haze Rules to provide further analysis with respect to Colstrip Units 3 and 4. Colstrip's Units 3 and 4 are not BART eligible units and are already well controlled. PPL completed a high level analysis of various control options to reduce emissions of sulfur dioxide, and particulate matter and submitted that analysis to EPA in January 2011. The analysis shows that these units are well controlled, and that any incremental reductions would not be cost effective and that further analysis is not warranted. PPL also concluded that further analysis for nitrogen oxides was not justifiable as these units installed controls under a Consent Decree in which the EPA had previously agreed that, when implemented, would satisfy the requirements for installing BART for nitrogen oxides. The EPA recently verbally indicated that it does not agree with all of PPL's conclusions and that it will be requesting additional information. PPL will evaluate and respond in a timely manner to the EPA's request once it is received.

PPL cannot predict whether any additional reductions will be required in Pennsylvania or Montana. If additional reductions are required, the economic impact could be significant depending on what is required.

LG&E and KU also submitted analyses of the visibility impacts of their Kentucky BART-eligible sources to the Kentucky Division for Air Quality (KDAQ). Only LG&E's Mill Creek plant was determined to have a significant regional haze impact. The KDAQ has submitted a regional haze state implementation plan (SIP) to the EPA which requires the Mill Creek plant to reduce its sulfuric acid mist emissions from Units 3 and 4. After approval of the Kentucky SIP by EPA and revision of the Mill Creek plant's Title V air permit, LG&E intends to install sorbent injection controls at the plant to reduce sulfuric acid mist emissions.

New Source Review (NSR)

The EPA has reinitiated its NSR enforcement efforts. This initiative targets coal-fired power plants. The EPA has asserted that modification of these plants has increased their emissions, and consequently they are subject to stringent NSR requirements under the Clean Air Act. In April 2009, PPL received EPA information requests for its Montour and Brunner Island plants. The requests are similar to those that PPL received several years ago for its Colstrip, Corette and Martins Creek plants. PPL and the EPA have exchanged certain information regarding this matter. In January 2009, PPL and other companies that own or operate the Keystone plant in Pennsylvania received a notice of violation from the EPA alleging that certain projects were undertaken without proper NSR compliance. PPL cannot predict the outcome of this matter.

In addition, in August 2007, LG&E and KU received information requests for their Mill Creek, Trimble County, and Ghent plants, but have received no further communications from the EPA since providing their responses. PPL cannot predict the outcome of these matters.

In March 2009, KU received a notice of violation alleging that KU violated certain provisions of the Clean Air Act's rules governing NSR and prevention of significant deterioration by installing flue gas desulfurization and SCR controls at its Ghent generating station without assessing potential increased sulfuric acid mist emissions. KU contends that the work in question, as pollution control projects, was exempt from the requirements cited by the EPA. In December 2009, the EPA issued an information request seeking additional information on this matter. KU has exchanged settlement proposals and other information with the EPA regarding imposition of additional permit limits and emission controls and anticipates continued settlement negotiations. In addition, any settlement or future litigation could potentially encompass a September 2007 notice of violation alleging opacity violations at the plant. Depending on the provisions of a final settlement or the results of litigation, if any, resolution of this matter could involve significant increased operating and capital expenditures. PPL is currently unable to predict the final outcome of this matter.

If PPL subsidiaries are found to have violated NSR regulations, PPL would, among other things, be required to meet permit limits reflecting Best Available Control Technology (BACT) for the emissions of any pollutant found to have significantly increased due to a major plant modification. The costs to meet such limits, including installation of technology at certain units, could be significant.

States and environmental groups also have initiated enforcement actions and litigation alleging violations of the NSR regulations by coal-fired plants, and PPL is unable to predict whether such actions will be brought against any of PPL's plants.

Pursuant to the 2007 U.S. Supreme Court decision on global climate change, as discussed below, the EPA issued regulations governing carbon dioxide emissions from new or modified stationary sources under its NSR regulations. The regulations became effective beginning January 2011. The NSR regulations require major new or modified sources of regulated pollutants to receive pre-construction and operating permits with limits that prevent the significant deterioration of air quality in areas that are in attainment of the ambient air quality standards for these pollutants. In May 2010, the EPA published a final rule establishing thresholds for regulating GHG emissions from major new or modified sources. Combined carbon dioxide emissions or carbon dioxide equivalent emissions of 100,000 tons or more per year will classify a source as major for permitting applicability purposes. The threshold for a major modification of a major source is an increase of carbon dioxide or carbon dioxide equivalent emissions of 75,000 tons per year, although a significant increase in non carbon dioxide regulated pollutants is also required for modifications undertaken prior to July 2011. If a modification results in emissions increases exceeding the threshold, the plant will need to conduct an analysis of best available control technology for GHG and meet limits based on best available control technology. To date, the EPA has not provided final guidance on what constitutes best available control technology for GHG emissions, but has indicated in draft guidance that it may consider efficiency projects and other options as possible best available control technology for carbon dioxide emissions from power plants. In addition, in December 2010, the EPA announced that it intends to promulgate New Source Performance Standards addressing GHG emissions from new and existing power plants, with a proposed rule anticipated to be published in July 2011 and a final rule issued in May 2012. The implications of these developments, including the outcome of any litigation challenging these regulations, are uncertain.

Opacity

From time to time, emissions from PPL's power plants may cause opacity issues, which may raise environmental concerns. PPL addresses these issues on a case-by-case basis. If it is determined that actions must be taken to address opacity issues, such actions could result in economic costs that are not now determinable, but could be significant.

Trimble County Unit 2 Air Permit (PPL)

The Sierra Club and other environmental groups petitioned the Kentucky Environmental and Public Protection Cabinet to overturn the air permit issued for the TC2 baseload generating unit, but the agency upheld the permit in an Order issued in September 2007. In response to subsequent petitions by environmental groups, the EPA ordered certain non-material changes to the permit which were incorporated into a final revised permit issued by the KDAQ in January 2010. In March 2010, the environmental groups petitioned the EPA to object to the revised state permit. Until the EPA issues a final ruling on the pending petition and all available appeals are exhausted, PPL cannot predict the final outcome of this matter.

Global Climate Change

There is concern nationally and internationally about global climate change and the possible contribution of GHG emissions including, most significantly, carbon dioxide, from the combustion of fossil fuels. This has resulted in increased demands for carbon dioxide emission reductions from investors, environmental organizations, government agencies and the international community. These demands and concerns have led to federal legislative proposals, actions at regional, state and local levels, litigation relating to GHG emissions and the EPA regulations on GHGs.

Greenhouse Gas Legislation

While climate change legislation was considered during the 111th Congress, the outcome of the 2010 elections has halted the debate on such legislation in the current 112th Congress. The timing and elements of any future legislation addressing GHG emission reductions are uncertain at this time. In the current Congress, legislation barring EPA from regulating greenhouse gas emissions under the existing authority of the Clean Air Act has been passed by the U.S. House of Representatives. Various bills providing for barring or delaying EPA from regulating greenhouse gas emissions have been introduced in the U.S. Senate, but the prospects for passage of such legislation remain uncertain. At the state level, the 2010 elections in Pennsylvania have also reduced the likelihood of GHG legislation in the near term, nor are there currently any prospects for such legislation in Kentucky or Montana.

Greenhouse Gas Regulations and Tort Litigation

As a result of the April 2007 U.S. Supreme Court decision that the EPA has the authority to regulate GHG emissions from new motor vehicles under the Clean Air Act, in April 2010, the EPA and the U.S. Department of Transportation issued new light-duty vehicle emissions standards that will apply beginning with 2012 model year vehicles. The EPA has also clarified that this standard triggers regulation of GHG emissions from stationary sources under the NSR and Title V operating permit provisions of the Clean Air Act starting in 2011. This means that any new sources or major modifications to existing sources causing a net significant emissions increase requires BACT permit limits for GHGs. The EPA recently proposed guidance for conducting a BACT analysis for projects that trigger such a review. In addition, New Source Performance Standards for new and existing power plants are expected to be proposed in July 2011 and finalized in May 2012. See NSR discussion above.

At the regional level, ten northeastern states signed a Memorandum of Understanding (MOU) agreeing to establish a GHG emission cap-and-trade program, called the Regional Greenhouse Gas Initiative (RGGI). The program commenced in January 2009 and calls for stabilizing carbon dioxide emissions, at base levels established in 2005, from electric power plants with capacity greater than 25 MW. The MOU also provides for a 10% reduction in carbon dioxide emissions from base levels by 2019.

Pennsylvania has not stated an intention to join RGGI, but has enacted the Pennsylvania Climate Change Act of 2008 (PCCA). The PCCA established a Climate Change Advisory Committee to advise the DEP on the development of a Climate Change Action Plan. In December 2009, the Advisory Committee finalized its Climate Change Action Report which identifies specific actions that could result in reducing GHG emissions by 30% by 2020. Some of the proposed actions, such as a mandatory 5% efficiency improvement at power plants, could be technically unachievable. To date, there have been no regulatory or legislative actions taken to implement the recommendations of the report. In addition, legislation has been introduced and amendments filed to several bills that would, if enacted, significantly increase renewable and solar supply requirements. It is highly unlikely that this legislation will achieve passage in the 2011 legislative session.

Eleven Western states, including Montana and certain Canadian provinces, are members of the Western Climate Initiative (WCI). The WCI has established a goal of reducing carbon dioxide emissions 15% below 2005 levels by 2020 and is currently developing GHG emission allocations, offsets, and reporting recommendations.

In November 2008, the Governor of Kentucky issued a comprehensive energy plan including non-binding targets aimed at promoting improved energy efficiency, development of alternative energy, development of carbon capture and sequestration projects, and other actions to reduce GHG emissions. In December 2009, the Kentucky Climate Action Plan Council was established to develop an action plan addressing potential GHG reductions and related measures. A final plan is expected in 2011. The impact of any such plan is not now determinable.

A number of lawsuits have been filed asserting common law claims including nuisance, trespass and negligence against various companies with GHG emitting facilities, and the law remains unsettled on these claims. In September 2009, the U.S. Court of Appeals for the Second Circuit in the case of AEP v. Connecticut reversed a federal district court's decision and ruled that several states and public interest groups, as well as the City of New York, could sue five electric utility companies under federal common law for allegedly causing a public nuisance as a result of their emissions of GHGs. In April 2010, the U.S. Supreme Court heard oral arguments on this matter and a decision is pending. In Comer v. Murphy Oil, the U.S. Court of Appeals for the Fifth Circuit recently declined to overturn a district court ruling that plaintiffs did not have standing to pursue common law claims against companies that emit GHGs. The complaint in the Comer case named the previous indirect parent of LG&E and KU as a defendant based upon emissions from the Kentucky plants. In January 2011, the Supreme Court denied a pending petition to reverse Court of Appeals' ruling which has effectively brought the case to an end. However, additional litigation in federal and state courts over these issues is continuing.

PPL continues to evaluate options for reducing, avoiding, off-setting or sequestering its carbon dioxide emissions. In 2010, PPL's power plants (based on PPL's equity share of these assets) emitted approximately 37 million tons of carbon dioxide (including 6 million tons of emissions from the LKE plants after their acquisition on November 1, 2010) compared to 29 million tons in 2009.

Renewable Energy Legislation

There has been interest in renewable energy legislation at both the state and federal levels. At the federal level, House and Senate bills proposed in the 111th Congress would have imposed mandatory renewable energy supply and energy efficiency requirements in the 15% to 20% range by approximately 2020. Currently, there are discussions regarding a Clean Energy Standard that addresses not only renewables but also encourages clean energy requirements (as yet to be defined). At this time, PPL does not expect similar legislation to progress at the federal or state levels (beyond what is otherwise already required in Pennsylvania) in the near term.

PPL believes there are financial, regulatory and logistical uncertainties related to GHG reductions and the implementation of renewable energy mandates. These will need to be resolved before the impact of such requirements on PPL can be meaningfully estimated. Such uncertainties, among others, include the need to provide back-up supply to augment intermittent renewable generation, potential generation oversupply that could result from such renewable generation and back-up, impacts to PJM's capacity market and the need for substantial changes to transmission and distribution systems to accommodate renewable energy. These uncertainties are not directly addressed by proposed legislation. PPL cannot predict at this time the effect on its future competitive position, results of operation, cash flows and financial position, of any GHG emissions, renewable energy mandate or other global climate change requirements that may be adopted, although the costs to implement and comply with any such requirements could be significant.

Water/Waste

Coal Combustion Residuals (CCRs)

In June 2010, the EPA proposed two approaches to regulating the disposal and management of coal combustion residuals under the Resource Conservation and Recovery Act (RCRA). CCRs include fly ash, bottom ash and scrubber wastes. The first approach would regulate CCRs as a hazardous waste under Subtitle C of RCRA. This approach would have very significant impacts on any coal-fired plant, and would require plants to retrofit their operations to comply with full hazardous waste requirements from the generation of CCRs and associated waste waters through transportation and disposal. This would also have a negative impact on the beneficial use of CCRs and could eliminate existing markets for CCRs. The second approach would regulate CCRs as a solid waste under Subtitle D of RCRA. This approach would mainly affect disposal and most significantly affect any wet disposal operations. Under this approach, many of the current markets for beneficial uses would not be affected. Currently, PPL expects that several of its plants in Kentucky and Montana could be significantly impacted by the requirements of Subtitle D of RCRA, as these plants are using surface impoundments for management and disposal of CCRs.

The EPA has issued information requests on CCR management practices at numerous plants throughout the power industry as it considers whether or not to regulate CCRs as hazardous waste. PPL has provided information on CCR management practices at most of its plants in response to the EPA's requests. In addition, the EPA has conducted follow-up inspections to evaluate the structural stability of CCR management facilities at several PPL plants and PPL has implemented certain actions in response to recommendations from these inspections.

In June 2009, the EPA's Office of Enforcement and Compliance Assurance issued a much broader information request to Colstrip and 18 other non-affiliated plants, seeking information under the RCRA, the Clean Water Act and the Emergency Planning and Community Right-to-Know Act. PPL responded to the EPA's broader information request. Although the EPA's enforcement office issued the request, the EPA has not necessarily concluded that the plants are in violation of any EPA requirements. The EPA conducted a multi-media inspection at Colstrip in August 2009 and issued a report in December 2010 stating that the EPA did not identify any violations of the applicable compliance standards for the Colstrip facility.

PPL cannot predict at this time the final requirements of the EPA's CCR regulations and what impact, if any, they would have on PPL's facilities, but the economic impact to PPL could be significant.

Martins Creek Fly Ash Release

In 2005, there was a release of approximately 100 million gallons of water containing fly ash from a disposal basin at the Martins Creek plant used in connection with the operation of the plant's two 150 MW coal-fired generating units. This resulted in ash being deposited onto adjacent roadways and fields, and into a nearby creek and the Delaware River. PPL determined that the release was caused by a failure in the disposal basin's discharge structure. PPL conducted extensive clean-up and completed studies, in conjunction with a group of natural resource trustees and the Delaware River Basin Commission, evaluating the effects of the release on the river's sediment, water quality and ecosystem.

The Pennsylvania DEP filed a complaint in Pennsylvania Commonwealth Court against PPL Martins Creek and PPL Generation, alleging violations of various state laws and regulations and seeking penalties and injunctive relief. PPL and the Pennsylvania DEP have settled this matter. The settlement also required PPL to submit a report on the completed studies of possible natural resource damages. PPL subsequently submitted the assessment report to the Pennsylvania and New Jersey regulatory agencies and has continued discussing potential natural resource damages and mitigation options with the agencies.

Through March 31, 2011, PPL Energy Supply has spent $28 million for remediation and related costs and an insignificant remediation liability remained. PPL and PPL Energy Supply cannot be certain of the outcome of the natural resource damage assessment or the associated costs, the outcome of any lawsuit that may be brought by citizens or businesses or the exact nature of any other regulatory or other legal actions that may be initiated against PPL, PPL Energy Supply or their subsidiaries as a result of the disposal basin release.

Basin Seepage – Pennsylvania and Kentucky

Seepages have been detected at active and retired wastewater basins at various PPL plants. PPL has completed or is completing assessments of seepages at various facilities and is working with agencies to implement abatement measures for those seepages, where required. The potential cost to address identified seepages or other seepages at PPL plants is not now determinable, but could be significant.

Basin Seepage - Montana

In 2007, six plaintiffs filed a lawsuit in the Montana Sixteenth Judicial District Court against the Colstrip plant owners asserting property damage claims from seepage from wastewater ponds at Colstrip. A tentative settlement agreement was reached in July 2010. The settlement is not yet final, and may not be honored by the plaintiffs, but PPL Montana's share is not expected to be significant.

Conemaugh River Discharges

In April 2007, PennEnvironment and the Sierra Club brought a Clean Water Act citizen suit in the U.S. District Court for the Western District of Pennsylvania (the Western District Court) against GenOn Northeast Management Company (then known as Reliant Energy Northeast Management Company) (GenOn), as operator of Conemaugh Generating Station (CGS), seeking civil penalties and injunctive relief for alleged violations of CGS's NPDES water discharge permit. A PPL Energy Supply subsidiary holds a 16.25% undivided, tenant in common ownership interest in CGS.

Throughout the relevant time period, the operators of CGS have worked closely with the Pennsylvania DEP to ensure that the facility is operated in a manner that does not cause any adverse environmental impacts to the Conemaugh River, a waterway already significantly impacted by discharges from abandoned coal mines and other historical industrial activity with respect to which neither PPL nor CGS had any involvement. Pursuant to a Consent Order and Agreement between the Pennsylvania DEP and GenOn (the CGS COA), a variety of studies have been conducted, a water treatment facility for cooling tower blowdown has been designed and built, and a second treatment facility for flue gas desulfurization effluent has been designed (and is awaiting final Pennsylvania DEP approval for construction), all in order to comply with the stringent limits set out in CGS's NPDES permit.

In the lawsuit, GenOn has argued that the CGS COA should preclude the plaintiffs from maintaining their lawsuit, but the Western District Court has disagreed and there is no binding precedent on the matter. The Western District Court initially dismissed plaintiffs' lawsuit in December 2009 for lack of standing, but in September 2010 granted plaintiffs' motion for reconsideration and reinstated the lawsuit. In both cases, the Western District Court disagreed that the CGS COA precluded the lawsuit.

In March 2011, the Western District Court entered a partial summary judgment in the plaintiffs' favor, declaring that discharges from CGS violated the NPDES permit. The case is set for a non-jury trial starting in June 2011, at which time the Western District Court is expected to determine what, if any, civil penalties and injunctive relief might be appropriate. In the event of an adverse verdict at trial, an appeal is likely. If the plaintiffs are ultimately successful, PPL could incur its share of any civil penalties and costs to implement additional discharge reductions. PPL cannot predict the outcome of this matter, but does not expect it to be significant.

Other Issues

In 2006, the EPA significantly decreased to 10 parts per billion (ppb) the drinking water standards related to arsenic. In Pennsylvania, Montana and Kentucky, this arsenic standard has been incorporated into the states' water quality standards and could result in more stringent limits in NPDES permits for its Pennsylvania, Montana and Kentucky plants. Subsequently, the EPA developed a draft risk assessment for arsenic that increases the cancer risk exposure by more than 20 times, which would lower the current standard from 10 ppb to 0.1 ppb. If the lower standard becomes effective, costly treatment would be required to attempt to meet the standard and, at this time, there is no assurance that it could be achieved.

The EPA is reassessing its polychlorinated biphenyls (PCB) regulations under the Toxics Substance Control Act, which currently allow certain PCB articles to remain in use. In April 2010, the EPA issued an Advanced Notice of Proposed Rulemaking for changes to these regulations. This rulemaking could lead to a phase-out of all PCB-containing equipment. PPL cannot predict at this time the outcome of these proposed EPA regulations and what impact, if any, they would have on PPL's facilities, but the costs to PPL could be significant.

The EPA finalized requirements in 2004 for new or modified cooling water intake structures. These requirements affect where generating facilities are built, establish intake design standards and could lead to requirements for cooling towers at new and modified power plants. Another rule, finalized in 2004, that addressed existing structures was withdrawn following a 2007 decision by the U.S. Court of Appeals for the Second Circuit. In 2009, however, the U.S. Supreme Court ruled that the EPA has discretion to use cost-benefit analysis in determining the best technology available for minimizing adverse environmental impact to aquatic organisms. The EPA published the proposed rule in the *Federal Register* in April 2011. The 90-day comment period ends in July 2011. The final rule is to be issued by July 2012. The industry and PPL are reviewing the proposed rule and will be submitting comments. The proposed rule contains two requirements to reduce impact to aquatic organisms. The first requires all existing facilities to meet standards for the reduction of mortality of aquatic organisms that become trapped against water intake screens regardless of the levels of mortality actually occurring or the cost of achieving the requirements. A form of cost-benefit analysis is allowed for the second requirement when determining mortality of aquatic organisms that are pulled through the plant's cooling water system. This process involves a site-specific evaluation based on nine factors including impacts to energy delivery reliability and remaining useful life of the plant. Since the rule is written to allow for certain site-specific determinations of the best technology available, state implementation of the rule could impose requirements that could result in significant costs to PPL plants ranging from installation of fine mesh screens on cooling water intakes to construction of cooling towers. PPL will be unable to determine the exact impact until a final rule is issued and the required studies have been completed.

In October 2009, the EPA released its Final Detailed Study of the Steam Electric Power Generating effluent limitations guidelines and standards. Final regulations are expected to be effective in 2013. PPL expects the revised guidelines and standards to be more stringent than the current standards, which could result in more stringent discharge permit limits.

PPL has signed a Consent Order and Agreement (the Brunner COA) with the Pennsylvania DEP under which it agreed, under certain conditions, to take further actions to minimize the possibility of fish kills at its Brunner Island plant. Fish are attracted to warm water in the power plant discharge channel, especially during cold weather. Debris at intake pumps can result in a unit trip or reduction in load, causing a sudden change in water temperature. PPL has committed to construct a barrier to prevent debris from entering the river water intake area, pending receipt of regulatory permits, at a cost of approximately $4 million.

PPL has also investigated alternatives to exclude fish from the discharge channel and submitted three alternatives to the DEP. According to the Brunner COA, once the cooling towers at Brunner Island became operational, PPL must implement one of these fish exclusion alternatives if a fish kill occurs in the discharge channel due to thermal impacts from the plant. Following start-up of the cooling towers in April 2010, several hundred dead fish were found in the cooling tower intake basket although there were no sudden changes in water temperature. In the third quarter of 2010, PPL discussed this matter with the DEP and both parties agreed that this condition was not one anticipated by the Brunner COA, thereby concluding it did not trigger a need to implement a fish exclusion project. At this time, no fish exclusion project is planned.

In May 2010, the Kentucky Waterways Alliance and other environmental groups filed a petition with the Kentucky Energy and Environment Cabinet challenging the Kentucky Pollutant Discharge Elimination System permit issued in April 2010, which covers water discharges from the Trimble County station. In November 2010, the Cabinet issued a final order upholding the permit. In December 2010, the environmental groups appealed the order to Trimble Circuit Court. PPL is unable to predict the outcome or impact of this matter.

Superfund and Other Remediation *(PPL, PPL Energy Supply and PPL Electric)*

PPL is a potentially responsible party at several sites listed by the EPA under the federal Superfund program, including the Columbia Gas Plant Site, the Metal Bank site and the Ward Transformer site. Clean-up actions have been or are being undertaken at all of these sites, the costs of which have not been significant to PPL. However, should the EPA require different or additional measures in the future, or should PPL's share of costs at multi-party sites increase significantly more than currently expected, the costs to PPL could be significant.

PPL is remediating or has completed the remediation of several sites that were not addressed under a regulatory program such as Superfund, but for which PPL may be liable for remediation. These include a number of former coal gas manufacturing facilities in Pennsylvania and Kentucky previously owned or operated or currently owned by predecessors or affiliates of PPL. There are additional sites, formerly owned or operated by PPL predecessors or affiliates, for which PPL lacks information on current site conditions and is therefore unable to predict what, if any, potential liability it may have.

Depending on the outcome of investigations at sites where investigations have not begun or been completed or developments at sites for which PPL currently lacks information, the costs of remediation and other liabilities could be substantial. PPL and its subsidiaries also could incur other non-remediation costs at sites included in current consent orders or other contaminated sites, the costs of which are not now determinable but could be significant.

The EPA is evaluating the risks associated with polycyclic aromatic hydrocarbons and naphthalene, chemical by-products of coal gas manufacturing. As a result of the EPA's evaluation, individual states may establish stricter standards for water quality and soil cleanup. This could require several PPL subsidiaries to take more extensive assessment and remedial actions at former coal gas manufacturing facilities. The costs to PPL of complying with any such requirements are not now determinable, but could be significant.

Under the Pennsylvania Clean Streams Law, subsidiaries of PPL Generation are obligated to remediate acid mine drainage at former mine sites and may be required to take additional steps to prevent potential acid mine drainage at previously capped refuse piles. One PPL Generation subsidiary is pumping mine water at two mine sites and treating water at one of these sites. Another PPL Generation subsidiary has installed a passive wetlands treatment system at a third site. At March 31, 2011, PPL Energy Supply had accrued a discounted liability of $26 million to cover the costs of pumping and treating groundwater at the two mine sites for 50 years and for operating and maintaining passive wetlands treatment at the third site. PPL Energy Supply discounted this liability based on risk-free rates at the time of the mine closures. The weighted-average rate used was 8.16%. Expected undiscounted payments are estimated at $2 million for 2011, $1 million each of the years from 2012 through 2014, $2 million for 2015, and $137 million for work after 2015.

From time to time, PPL undertakes remedial action in response to spills or other releases at various on-site and off-site locations, negotiates with the EPA and state and local agencies regarding actions necessary for compliance with applicable requirements, negotiates with property owners and other third parties alleging impacts from PPL's operations, and undertakes similar actions necessary to resolve environmental matters which arise in the course of normal operations. Based on analyses to date, resolution of these general environmental matters is not expected to have a material adverse impact on PPL's operations.

Future cleanup or remediation work at sites currently under review, or at sites not currently identified, may result in material additional operating costs for PPL subsidiaries that cannot be estimated at this time.

Electric and Magnetic Fields (PPL, PPL Energy Supply and PPL Electric)

Concerns have been expressed by some members of the public regarding potential health effects of power frequency EMFs, which are emitted by all devices carrying electricity, including electric transmission and distribution lines and substation equipment. Government officials in the U.S. and the U.K. have reviewed this issue. The U.S. National Institute of Environmental Health Sciences concluded in 2002 that, for most health outcomes, there is no evidence that EMFs cause adverse effects. The agency further noted that there is some epidemiological evidence of an association with childhood leukemia, but that the evidence is difficult to interpret without supporting laboratory evidence. The U.K. National Radiological Protection Board (part of the U.K. Health Protection Agency) concluded in 2004 that, while the research on EMFs does not provide a basis to find that EMFs cause any illness, there is a basis to consider precautionary measures beyond existing exposure guidelines. The Stakeholder Group on Extremely Low Frequency EMF, set up by the U.K. Government, has issued two reports, one in April 2007 and one in June 2010, describing options for reducing public exposure to EMF. The U.K. Government responded to the first report in 2009, agreeing to some of the proposals, including a proposed voluntary code to optimally phase 132 kilovolt overhead lines to reduce public exposure to EMF where it is cost effective to do so. The U.K. Government is currently considering the second report which concentrates on EMF exposure from distribution systems. PPL and its subsidiaries believe the current efforts to determine whether EMFs cause adverse health effects should continue and are taking steps to reduce EMFs, where practical, in the design of new transmission and distribution facilities. PPL and its subsidiaries are unable to predict what effect, if any, the EMF issue might have on their operations and facilities either in the U.S. or the U.K., and the associated cost, or what, if any, liabilities they might incur related to the EMF issue.

Environmental Matters - WPD *(PPL)*

WPD's distribution businesses are subject to environmental regulatory and statutory requirements. PPL believes that WPD has taken and continues to take measures to comply with the applicable laws and governmental regulations for the protection of the environment.

The U.K. Government has implemented a project to alleviate the impact of flooding on the U.K. utility infrastructure, including major electricity substations. WPD has agreed with the Ofgem to spend $28 million on flood prevention, which will be recovered through rates during the five-year period commencing April 2010. WPD is currently liaising on site-specific proposals with local offices of a U.K. Government agency.

U.K. legislation has been passed that imposes a duty on certain companies, including WPD, to report on climate change adaptation. The first information request was received by WPD in March 2010, with reports due for submission by June 2011. WPD has worked with other U.K. electricity network operators to undertake research with the internationally recognized U.K. Met Office (the national weather service) and to report using common agreed methodology.

There are no other material legal or administrative proceedings pending against or related to WPD with respect to environmental matters. See "Electric and Magnetic Fields," above, for a discussion of EMFs.

Other

Nuclear Insurance *(PPL and PPL Energy Supply)*

PPL Susquehanna is a member of certain insurance programs that provide coverage for property damage to members' nuclear generating plants. Facilities at the Susquehanna plant are insured against property damage losses up to $2.75 billion under these programs. PPL Susquehanna is also a member of an insurance program that provides insurance coverage for the cost of replacement power during prolonged outages of nuclear units caused by certain specified conditions.

Under the property and replacement power insurance programs, PPL Susquehanna could be assessed retroactive premiums in the event of the insurers' adverse loss experience. At March 31, 2011, this maximum assessment was $40 million.

In the event of a nuclear incident at the Susquehanna plant, PPL Susquehanna's public liability for claims resulting from such incident would be limited to $12.6 billion under provisions of The Price-Anderson Act Amendments under the Energy Policy Act of 2005. PPL Susquehanna is protected against this liability by a combination of commercial insurance and an industry assessment program.

In the event of a nuclear incident at any of the reactors covered by The Price-Anderson Act Amendments under the Energy Policy Act of 2005, PPL Susquehanna could be assessed up to $235 million per incident, payable at $35 million per year.

At March 31, 2011, the property, replacement power and nuclear incident insurers maintained an A.M. Best financial strength rating of A ("Excellent").

Guarantees and Other Assurances

(PPL, PPL Energy Supply and PPL Electric)

In the normal course of business, PPL, PPL Energy Supply and PPL Electric enter into agreements that provide financial performance assurance to third parties on behalf of certain subsidiaries. Such agreements include, for example, guarantees, stand-by letters of credit issued by financial institutions and surety bonds issued by insurance companies. These agreements are entered into primarily to support or enhance the creditworthiness attributed to a subsidiary on a stand-alone basis or to facilitate the commercial activities in which these subsidiaries enter.

(PPL)

PPL fully and unconditionally guarantees all of the debt securities of PPL Capital Funding.

(PPL, PPL Energy Supply and PPL Electric)

The table below details guarantees provided as of March 31, 2011. The total recorded liability at March 31, 2011 and December 31, 2010 was $15 million and $14 million for PPL. Other than as noted in the descriptions for "WPD guarantee of pension and other obligations of unconsolidated entities," the probability of expected payment/performance under each of these guarantees is remote.

	Exposure at March 31, 2011 (a)	Expiration Date
PPL (b)		
Indemnifications for sale of PPL Gas Utilities	$ 300 (c)	
Indemnifications of LKE	301 (d)	2021 - 2023
WPD indemnifications for entities in liquidation and sales of assets	295 (e)	2013 - 2018
WPD guarantee of pension and other obligations of unconsolidated entities	66 (f)	2015
Tax indemnification related to unconsolidated WPD affiliates	8 (g)	2012
PPL Energy Supply (h)		
Letters of credit issued on behalf of affiliates	20 (i)	2011 - 2014
Retrospective premiums under nuclear insurance programs	40 (j)	
Nuclear claims assessment under The Price-Anderson Act Amendments under The Energy Policy Act of 2005	235 (k)	
Indemnifications for sales of assets	338 (l)	2012 - 2025
Indemnification to operators of jointly owned facilities	6 (m)	
Guarantee of a portion of a divested unconsolidated entity's debt	22 (n)	2018

(a) Represents the estimated maximum potential amount of future payments that could be required to be made under the guarantee.

(b) PPL is not liable for obligations under guarantees provided by LKE and WPD, as the beneficiaries of the guarantees do not have recourse to PPL.

(c) PPL has provided indemnification to the purchaser of PPL Gas Utilities and Penn Fuel Propane, LLC for damages arising out of any breach of the representations, warranties and covenants under the related transaction agreement and for damages arising out of certain other matters, including certain pre-closing unknown environmental liabilities relating to former manufactured gas plant properties or off-site disposal sites, if any, outside of Pennsylvania. The indemnification provisions for most representations and warranties, including tax and environmental matters, are capped at $45 million, in the aggregate, and are triggered (i) only if the individual claim exceeds $50,000, and (ii) only if, and only to the extent that, in the aggregate, total claims exceed $4.5 million. The indemnification provisions for most representations and warranties expired on September 30, 2009 without any claims having been made. Certain representations and warranties, including those having to do with transaction authorization and title, survive indefinitely, are capped at the purchase price and are not subject to the above threshold or deductible. The indemnification provision for the tax matters representations survives for the duration of the applicable statute of limitations, and the indemnification provision for the environmental matters representations survives for a period of three years after the transaction closing. The indemnification relating to unknown environmental liabilities for manufactured gas plants and disposal sites outside of Pennsylvania could survive more than three years, but only with respect to applicable property or sites identified by the purchaser prior to the third anniversary of the transaction closing. The indemnification for covenants survives until the applicable covenant is performed and is not subject to any cap.

(d) LKE provides certain indemnifications, the most significant of which relate to the termination of the WKE lease in July 2009. These guarantees cover the due and punctual payment, performance and discharge by each party of its respective present and future obligations. The most comprehensive of these guarantees is the LKE guarantee covering operational, regulatory and environmental commitments and indemnifications made by WKE under the WKE Transaction Termination Agreement. This guarantee has a term of 12 years ending July 2021, and a cumulative maximum exposure of $200 million. Certain items such as non-excluded government fines and penalties fall outside the cumulative cap. Another guarantee with a maximum exposure of $100 million covering other indemnifications expires in 2023. Certain matters are currently under discussion among the parties, including one matter currently in arbitration, the outcomes of which cannot be predicted at this time. Additionally, LKE has indemnified various third parties related to historical obligations for other divested subsidiaries and affiliates. The indemnifications vary by entity and the maximum amount limits range from being capped at the sale price to no specified maximum; however, LKE is not aware of formal claims made by any party at this time. LKE could be required to perform on these indemnifications in the event of covered losses or liabilities being claimed by an indemnified party. No additional material loss is anticipated by reason of such indemnification.

(e) In connection with the liquidation of wholly owned subsidiaries that have been deconsolidated upon turning the entities over to the liquidators, certain affiliates of PPL Global have agreed to indemnify the liquidators, directors and/or the entities themselves for any liabilities or expenses arising during the liquidation process, including liabilities and expenses of the entities placed into liquidation. In some cases, the indemnifications are limited to a maximum amount that is based on distributions made from the subsidiary to its parent either prior or subsequent to being placed into liquidation. In other cases, the maximum amount of the indemnifications is not explicitly stated in the agreements. The indemnifications generally expire two to seven years subsequent to the date of dissolution of the entities. The exposure noted only includes those cases in which the agreements provide for a specific limit on the amount of the indemnification, and the expiration date was based on an estimate of the dissolution date of the entities.

In connection with their sales of various businesses, WPD and its affiliates have provided the purchasers with indemnifications that are standard for such transactions, including indemnifications for certain pre-existing liabilities and environmental and tax matters. In addition, in connection with certain of these sales, WPD and its affiliates have agreed to continue their obligations under existing third-party guarantees, either for a set period of time following the transactions or upon the condition that the purchasers make reasonable efforts to terminate the guarantees. Finally, WPD and its affiliates remain secondarily responsible for lease payments under certain leases that they have assigned to third parties.

(f) As a result of the privatization of the utility industry in the U.K., certain electric associations' roles and responsibilities were discontinued or modified. As a result, certain obligations, primarily pension-related, associated with these organizations have been guaranteed by the participating members. Costs are allocated to the members based on predetermined percentages as outlined in specific agreements. However, if a member becomes insolvent, costs can be reallocated to and are guaranteed by the remaining members. At March 31, 2011, WPD has recorded an estimated discounted liability based on its current allocated percentage of the total expected costs for which the expected payment/performance is probable. Neither the expiration date nor the maximum amount of potential payments for certain obligations is explicitly stated in the related agreements. Therefore, they have been estimated based on the types of obligations.

(g) Two WPD unconsolidated affiliates were refinanced during 2005. Under the terms of the refinancing, WPD has indemnified the lender against certain tax and other liabilities.

(h) Other than the letters of credit, all guarantees of PPL Energy Supply, on a consolidated basis, also apply to PPL on a consolidated basis.

(i) Standby letter of credit arrangements under PPL Energy Supply's credit facilities for the purposes of protecting various third parties against nonperformance by PPL. This is not a guarantee by PPL on a consolidated basis.

(j) PPL Susquehanna is contingently obligated to pay this amount related to potential retrospective premiums that could be assessed under its nuclear insurance programs. See "Nuclear Insurance," above, for additional information.

(k) This is the maximum amount PPL Susquehanna could be assessed for each incident at any of the nuclear reactors covered by this Act. See "Nuclear Insurance," above for additional information.

(l) PPL Energy Supply's maximum exposure with respect to certain indemnifications and the expiration of the indemnifications cannot be estimated because, in the case of certain indemnification provisions, the maximum potential liability is not capped by the transaction documents and the expiration date is based on the applicable statute of limitations. The exposure and expiration dates noted are only for those cases in which the agreements provide for specific limits.

A subsidiary of PPL Energy Supply has agreed to provide indemnification to the purchaser of the Long Island generation business for damages arising out of any breach of the representations, warranties and covenants under the related transaction agreement and for damages arising out of certain other matters, including liabilities relating to certain renewable energy facilities which were previously owned by one of the PPL subsidiaries sold in the transaction but which were unrelated to the Long Island generation business. The indemnification provisions are subject to certain customary limitations, including thresholds for allowable claims, caps on aggregate liability, and time limitations for claims arising out of breaches of most representations and warranties.

A subsidiary of PPL Energy Supply has agreed to provide indemnification to the purchasers of the Maine hydroelectric facilities for damages arising out of any breach of the representations, warranties and covenants under the respective transaction agreements and for damages arising out of certain other matters, including liabilities of the PPL Energy Supply subsidiary relating to the pre-closing ownership or operation of those hydroelectric facilities. The indemnification obligations are subject to certain customary limitations, including thresholds for allowable claims, caps on aggregate liability, and time limitations for claims arising out of breaches of representations and warranties.

Subsidiaries of PPL Energy Supply have agreed to provide indemnification to the purchasers of certain non-core generation facilities sold in March 2011 (see Note 8 for additional information) for damages arising out of any breach of the representations, warranties and covenants under the related transaction agreements and for damages arising out of certain other matters relating to the facilities that were the subject of the transaction, including certain reduced capacity payments (if any) at one of the facilities in the event specified PJM rule changes are proposed and become effective. The indemnification provisions are subject to certain customary limitations, including thresholds for allowable claims, caps on aggregate liability, and time limitations for claims arising out of breaches of most representations and warranties.

(m) In December 2007, a subsidiary of PPL Energy Supply executed revised owners agreements for two jointly owned facilities, the Keystone and Conemaugh generating stations. The agreements require that in the event of any default by an owner, the other owners fund contributions for the operation of the generating stations, based upon their ownership percentages. The maximum obligation among all owners, for each station, is currently \$20 million. The non-defaulting owners, who make up the defaulting owner's obligations, are entitled to the generation entitlement of the defaulting owner, based upon their ownership percentage. The agreements do not have an expiration date.

(n) A PPL Energy Supply subsidiary owned a one-third equity interest in Safe Harbor Water Power Corporation (Safe Harbor) that was sold in March 2011. Beginning in 2008, PPL Energy Supply guaranteed one-third of any amounts payable with respect to certain senior notes issued by Safe Harbor. Per the terms of the sale agreement, PPL Energy Supply continues to guarantee the portion of Safe Harbor's debt, but received a cross-indemnity from the purchaser in the event PPL Energy Supply is required to make a payment under the guarantee. Exposure noted reflects principal only. See Note 8 for additional information on the sale of this interest.

PPL, PPL Energy Supply and PPL Electric and their subsidiaries provide other miscellaneous guarantees through contracts entered into in the normal course of business. These guarantees are primarily in the form of indemnification or warranties related to services or equipment and vary in duration. The amounts of these guarantees often are not explicitly stated, and the overall maximum amount of the obligation under such guarantees cannot be reasonably estimated. Historically, PPL, PPL Energy Supply and PPL Electric and their subsidiaries have not made any significant payments with respect to these types of guarantees and the probability of payment/performance under these guarantees is remote.

PPL, on behalf of itself and certain of its subsidiaries, maintains insurance that covers liability assumed under contract for bodily injury and property damage. The coverage requires a maximum \$4 million deductible per occurrence and provides maximum aggregate coverage of \$200 million. This insurance may be applicable to obligations under certain of these contractual arrangements.

11. Related Party Transactions

(PPL Energy Supply and PPL Electric)

PLR Contracts

PPL Electric holds competitive solicitations for PLR generation supply. See Note 10 for additional information on the solicitations. PPL EnergyPlus has been awarded a portion of the supply. PPL Electric's purchases from PPL EnergyPlus totaled \$6 million for the three months ended March 31, 2011 and \$115 million during the same period in 2010, and are included in the Statements of Income as "Wholesale energy marketing to affiliate" by PPL Energy Supply, and as "Energy purchases from affiliate" by PPL Electric.

See Note 2 for additional information regarding PPL Electric's purchases of accounts receivable from PPL EnergyPlus.

Under the standard Supply Master Agreement for the bid solicitation process, PPL Electric requires all suppliers to post collateral once credit exposures exceed defined credit limits. In no instance is PPL Electric required to post collateral to suppliers under these supply contracts. PPL EnergyPlus is required to post collateral with PPL Electric: (a) when the market price of electricity to be delivered by PPL EnergyPlus exceeds the contract price for the forecasted quantity of electricity to be delivered and (b) this market price exposure exceeds a contractual credit limit. Based on the current credit rating of PPL Energy Supply, as guarantor, this credit limit is $35 million at March 31, 2011.

PPL Energy Supply has credit exposure to PPL Electric under certain energy supply contracts. See Note 13 for additional information on this credit exposure.

Allocations of Corporate Service Costs

PPL Services provides corporate functions such as financial, legal, human resources and information technology services. PPL Services charges the respective PPL subsidiaries for the cost of such services when they can be specifically identified. The cost of these services that is not directly charged to PPL subsidiaries is allocated to certain subsidiaries based on an average of the subsidiaries' relative invested capital, operation and maintenance expenses and number of employees. PPL Services allocated the following amounts, which PPL management believes are reasonable, to PPL Energy Supply and PPL Electric, including amounts applied to accounts that are further distributed between capital and expense.

	Three Months Ended March 31,	
	2011	2010
PPL Energy Supply	$ 50	$ 59
PPL Electric	39	33

(PPL Energy Supply)

Intercompany Borrowings

A PPL Energy Supply subsidiary holds revolving demand notes from certain affiliates. At March 31, 2011 $458 million was outstanding. There was no balance outstanding at December 31, 2010. The interest rates on the borrowings were equal to 1-month LIBOR plus a spread. The weighted-average interest rate on the borrowings was approximately 2.74%.

Trademark Royalties

A PPL subsidiary owns PPL trademarks and bills certain affiliates for their use. PPL Energy Supply was allocated $10 million of this license fee for the three months ended March 31, 2011 and 2010. These allocations are primarily included in "Other operation and maintenance" on the Statements of Income.

Distribution of Interest in PPL Global to Parent

In January 2011, PPL Energy Supply distributed its membership interest in PPL Global to its parent, PPL Energy Funding. See Note 8 for additional information.

12. Other Income (Expense) - net

(PPL and PPL Energy Supply)

The breakdown of "Other Income (Expense) - net" was:

	PPL		PPL Energy Supply	
	Three Months Ended March 31,		Three Months Ended March 31,	
	2011	2010	2011	2010
Other Income				
Earnings on securities in NDT funds	$ 15	$ 6	$ 15	$ 6
Interest income	2	1	1	
AFUDC	1	1		
Miscellaneous - Domestic	3	1	1	1
Total Other Income	21	9	17	7

	PPL		PPL Energy Supply	
	Three Months Ended March 31,		Three Months Ended March 31,	
	2011	2010	2011	2010
Other Expense				
Economic foreign currency exchange contracts	9	(2)		
Charitable contributions	3	1		
Central Networks acquisition-related costs (Note 18)	11			
Miscellaneous - Domestic	2	2	3	1
Miscellaneous - International	1			
Total Other Expense	26	1	3	1
Other Income (Expense) - net	$ (5)	$ 8	$ 14	$ 6

13. Fair Value Measurements and Credit Concentration

(PPL, PPL Energy Supply and PPL Electric)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). PPL and its subsidiaries use, as appropriate, a market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models), and/or a cost approach (generally, replacement cost) to measure the fair value of an asset or liability. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk.

Recurring Fair Value Measurements

The assets and liabilities measured at fair value were:

	March 31, 2011				December 31, 2010			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL								
Assets								
Cash and cash equivalents	$ 1,245	$ 1,245			$ 925	$ 925		
Short-term investments - municipal debt securities					163	163		
Restricted cash and cash equivalents (a)	73	73			66	66		
Price risk management assets:								
Energy commodities	2,360	2	$ 2,307	$ 51	2,503		$ 2,452	$ 51
Interest rate swaps	10		10		15		15	
Foreign currency exchange contracts	6		6		11		11	
Cross-currency swaps	9		9		44		44	
Total price risk management assets	2,385	2	2,332	51	2,573		2,522	51
NDT funds:								
Cash and cash equivalents	16	16			10	10		
Equity securities								
U.S. large-cap	300	207	93		303	207	96	
U.S. mid/small-cap	122	88	34		119	89	30	
Debt securities								
U.S. Treasury	77	77			75	75		
U.S. government sponsored agency	10		10		7		7	
Municipality	79		79		69		69	
Investment-grade corporate	37		37		33		33	
Other	2		2		1		1	
Receivables (payables), net	1	(1)	2		1	(1)	2	
Total NDT funds	644	387	257		618	380	238	
Auction rate securities (b)	25			25	25			25
Total assets	$ 4,372	$ 1,707	$ 2,589	$ 76	$ 4,370	$ 1,534	$ 2,760	$ 76
Liabilities								
Price risk management liabilities:								
Energy commodities	$ 1,356	$ 2	$ 1,335	$ 19	$ 1,552		$ 1,498	$ 54
Interest rate swaps	40		40		53		53	
Foreign currency exchange contracts	11		11					
Cross-currency swaps					9		9	
Total price risk management liabilities	$ 1,407	$ 2	$ 1,386	$ 19	$ 1,614		$ 1,560	$ 54

	March 31, 2011				December 31, 2010			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL Energy Supply								
Assets								
Cash and cash equivalents	$ 583	$ 583			$ 661	$ 661		
Restricted cash and cash equivalents (a)	22	22			26	26		
Price risk management assets:								
Energy commodities	2,359	2	$ 2,306	$ 51	2,503		$ 2,452	$ 51
Foreign currency exchange contracts					11		11	
Cross-currency swaps					44		44	
Total price risk management assets	2,359	2	2,306	51	2,558		2,507	51
NDT funds:								
Cash and cash equivalents	16	16			10	10		
Equity securities								
U.S. large-cap	300	207	93		303	207	96	
U.S. mid/small-cap	122	88	34		119	89	30	
Debt securities								
U.S. Treasury	77	77			75	75		
U.S. government sponsored agency	10		10		7		7	
Municipality	79		79		69		69	
Investment-grade corporate	37		37		33		33	
Other	2		2		1		1	
Receivables (payables), net	1	(1)	2		1	(1)	2	
Total NDT funds	644	387	257		618	380	238	
Auction rate securities (b)	20			20	20			20
Total assets	$ 3,628	$ 994	$ 2,563	$ 71	$ 3,883	$ 1,067	$ 2,745	$ 71
Liabilities								
Price risk management liabilities:								
Energy commodities	$ 1,354	$ 2	$ 1,333	$ 19	$ 1,541		$ 1,487	$ 54
Cross-currency swaps					9		9	
Total price risk management liabilities	$ 1,354	$ 2	$ 1,333	$ 19	$ 1,550		$ 1,496	$ 54
PPL Electric								
Assets								
Cash and cash equivalents	$ 10	$ 10			$ 204	$ 204		
Restricted cash and cash equivalents (c)	14	14			14	14		
Total assets	$ 24	$ 24			$ 218	$ 218		

(a) Current portion is included in "Restricted cash and cash equivalents" and long-term portion is included in "Other noncurrent assets" on the Balance Sheets.
(b) Included in "Other investments" on the Balance Sheets.
(c) Current portion is included in "Other current assets" on the Balance Sheets. Such amounts were insignificant at March 31, 2011 and December 31, 2010. The long-term portion is included in "Other noncurrent assets" on the Balance Sheets.

A reconciliation of net assets and liabilities classified as Level 3 is as follows.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)					
	March 31, 2011			March 31, 2010		
	Energy Commodities, net	Auction Rate Securities	Total	Energy Commodities, net	Auction Rate Securities	Total
PPL						
Balance at beginning of period	$ (3)	$ 25	$ 22	$ 107	$ 25	$ 132
Total realized/unrealized gains (losses)						
Included in earnings	1		1	(61)		(61)
Included in OCI (a)	1		1	3		3
Purchases	2		2			
Sales	(3)		(3)			
Settlements	22		22			
Net purchases, sales, issuances and settlements (b)				5		5
Transfers into Level 3				(2)		(2)
Transfers out of Level 3	12		12	(1)		(1)
Balance at end of period	$ 32	$ 25	$ 57	$ 51	$ 25	$ 76

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)					
	March 31, 2011			March 31, 2010		
	Energy Commodities, net	Auction Rate Securities	Total	Energy Commodities, net	Auction Rate Securities	Total
PPL Energy Supply						
Balance at beginning of period	$ (3)	$ 20	$ 17	$ 107	$ 20	$ 127
Total realized/unrealized gains (losses)						
Included in earnings	1		1	(61)		(61)
Included in OCI (a)	1		1	3		3
Purchases	2		2			
Sales	(3)		(3)			
Settlements	22		22			
Net purchases, sales, issuances and settlements (b)				5		5
Transfers into Level 3				(2)		(2)
Transfers out of Level 3	12		12	(1)		(1)
Balance at end of period	$ 32	$ 20	$ 52	$ 51	$ 20	$ 71

(a) Included in "Qualifying derivatives" on the Statements of Comprehensive Income.
(b) Accounting guidance effective January 1, 2011 requires purchase, sale, issuance and settlement transactions within Level 3 to be presented on a gross basis. The transactions in 2010 are reported on a combined basis.

Net gains and losses on assets and liabilities classified as Level 3 and included in earnings are reported in the Statements of Income as follows.

	March 31, 2011			
	Energy Commodities, net			
	Unregulated Retail Electric and Gas	Wholesale Energy Marketing	Net Energy Trading Margins	Energy Purchases
PPL and PPL Energy Supply				
Total gains (losses) included in earnings for the period	$ 1	$ 1	$ (5)	$ 4
Change in unrealized gains (losses) relating to positions still held at the reporting date	1		(1)	19

	March 31, 2010			
	Energy Commodities, net			
	Unregulated Retail Electric and Gas	Wholesale Energy Marketing	Net Energy Trading Margins	Energy Purchases
PPL and PPL Energy Supply				
Total gains (losses) included in earnings for the period	$ 11	$ 13	$ 1	$ (86)
Change in unrealized gains (losses) relating to positions still held at the reporting date	10	4	(1)	(75)

(PPL, PPL Energy Supply and PPL Electric)

PPL and its subsidiaries recognize transfers between levels at end-of-reporting-period values.

(PPL and PPL Energy Supply)

Price Risk Management Assets/Liabilities - Energy Commodities

Energy commodity contracts are generally valued using the income approach, except for exchange-traded derivative gas and oil contracts, which are valued using the market approach and are classified as Level 1. When observable inputs are used to measure all or most of the value of a contract, the contract is classified as Level 2. Over-the-counter (OTC) contracts are valued using quotes obtained from an exchange, binding and non-binding broker quotes, prices posted by ISOs or published tariff rates. Furthermore, PPL obtains independent quotes from the market to validate the forward price curves. OTC contracts include forwards, swaps, options and structured deals for electricity, gas, oil, and/or emission allowances and may be offset with similar positions in exchange-traded markets. To the extent possible, fair value measurements utilize various inputs that include quoted prices for similar contracts or market-corroborated inputs. In certain instances, these instruments may be valued using models, including standard option valuation models and standard industry models. For example, the fair value of a structured deal that delivers power to an illiquid delivery point may be measured by valuing the nearest liquid trading point plus the value of the basis between the two points. The basis input may be from market quotes, FTR prices, or historical prices.

When unobservable inputs are significant to the fair value measurement, a contract is classified as Level 3. Additionally, Level 2 and Level 3 fair value measurements include adjustments for credit risk based on PPL's own creditworthiness (for net liabilities) and its counterparties' creditworthiness (for net assets). PPL's credit department assesses all reasonably available market information and uses probabilities of default to calculate the credit adjustment. PPL assumes that observable market prices include sufficient adjustments for liquidity and modeling risks, but for Level 3 fair value measurements, PPL also assesses the need for additional adjustments for liquidity or modeling risks. The contracts classified as Level 3 represent contracts for which the delivery dates are beyond the dates for which independent prices are available or for certain power basis positions, which PPL generally values using historical settlement prices to project forward prices.

In certain instances, energy commodity contracts are transferred between Level 2 and Level 3. The primary reasons for the transfers during 2011 and 2010 were changes in the availability of market information and changes in the significance of the unobservable portion of the contract. As the delivery period of a contract becomes closer, market information may become available. When this occurs, the model's unobservable inputs are replaced with observable market information.

Price Risk Management Assets/Liabilities - Interest Rate Swaps/Foreign Currency Exchange Contracts/Cross-Currency Swaps

To manage their interest rate risk, PPL and PPL Energy Supply generally use interest rate contracts such as forward-starting swaps, floating-to-fixed swaps and fixed-to-floating swaps. To manage their foreign currency exchange risk, PPL generally uses and PPL Energy Supply, prior to its January 2011 distribution of its interest in PPL Global to its parent, PPL Energy Funding, generally used foreign currency exchange contracts such as forwards and options and cross-currency swaps that contain characteristics of both interest rate and foreign currency exchange contracts. PPL and PPL Energy Supply use an income approach to measure the fair value of these contracts, utilizing readily observable inputs, such as forward interest rates (e.g., LIBOR and government security rates) and forward foreign currency exchange rates (e.g., GBP and Euro), as well as inputs that may not be observable, such as credit valuation adjustments. In certain cases, PPL and PPL Energy Supply cannot practicably obtain market information to value credit risk and therefore rely on their own models. These models use projected probabilities of default based on historical observances. When the credit valuation adjustment is significant to the overall valuation, the contracts are classified as Level 3.

NDT Funds

PPL and PPL Energy Supply generally use the market approach to measure the fair value of equity securities held in the NDT funds.

- The fair value measurements of equity securities classified as Level 1 are based on quoted prices in active markets and are comprised of securities that are representative of the Wilshire 5000 index, which is invested in approximately 70% large-cap stocks and 30% mid/small-cap stocks.

- Investments in commingled equity funds are classified as Level 2 and represent securities that track the S&P 500 index and the Wilshire 4500 index. These fair value measurements are based on firm quotes of net asset values per share, which are not obtained from a quoted price in an active market.

Debt securities are generally measured using a market approach, including the use of matrix pricing. Common inputs include reported trades, broker/dealer bid/ask prices, benchmark securities and credit valuation adjustments. When necessary, the fair value of debt securities is measured using the income approach, which incorporates similar observable inputs as well as benchmark yields, credit valuation adjustments, reference data from market research publications, monthly payment data, collateral performance and new issue data.

The debt securities held by the NDT funds at March 31, 2011 have a weighted-average coupon of 4.57% and a weighted-average duration of five years.

Auction Rate Securities

PPL's and PPL Energy Supply's auction rate securities include Federal Family Education Loan Program guaranteed student loan revenue bonds, as well as various municipal bond issues. At March 31, 2011, contractual maturities for these auction rate securities were a weighted average of approximately 25 years. PPL and PPL Energy Supply do not have significant exposure to realize losses on these securities; however, auction rate securities are classified as Level 3 because failed auctions limit the amount of observable market data that is available for measuring the fair value of these securities.

The fair value of auction rate securities is estimated using an income approach with inputs for the underlying structure and credit quality of each security; the present value of future interest payments, estimated based on forward rates of the SIFMA Index, and principal payments discounted using interest rates for bonds with a credit rating and remaining term to maturity similar to the stated maturity of the auction rate securities; and the impact of auction failures or redemption at par.

Nonrecurring Fair Value Measurements

The following nonrecurring fair value measurements occurred during the reporting periods, resulting in asset impairments.

	Carrying Amount (a)	Fair Value Measurements Using Level 2	Fair Value Measurements Using Level 3	Loss (b)
Sulfur dioxide emission allowances (c):				
March 31, 2011	$ 1			$ 1
March 31, 2010	13		$ 10	3
RECs (c):				
March 31, 2011	3			3

(a) Represents carrying value before fair value measurement.
(b) Losses on sulfur dioxide emission allowances and RECs were recorded in the Supply segment and included in "Other operation and maintenance" on the Statements of Income.
(c) Current and long-term sulfur dioxide emission allowances and RECs are included in "Other intangibles" in their respective areas on the Balance Sheets.

Sulfur Dioxide Emission Allowances

Due to declines in market prices at both March 31, 2011 and 2010, PPL Energy Supply assessed the recoverability of sulfur dioxide emission allowances not expected to be consumed. When available, observable market prices were used to value the sulfur dioxide emission allowances. When observable market prices were not available, fair value was modeled using prices from observable transactions and appropriate discount rates. The modeled values were significant to the overall fair value measurement, resulting in the Level 3 classification.

RECs

Due to a decline in forecasted full-requirement obligations in certain markets as well as a decline in market prices at March 31, 2011, PPL Energy Supply assessed the recoverability of certain RECs not expected to be used. Observable market prices (Level 2) were used to value the RECs.

Financial Instruments Not Recorded at Fair Value

(PPL, PPL Energy Supply and PPL Electric)

NPNS

PPL and PPL Energy Supply enter into full-requirement sales contracts, power purchase agreements and certain retail energy and physical capacity contracts that qualify for NPNS. PPL Electric also enters into full-requirement purchase contracts and block purchase contracts that qualify for NPNS. See "Energy Purchase Commitments" in Note 10 for information about PPL Electric's competitive solicitations. All of these contracts are accounted for using accrual accounting; therefore, there were no amounts recorded on the Balance Sheets at March 31, 2011 and December 31, 2010. The estimated fair value of these contracts, calculated using similar inputs and valuation techniques as those described above within "Price Risk Management Assets/Liabilities - Energy Commodities," was:

	Net Asset (Liability) March 31, 2011	Net Asset (Liability) December 31, 2010
PPL	$ 205	$ 229
PPL Energy Supply	210	240
PPL Electric	(4)	(8)

Other

The carrying amounts of contract adjustment payments related to the 2010 Purchase Contract component of the 2010 Equity Units and long-term debt on the Balance Sheets and their estimated fair value are set forth below. The fair value of these instruments was estimated using an income approach by discounting future cash flows at estimated current cost of funding rates. The effect of third-party credit enhancements is not included in the fair value measurement.

	March 31, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
PPL				
Contract adjustment payments (a)	$ 133	$ 135	$ 146	$ 148
Long-term debt	12,749	13,039	12,663	12,868
PPL Energy Supply				
Long-term debt	3,276	3,583	5,589	5,919
PPL Electric				
Long-term debt	1,472	1,594	1,472	1,578

(a) Reflected in current and long-term other liabilities on the balance sheets.

The carrying value of short-term debt, when outstanding, represents or approximates fair value due to the liquid nature of the instruments or variable interest rates associated with the financial instruments.

Credit Concentration Associated with Financial Instruments

(PPL, PPL Energy Supply and PPL Electric)

PPL and its subsidiaries enter into contracts with many entities for the purchase and sale of energy. Many of these contracts are considered a normal part of doing business and, as such, the fair value of these contracts is not reflected in the financial statements. However, the fair value of these contracts is considered when committing to new business from a credit perspective. See Note 14 for information on credit policies used by PPL and its subsidiaries to manage credit risk, including master netting arrangements and collateral requirements.

(PPL)

At March 31, 2011, PPL had credit exposure of $2.5 billion from energy trading partners, excluding the effects of netting arrangements and collateral. As a result of netting arrangements and collateral, PPL's credit exposure was reduced to $730 million. One of the counterparties accounted for 13% of this exposure, and the next highest counterparty accounted for 11% of the exposure. Ten counterparties accounted for $454 million, or 62%, of the net exposure. All of these counterparties had an investment grade credit rating from S&P or Moody's and are current on their obligations.

(PPL Energy Supply)

At March 31, 2011, PPL Energy Supply had credit exposure of $2.5 billion from energy trading partners, excluding exposure from related parties and the effects of netting arrangements and collateral. As a result of netting arrangements and collateral, this credit exposure was reduced to $727 million. One of the counterparties accounted for 13% of this exposure, and the next highest counterparty accounted for 11% of the exposure. Ten counterparties accounted for $454 million, or 62%, of the net exposure. All of these counterparties had an investment grade credit rating from S&P or Moody's and are current on their obligations.

At March 31, 2011, PPL Energy Supply's credit exposure under certain energy supply contracts to PPL Electric was $14 million. Netting arrangements had an insignificant effect on this credit exposure.

(PPL Electric)

At March 31, 2011, PPL Electric had no credit exposure under energy supply contracts (including its supply contracts with its affiliate PPL EnergyPlus).

14. Derivative Instruments and Hedging Activities

(PPL, PPL Energy Supply and PPL Electric)

Risk Management Objectives

As described in Notes 1 and 8, in January 2011, PPL Energy Supply distributed its membership interest in PPL Global to PPL Energy Supply's parent, PPL Energy Funding. Therefore, effective January 2011, PPL Energy Supply is no longer subject to interest rate and foreign currency exchange risk associated with investments in U.K. affiliates.

PPL has a risk management policy approved by the Board of Directors to manage market risk and counterparty credit risk. The RMC, comprised of senior management and chaired by the Chief Risk Officer, oversees the risk management function. Key risk control activities designed to ensure compliance with the risk policy and detailed programs include, but are not limited to, credit review and approval, validation of transactions and market prices, verification of risk and transaction limits, VaR analyses, portfolio stress tests, gross margin at risk analyses, sensitivity analyses, and daily portfolio reporting, including open positions, determinations of fair value, and other risk management metrics. PPL completed its acquisition of LKE in November 2010. PPL continues to evaluate changes to its processes, including risk management, as part of its ongoing integration activities. LKE continues to operate under its existing policies, which have been reviewed by PPL and have been deemed adequate to minimize risk until this evaluation and integration process is complete.

Market risk is the potential loss PPL and its subsidiaries may incur as a result of price changes associated with a particular financial or commodity instrument.

PPL and PPL Energy Supply are exposed to market risk from:

- commodity price, basis and volumetric risks for energy and energy-related products associated with the sale of electricity from its generating assets and other electricity marketing activities (including full-requirement sales contracts) and the purchase of fuel and fuel-related commodities for generating assets, as well as for proprietary trading activities;
- interest rate and price risk associated with debt used to finance operations, as well as debt and equity securities in NDT funds and defined benefit plans; and
- foreign currency exchange rate risk associated with purchases of equipment in currencies other than U.S. dollars.

Additionally, PPL is exposed to market risk from foreign currency exchange risk, associated with its investments in U.K. affiliates.

PPL and PPL Energy Supply utilize forward contracts, futures contracts, options, swaps and structured deals such as tolling agreements as part of the risk management strategy to minimize unanticipated fluctuations in earnings caused by changes in commodity prices, volumes of full-requirement sales contracts, basis prices, interest rates and foreign currency exchange rates. All derivatives are recognized on the balance sheet at their fair value, unless they qualify for NPNS.

PPL and PPL Electric are exposed to market price and volumetric risks from PPL Electric's obligation as PLR. The PUC has approved a cost recovery mechanism that allows PPL Electric to pass through to customers the cost associated with fulfilling its PLR obligation. This cost recovery mechanism substantially eliminates PPL Electric's exposure to market price risk. PPL Electric also mitigates its exposure to volumetric risk by entering into full-requirement supply agreements for its customers. These supply agreements transfer the volumetric risk associated with the PLR obligation to the energy suppliers.

The regulatory environment to which PPL's other regulated entities, LKE and WPD, are subject, by definition, significantly mitigates those risks, because, similar to PPL Electric, LKE's rates are set to permit the recovery of prudently incurred costs and WPD does not have supply risks as it is only in the distribution business.

Credit risk is the potential loss PPL and its subsidiaries may incur due to a counterparty's non-performance, including defaults on payments and energy commodity deliveries.

PPL is exposed to credit risk from interest rate and foreign currency derivatives with financial institutions.

PPL and PPL Energy Supply are exposed to credit risk from commodity derivatives with their energy trading partners, which include other energy companies, fuel suppliers and financial institutions.

PPL and PPL Electric are exposed to credit risk from PPL Electric's supply agreements for its PLR obligation.

The majority of PPL's, PPL Energy Supply's and PPL Electric's credit risk stems from PPL subsidiaries' commodity derivatives for multi-year contracts for energy sales and purchases. If PPL Energy Supply's counterparties fail to perform their obligations under such contracts and PPL Energy Supply could not replace the sales or purchases at the same prices as those under the defaulted contracts, PPL Energy Supply would incur financial losses. Those losses would be recognized immediately or through lower revenues or higher costs in future years, depending on the accounting treatment for the defaulted contracts. In the event an LG&E, KU or PPL Electric supplier defaults on its obligation, those entities would be required to seek replacement power or replacement fuel in the market. In general, incremental costs incurred by these entities would be recoverable from customers in future rates.

PPL and its subsidiaries have credit policies to manage their credit risk, including the use of an established credit approval process, daily monitoring of counterparty positions, and the use of master netting agreements. These agreements generally include credit mitigation provisions, such as margin, prepayment or collateral requirements. PPL and its subsidiaries may request the additional credit assurance, in certain circumstances, in the event that the counterparties' credit ratings fall below investment grade or their exposures exceed an established credit limit. See Note 13 for credit concentration associated with financial instruments.

Master Netting Arrangements

PPL and its subsidiaries have elected not to offset net derivative positions in the Financial Statements. Accordingly, PPL and its subsidiaries do not offset such derivative positions against the right to reclaim cash collateral (a receivable) or the obligation to return cost collateral (a payable) under master netting arrangements.

PPL's and PPL Energy Supply's obligation to return counterparty cash collateral under master netting arrangements was $142 million and $338 million at March 31, 2011 and December 31, 2010.

PPL Electric had no obligation to return cash collateral under master netting arrangements at March 31, 2011 and December 31, 2010.

PPL, PPL Energy Supply and PPL Electric had not posted any cash collateral under master netting arrangements at March 31, 2011 and December 31, 2010.

(PPL and PPL Energy Supply)

Commodity Price Risk (Non-trading)

Commodity price and basis risks are among PPL's and PPL Energy Supply's most significant risks due to the level of investment that PPL and PPL Energy Supply maintain in their competitive generation assets, as well as the extent of their marketing and proprietary trading activities. Several factors influence price levels and volatilities. These factors include, but are not limited to, seasonal changes in demand, weather conditions, available generating assets within regions, transportation/transmission availability and reliability within and between regions, market liquidity, and the nature and extent of current and potential federal and state regulations.

PPL and PPL Energy Supply enter into financial and physical derivative contracts, including forwards, futures, swaps and options, to hedge the price risk associated with electricity, gas, oil and other commodities. Certain contracts qualify for NPNS or are non-derivatives and are therefore not reflected in the financial statements until delivery. See Note 13 for additional information on NPNS. PPL and PPL Energy Supply segregate their remaining non-trading activities into two categories: cash flow hedge activity and economic activity.

<u>Cash Flow Hedges</u>

Many derivative contracts have qualified for hedge accounting so that the effective portion of a derivative's gain or loss is deferred in AOCI and reclassified into earnings when the forecasted transaction occurs. The cash flow hedges that existed at March 31, 2011 range in maturity through 2015. At March 31, 2011, the accumulated net unrealized after-tax gains that are expected to be reclassified into earnings during the next 12 months were $317 million for PPL and PPL Energy Supply. Cash flow hedges are discontinued if it is no longer probable that the original forecasted transaction will occur by the end of the originally specified time periods and any amounts previously recorded in AOCI are reclassified into earnings. For the three months ended March 31, 2011 and March 31, 2010, such reclassifications were insignificant.

For the three months ended March 31, 2011 and March 31, 2010, hedge ineffectiveness associated with energy derivatives was, after-tax, a loss of $(4) million and a gain of $6 million.

In addition, when cash flow hedge positions fail hedge effectiveness testing, hedge accounting is not permitted in the quarter in which this occurs and, accordingly, the entire change in fair value for the periods that failed is recorded to the income statement. Certain power and gas cash flow hedge positions failed effectiveness testing during 2008 and early 2009 which resulted in significant gains to the Statement of Income. However, these positions were not dedesignated as hedges, as prospective regression analysis demonstrated that these hedges were expected to be highly effective over their term. During the three months ended March 31, 2010, after-tax losses of $(82) million were recognized in earnings as a result of the reversals. Effective April 1, 2010, clarifying accounting guidance was issued that precludes the reversal of previously recognized gains/losses resulting from hedge failures. By March 31, 2010, all previously recorded hedge ineffectiveness gains resulting from hedge failures had reversed.

Economic Activity

Certain derivative contracts economically hedge the price and volumetric risk associated with electricity, gas, oil and other commodities but do not receive hedge accounting treatment. These derivatives hedge a portion of the economic value of PPL's and PPL Energy Supply's competitive generation assets and unregulated full-requirement and retail contracts, which are subject to changes in fair value due to market price volatility and volume expectations. Additionally, economic activity includes the ineffective portion of qualifying cash flow hedges (see "Cash Flow Hedges" above). The derivative contracts in this category that existed at March 31, 2011 range in maturity through 2017.

Examples of economic activity include certain purchase contracts used to supply full-requirement sales contracts; FTRs or basis swaps used to hedge basis risk associated with the sale of competitive generation or supplying unregulated full-requirement sales contracts; spark spreads (sale of electricity with the simultaneous purchase of fuel); retail gas activities; and fuel oil swaps used to hedge price escalation clauses in coal transportation and other fuel-related contracts. PPL Energy Supply also uses options, which include the sale of call options and the purchase of put options tied to a particular generating unit. Since the physical generating capacity is owned, the price exposure is limited to the cost of the particular generating unit and does not expose PPL Energy Supply to uncovered market price risk. PPL Energy Supply also purchases call options or sells put options to create a net purchase position to cover an overall short position in the non-trading portfolio.

The net fair value of economic positions at March 31, 2011 and December 31, 2010 was a net liability of $277 million and $400 million for PPL and a net liability of $276 million and $389 million for PPL Energy Supply. The unrealized gains (losses) for economic activity are as follows.

	Three Months Ended March 31,	
	2011	2010
PPL Energy Supply		
Operating Revenues		
Unregulated retail electric and gas	$ 4	$ 10
Wholesale energy marketing	57	424
Operating Expenses		
Fuel	23	5
Energy purchases	18	(563)

The net gains (losses) recorded in "Wholesale energy marketing" resulted primarily from certain full-requirement sales contracts for which PPL Energy Supply did not elect NPNS, from hedge ineffectiveness, including hedges that failed effectiveness testing, as discussed in "Cash Flow Hedges" above, and from the monetization of certain full-requirement sales contracts in mid-2010. The net gains (losses) recorded in "Energy purchases" resulted primarily from certain purchase contracts to supply the full-requirement sales contracts noted above for which PPL Energy Supply did not elect hedge treatment, from hedge ineffectiveness, including hedges that failed effectiveness testing, and from purchase contracts that no longer hedge the full-requirement sales contracts that were monetized in mid-2010.

Commodity Price Risk (Trading)

PPL Energy Supply also executes energy contracts to take advantage of market opportunities. As a result, PPL Energy Supply may at times create a net open position in its portfolio that could result in significant losses if prices do not move in the manner or direction anticipated. PPL Energy Supply's trading activity is shown in "Net energy trading margins" on the Statements of Income.

Commodity Volumetric Activity

PPL Energy Supply currently employs four primary strategies to maximize the value of its wholesale energy portfolio. As further discussed below, these strategies include the sales of baseload generation, optimization of intermediate and peaking generation, marketing activities, and proprietary trading activities. The tables within this section present the volumes of PPL Energy Supply's derivative activity, excluding those that qualify for NPNS, unless otherwise noted.

Sales of Baseload Generation

PPL Energy Supply has a formal hedging program for its competitive baseload generation fleet, which includes 7,267 MW of nuclear, coal and hydroelectric generating capacity. The objective of this program is to provide a reasonable level of near-term cash flow and earnings certainty while preserving upside potential of power price increases over the medium term. PPL Energy Supply sells its expected generation output on a forward basis using both derivative and non-derivative instruments. Both are included in the following tables.

The following table presents the expected sales, in GWh, of baseload generation based on current forecasted assumptions for 2011-2013. These expected sales could be impacted by several factors, including plant availability.

2011 (a)	2012	2013
38,385	54,675	54,364

(a) Represents expected sales for the balance of the current year.

The following table presents the percentage of expected baseload generation sales shown above that has been sold forward under fixed price contracts and the related percentage of fuel that has been purchased or committed at March 31, 2011.

	Derivative	Total Power	Fuel Purchases (d)	
Year	Sales (a) (b)	Sales (c)	Coal	Nuclear
2011 (e)	90%	98%	99%	100%
2012	77%	86%	96%	100%
2013	16%	24%	87%	100%

(a) Excludes non-derivative contracts and contracts that qualify for NPNS. Volumes for option contracts factor in the probability of an option being exercised and may be less than the notional amount of the option.
(b) Volumes for derivative sales contracts that deliver between 2014 and 2015 total 1,500 GWh.
(c) Amount represents derivative and non-derivative contracts. Volumes for option contracts factor in the probability of an option being exercised and may be less than the notional amount of the option. Percentages are based on fixed-price contracts only.
(d) Coal and nuclear contracts receive accrual accounting treatment, as they are not derivative contracts. Percentages are based on both fixed- and variable-priced contracts.
(e) Represents the balance of the current year.

In addition to the fuel purchases above, PPL Energy Supply attempts to economically hedge the fuel price risk that is within its fuel-related and coal transportation contracts, which are tied to changes in crude oil or diesel prices. The following table presents the volumes (in thousands of barrels) of derivative contracts used in support of this strategy at March 31, 2011.

	2011 (a)	2012	2013
Oil Swaps	222	756	300

(a) Represents the balance of the current year.

Optimization of Intermediate and Peaking Generation

In addition to its competitive baseload generation activities, PPL Energy Supply attempts to optimize the overall value of its competitive intermediate and peaking fleet, which includes 3,501 MW of gas and oil-fired generation. The following table presents the volumes of derivative contracts used in support of this strategy at March 31, 2011.

	Units	2011 (a)	2012	2013
Net Power Sales (b)	GWh	(1,833)	(1,632)	(816)
Net Fuel Purchases (b)	Bcf	14.9	11.0	5.5

(a) Represents the balance of the current year.
(b) Included in these volumes are non-options and exercised option contracts that converted to non-option derivative contracts. Volumes associated with option contracts are not significant.

Marketing Activities

PPL Energy Supply's marketing portfolio is comprised of full-requirement sales contracts and their related supply contracts, retail gas and electricity sales contracts and other marketing activities. The full-requirement sales contracts and their related supply contracts make up a significant component of the marketing portfolio. The obligations under the full-requirement sales contracts include supplying a bundled product of energy, capacity, RECs, and other ancillary products. The full-requirement sales contracts PPL Energy Supply is awarded do not provide for specific levels of load, and actual load could vary significantly from forecasted amounts. PPL Energy Supply uses a variety of strategies to hedge its full-requirement sales contracts, including purchasing energy at a liquid trading hub or directly at the load delivery zone, purchasing capacity and RECs in the market and supplying the energy, capacity and RECs with its generation. RECs are not derivatives and are excluded from the table below. The following table presents the volume of (sales)/purchase contracts, excluding FTRs, basis and capacity contracts, used in support of these activities at March 31, 2011.

	Units	2011 (a)	2012	2013
Energy sales contracts (b) (c)	GWh	(10,014)	(7,832)	(3,118)
Related energy supply contracts (b) (c)				
Energy purchases	GWh	6,993	4,305	230
Volumetric hedges (d)	GWh	468	165	
Generation supply	GWh	2,389	3,585	2,848
Retail gas sales contracts (c)	Bcf	(4.2)	(5.8)	(0.2)
Retail gas purchase contracts (c)	Bcf	4.2	5.8	0.2

(a) Represents the balance of the current year.
(b) Includes NPNS and contracts that are not derivatives, which are the majority of PPL Energy Supply's full-requirement sales contracts which receive accrual accounting. Also included in these volumes are the sales from PPL EnergyPlus to PPL Electric to supply PPL Electric's PLR load obligation.
(c) Net volumes for derivative contracts, excluding contracts that qualify for NPNS that deliver between 2014 and 2015 are not significant.
(d) PPL Energy Supply uses power and gas options, swaps and futures to hedge the volumetric risk associated with full-requirement sales contracts since the demand for power varies hourly. Volumes for option contracts factor in the probability of an option being exercised and may be less than the notional amount of the option.

FTRs and Other Basis Positions

PPL Energy Supply buys and sells FTRs and other basis positions to mitigate the basis risk between delivery points related to the sales of its generation, the supply of its full-requirement sales contracts and retail contracts, as well as for proprietary trading purposes. The volume of derivative FTR and basis (sales)/purchase contracts at March 31, 2011 were:

	Units	2011 (a)	2012	2013
FTRs	GWh	9,882	47	
Power Basis Positions	GWh	(11,564)	(3,247)	(216)
Gas Basis Positions (b)	Bcf	15.7	6.4	(0.9)

(a) Represents the balance of the current year.
(b) Net volumes that deliver in 2014 and 2015 are (1.8) Bcf.

Capacity Positions

PPL Energy Supply buys and sells capacity related to the sales of its generation and the supply of its full-requirement sales contracts, as well as for proprietary trading purposes. The following table presents the volumes of derivative capacity (sales)/purchase contracts at March 31, 2011.

	Units	2011 (a)	2012	2013
Capacity (b)	MW-months	(5,286)	(643)	(1,005)

(a) Represents the balance of the current year.
(b) Net volumes that deliver between 2014 and 2016 are 647 MW-months.

Proprietary Trading Activity

At March 31, 2011, PPL Energy Supply's proprietary trading positions, excluding FTR, basis and capacity contract activity that has already been included in the tables above, were not significant.

Sales of Excess Regulated Generation *(PPL)*

PPL manages the price risk of its expected excess regulated generation capacity using market-traded forward contracts. At March 31, 2011, PPL's net volume of electricity based financial derivatives outstanding to hedge excess regulated generation was 1,254 GWh for LKE.

Interest Rate Risk

Cash Flow Hedges *(PPL and PPL Energy Supply)*

Interest rate risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financings. PPL and PPL Energy Supply may enter into financial interest rate swap contracts to hedge floating interest rate risk associated with both existing and anticipated debt issuances. For PPL, these interest rate swap contracts mature in 2021 and had a notional value of $250 million at March 31, 2011. PPL Energy Supply had no such interest rate swap contracts outstanding at March 31, 2011.

PPL WW Holdings holds a notional position in cross-currency interest rate swaps totaling $302 million that mature through December 2028 to hedge the interest payments and principal of its U.S. dollar-denominated senior notes. In 2010, these swaps were part of PPL Energy Supply's business. As a result of the distribution of PPL Energy Supply's membership interest in PPL Global to PPL Energy Funding, effective January 2011, these swaps are no longer part of PPL Energy Supply's business.

At March 31, 2011, the accumulated net unrealized after-tax losses on qualifying derivatives that are expected to be reclassified into earnings during the next 12 months were $(5) million for PPL. Amounts are reclassified as the hedged interest payments are made.

For the three months ended March 31, 2011 and 2010, hedge ineffectiveness associated with these interest rate derivatives was insignificant. Cash flow hedges are discontinued if it is no longer probable that the original forecasted transaction will occur by the end of the originally specified time periods and any amounts previously recorded in AOCI are reclassified to earnings. PPL reclassified an insignificant amount for the three months ended March 31, 2011 and had no such reclassifications for the three months ended March 31, 2010. PPL Energy Supply had no such reclassifications for the three months ended March 31, 2011 and 2010.

Economic Activity *(PPL)*

LG&E entered into interest rate swap contracts that economically hedge interest payments on variable rate debt. Realized gains and losses from the swaps are recoverable through regulated rates. Therefore, the change in fair value of these derivatives is included in regulatory assets and liabilities. Realized gains and losses are recognized in "Interest Expense" on the Statement of Income when the hedged transaction occurs. At March 31, 2011, LG&E held contracts with a notional amount of $179 million that range in maturity through 2033. The fair value of these contracts was a liability of $32 million and $34 million at March 31, 2011 and December 31, 2010.

Fair Value Hedges *(PPL and PPL Energy Supply)*

PPL and PPL Energy Supply are exposed to changes in the fair value of their debt portfolios. To manage this risk, PPL and PPL Energy Supply may enter into financial contracts to hedge fluctuations in the fair value of existing debt issuances due to changes in benchmark interest rates. At March 31, 2011, PPL held contracts that range in maturity through 2047 and had a notional value of $349 million. PPL Energy Supply did not hold any such contracts at March 31, 2011. PPL and PPL Energy Supply did not recognize any gains or losses resulting from the ineffective portion of fair value hedges or from a portion of the hedging instrument being excluded from the assessment of hedge effectiveness for the three months ended March 31, 2011 and 2010. Additionally, PPL and PPL Energy Supply did not recognize any gains or losses resulting from hedges of debt that no longer qualified as fair value hedges for the three months ended March 31, 2011 and 2010.

Foreign Currency Risk

Cash Flow Hedges *(PPL)*

At March 31, 2011, there were no existing foreign currency cash flow hedges associated with foreign currency-denominated debt or firm commitments (including those for the purchase of equipment) denominated in foreign currencies. Amounts previously settled and recorded in AOCI are reclassified as the hedged interest payments are made and as the related equipment is depreciated. Insignificant gains are expected to be reclassified into earnings during the next 12 months.

During the three months ended March 31, 2011 and 2010, no cash flow hedges were discontinued because it was no longer probable that the original forecasted transaction would occur by the end of the originally specified time periods.

Fair Value Hedges *(PPL)*

PPL enters into foreign currency forward contracts to hedge the exchange rates associated with firm commitments denominated in foreign currencies; however, at March 31, 2011, there were no existing contracts of this nature and no gains or losses were recorded during the three months ended March 31, 2011 and 2010.

Net Investment Hedges *(PPL and PPL Energy Supply)*

PPL enters into foreign currency contracts on behalf of a subsidiary to protect the value of a portion of its net investment in WPD. In 2010, these contracts were included in PPL Energy Supply's business. As a result of the distribution of PPL Energy Supply's membership interest in PPL Global to PPL Energy Funding, effective January 2011, these contracts are no longer included in PPL Energy Supply's business.

The contract outstanding at March 31, 2011 had a notional amount of £10 million (approximately $17 million based on contracted rates) and settles in March 2012. For the three months ended March 31, 2011, PPL recognized an insignificant amount of net investment hedge gains and losses in the foreign currency translation adjustment component of AOCI. For the three months ended March 31, 2010, PPL and PPL Energy Supply recognized an insignificant amount of net investment hedge gains and losses in the foreign currency translation adjustment component of AOCI. At March 31, 2011, PPL included $14 million of accumulated net investment hedge gains, after tax, in the foreign currency translation adjustment component of AOCI, compared to $15 million of gains, after-tax, recorded by PPL and PPL Energy Supply at December 31, 2010.

Economic Activity

(PPL and PPL Energy Supply)

PPL enters into foreign currency contracts on behalf of a subsidiary to economically hedge anticipated earnings denominated in GBP. In 2010, these contracts were included in PPL Energy Supply's business. As a result of the distribution of PPL Energy Supply's membership interest in PPL Global to PPL Energy Funding, effective January 2011, these contracts are no longer included in PPL Energy Supply's business. At March 31, 2011, the total exposure hedged by PPL was £132 million and the net fair value of these positions was insignificant. These contracts had termination dates ranging from April 2011 to December 2011. Gains and losses, both realized and unrealized, on these contracts are included in "Other Income (Expense) – net" on the Statements of Income and were insignificant for the three months ended March 31,2011 and 2010.

(PPL)

In anticipation of the repayment of a portion of the borrowings under the Bridge Facility with U.S. dollar proceeds received from PPL's issuance of common stock and 2011 Equity Units and PPL WEM's issuance of senior notes, as discussed in Note 7, in 2011, PPL entered into forward contracts to purchase GBP in order to economically hedge the foreign currency exchange rate risk related to the repayment. The total notional amount of the contracts outstanding at March 31, 2011 was £2.1 billion (approximately $3.3 billion based on contracted rates). These trades, as well as additional similar trades executed in April 2011, were settled in April 2011. Gains and losses, both realized and unrealized, on these contracts are included in "Other Income (Expense) - net" on the Statement of Income. PPL recorded $(7) million of pre-tax, net losses for the three months ended March 31, 2011.

Accounting and Reporting

(PPL, PPL Energy Supply and PPL Electric)

All derivative instruments are recorded at fair value on the balance sheet as an asset or liability unless they qualify for NPNS. See Note 13 for additional information. Changes in the derivatives' fair value are recognized currently in earnings unless specific hedge accounting criteria are met, except for the change in fair value of LG&E's interest rate swaps which is recognized as a regulatory asset. See Note 6 for amounts recorded in regulatory assets at March 31, 2011 and December 31, 2010.

See Note 1 and 19 in each Registrant's 2010 Form 10-K for additional information on accounting policies related to derivative instruments.

(PPL)

The following tables present the fair value and location of derivative instruments recorded on the Balance Sheets.

	March 31, 2011				December 31, 2010			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments (a)		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments (a)	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:								
Price Risk Management Assets/Liabilities (b):								
Interest rate swaps	$ 8	$ 7		$ 3	$ 11	$ 19		$ 2
Cross-currency swaps	1				7	9		
Foreign currency exchange contracts			$ 6	11	7		$ 4	
Commodity contracts	831	6	939	983	878	19	1,011	1,095
Total current	840	13	945	997	903	47	1,015	1,097
Noncurrent:								
Price Risk Management Assets/Liabilities (b):								
Interest rate swaps	2			30	4			32
Cross-currency swaps	8				37			
Commodity contracts	160	4	430	363	169	7	445	431
Total noncurrent	170	4	430	393	210	7	445	463
Total derivatives	$ 1,010	$ 17	$ 1,375	$ 1,390	$ 1,113	$ 54	$ 1,460	$ 1,560

(a) $293 million and $326 million of net gains associated with derivatives that were no longer designated as hedging instruments are recorded in AOCI at March 31, 2011 and December 31, 2010.

(b) Represents the location on the Balance Sheet.

The after-tax balances of accumulated net gains (losses) (excluding net investment hedges) in AOCI were $663 million and $695 million at March 31, 2011 and December 31, 2010. The after-tax balances of accumulated net gains (losses) (excluding net investment hedges) in AOCI were $919 million and $602 million at March 31, 2010 and December 31, 2009.

The following tables present the pre-tax effect of derivative instruments recognized in income, OCI or regulatory assets for the three months ended March 31.

Derivatives in Fair Value Hedging Relationships	Hedged Items in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income	Gain (Loss) Recognized in Income on Derivative		Gain (Loss) Recognized in Income on Related Item	
			2011	2010	2011	2010
Interest rate swaps	Fixed rate debt	Interest expense	$ 1	$ 18	$ 10	$ (7)

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion) 2011	Derivative Gain (Loss) Recognized in OCI (Effective Portion) 2010	Location of Gain (Loss) Recognized in Income	2011 Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	2011 Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	2010 Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	2010 Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:							
Interest rate swaps	$ 10	$ (8)	Interest expense	$ (3)	$ (1)	$ (1)	$ (3)
Cross-currency swaps	(25)	22	Interest expense	3			
			Other income (expense) - net	(13)		22	
Commodity contracts	84	625	Wholesale energy marketing	203	(9)	178	(113)
			Fuel			1	
			Depreciation			1	
			Energy purchases	(70)	1	(104)	(18)
Total	$ 69	$ 639		$ 120	$ (9)	$ 97	$ (134)
Net Investment Hedges:							
Foreign exchange contracts	$ (1)	$ 4					

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized in Income on Derivatives	2011	2010
Foreign exchange contracts	Other income (expense) - net	$ (9)	$ 2
Interest rate swaps	Interest expense	(2)	
Commodity contracts	Unregulated retail electric and gas	1	11
	Wholesale energy marketing	45	758
	Net energy trading margins (a)	7	9
	Fuel	23	1
	Energy purchases	(55)	(739)
	Total	$ 10	$ 42

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	2011	2010
Interest rate swaps	Regulatory assets	$ 2	

(a) Differs from the Statement of Income due to intra-month transactions that PPL defines as spot activity, which is not accounted for as a derivative.

(PPL Energy Supply)

See Note 8 for information on PPL Energy Supply's January 2011 distribution of its membership interest in PPL Global to its parent, PPL Energy Funding. The following tables present the fair value and location of derivative instruments recorded on the Balance Sheets.

	March 31, 2011				December 31, 2010			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments (a)		Derivatives designated as hedging instruments		Derivatives not designated hedging instruments (a)	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:								
Price Risk Management Assets/Liabilities (b):								
Cross-currency swaps					$ 7	$ 9		
Foreign currency exchange contracts					7		$ 4	
Commodity contracts	$ 831	$ 6	$ 938	$ 981	878	19	1,011	$ 1,084
Total current	831	6	938	981	892	28	1,015	1,084
Noncurrent:								
Price Risk Management Assets/Liabilities (b):								
Cross-currency swaps					37			
Commodity contracts	160	4	430	363	169	7	445	431
Total noncurrent	160	4	430	363	206	7	445	431
Total derivatives	$ 991	$ 10	$ 1,368	$ 1,344	$ 1,098	$ 35	$ 1,460	$ 1,515

(a) $293 million and $326 million of net gains associated with derivatives that were no longer designated as hedging instruments are recorded in AOCI at March 31, 2011 and December 31, 2010.
(b) Represents the location on the balance sheet.

The after-tax balances of accumulated net gains (losses) (excluding net investment hedges) in AOCI were $662 million and $733 million at March 31, 2011 and December 31, 2010. At March 31, 2011, AOCI reflects the effect of PPL Energy Supply's January 2011 distribution of its membership interest in PPL Global to its parent, PPL Energy Funding. See Note 8 for additional information. The after-tax balances of accumulated net gains (losses) (excluding net investment hedges) in AOCI were $895 million and $573 million at March 31, 2010 and December 31, 2009.

The following tables present the pre-tax effect of derivative instruments recognized in income or OCI for the three months ended March 31.

				2011		2010	
Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion) 2011	Derivative Gain (Loss) Recognized in OCI (Effective Portion) 2010	Location of Gains (Losses) Recognized in Income	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:							
Interest rate swaps			Discontinued operations				$ (3)
Cross-currency swaps		$ 22	Discontinued operations			$ 22	
Commodity contracts	$ 84	625	Wholesale energy marketing	$ 203	$ (9)	178	(113)
			Fuel			1	
			Depreciation			1	
			Energy purchases	(70)	1	(104)	(18)
Total	$ 84	$ 647		$ 133	$ (8)	$ 98	$ (134)
Net Investment Hedges:							
Foreign exchange contracts		$ 4					

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized in Income on Derivatives	2011	2010
Foreign exchange contracts	Discontinued operations		$ 2
Commodity contracts	Unregulated retail electric and gas	$ 1	11
	Wholesale energy marketing	45	758
	Net energy trading margins (a)	7	9
	Fuel	23	1
	Energy purchases	(55)	(739)
	Total	$ 21	$ 42

(a) Differs from the Statement of Income due to intra-month transactions that PPL Energy Supply defines as spot activity, which is not accounted for as a derivative.

Credit Risk-Related Contingent Features *(PPL and PPL Energy Supply)*

Certain of PPL's and PPL Energy Supply's derivative contracts contain credit contingent provisions which would permit the counterparties with which PPL or PPL Energy Supply is in a net liability position to require the transfer of additional collateral upon a decrease in the credit ratings of PPL, PPL Energy Supply or certain of their subsidiaries. Most of these provisions would require PPL or PPL Energy Supply to transfer additional collateral or permit the counterparty to terminate the contract if the applicable credit rating were to fall below investment grade. Some of these provisions also would allow the counterparty to require additional collateral upon each decrease in the credit rating at levels that remain above investment grade. In either case, if the applicable credit rating were to fall below investment grade (i.e., below BBB- for S&P or Fitch, or Baa3 for Moody's), and assuming no assignment to an investment grade affiliate were allowed, most of these credit contingent provisions require either immediate payment of the net liability as a termination payment or immediate and ongoing full collateralization by PPL or PPL Energy Supply on derivative instruments in net liability positions.

Additionally, certain of PPL's and PPL Energy Supply's derivative contracts contain credit contingent provisions that require PPL or PPL Energy Supply to provide "adequate assurance" of performance if the other party has reasonable grounds for insecurity regarding PPL's or PPL Energy Supply's performance of its obligation under the contract. A counterparty demanding adequate assurance could require a transfer of additional collateral or other security, including letters of credit, cash and guarantees from a creditworthy entity. This would typically involve negotiations among the parties. However, amounts disclosed below represent assumed immediate payment or immediate and ongoing full collateralization for derivative instruments in net liability positions with "adequate assurance" provisions.

To determine net liability positions, PPL and PPL Energy Supply use the fair value of each contract. The aggregate fair value of all derivative instruments with the credit contingent provisions described above that were in a net liability position at March 31, 2011 was $124 million for PPL and $79 million for PPL Energy Supply, of which PPL and PPL Energy Supply had posted collateral of $92 million and $72 million in the normal course of business. At March 31, 2011, if the credit contingent provisions underlying all derivative instruments were triggered due to a credit downgrade below investment grade, PPL and PPL Energy Supply would have been required to prepay or post additional collateral of $205 million and $188 million to their counterparties after including the effect of net receivables and payables already recorded on the balance sheet.

15. Goodwill

(PPL and PPL Energy Supply)

The changes in the carrying amounts of goodwill by segment were:

	Kentucky Regulated	International Regulated	Supply	Total
PPL				
Balance at December 31, 2010 (a)	$ 662	$ 679	$ 420	$ 1,761
Effect of foreign currency exchange rates		31		31
Balance at March 31, 2011 (a)	$ 662	$ 710	$ 420	$ 1,792

	International Regulated	Supply	Total
PPL Energy Supply			
Balance at December 31, 2010 (a)	$ 679	$ 86	$ 765
Derecognition (b)	(679)		(679)
Balance at March 31, 2011 (a)	$	$ 86	$ 86

(a) There were no accumulated impairment losses related to goodwill.
(b) Represents the amount of goodwill derecognized as a result of PPL Energy Supply's distribution of its membership interest in PPL Global to PPL Energy Supply's parent, PPL Energy Funding. See Note 8 for additional information on the distribution. Subsequent to the distribution, PPL Energy Supply operates in a single business segment and reporting unit.

16. Asset Retirement Obligations

(PPL and PPL Energy Supply)

The changes in the carrying amounts of AROs were as follows.

	PPL	PPL Energy Supply
ARO at December 31, 2010	$ 448	$ 345
Accretion expense (a)	9	7
Derecognition (b)		(5)
Obligations settled	(3)	(3)
ARO at March 31, 2011	$ 454	$ 344

(a) Accretion expense recorded by PPL for its subsidiaries LG&E and KU is offset with a regulatory asset, such that there is no income statement impact.
(b) Represents AROs derecognized as a result of PPL Energy Supply's distribution of its membership interest in PPL Global to PPL Energy Supply's parent, PPL Energy Funding. See Note 8 for additional information on the distribution.

The classification of AROs on the Balance Sheet was as follows.

	PPL		PPL Energy Supply	
	March 31, 2011	December 31, 2010	March 31, 2011	December 31, 2010
Current portion (a)	$ 12	$ 13	$ 11	$ 13
Long-term portion (b)	442	435	333	332
Total	$ 454	$ 448	$ 344	$ 345

(a) Included in "Other current liabilities."
(b) Included in "Asset retirement obligations."

The most significant ARO recorded by PPL and PPL Energy Supply relates to the decommissioning of the Susquehanna nuclear plant. The accrued nuclear decommissioning obligation was $276 million and $270 million at March 31, 2011 and December 31, 2010, and is included in "Asset retirement obligations" on the Balance Sheets.

Assets in the NDT funds are legally restricted for purposes of settling PPL's and PPL Energy Supply's ARO related to the decommissioning of the Susquehanna station. The aggregate fair value of these assets was $644 million and $618 million at March 31, 2011 and December 31, 2010, and is included in "Nuclear plant decommissioning trust funds" on the Balance Sheets. See Notes 13 and 17 for additional information on these assets.

17. Available-for-Sale Securities

(PPL and PPL Energy Supply)

PPL and its subsidiaries classify certain short-term investments, securities held by the NDT funds and auction rate securities as available-for-sale. Available-for-sale securities are carried on the balance sheet at fair value. Unrealized gains and losses on these securities are reported, net of tax, in OCI or are recognized currently in earnings when a decline in fair value is determined to be other-than-temporary. The specific identification method is used to calculate realized gains and losses.

The following table shows the amortized cost, the gross unrealized gains and losses recorded in AOCI, and the fair value of available-for-sale securities.

	March 31, 2011				December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
PPL								
Short-term investments - municipal debt securities					$ 163			$ 163
NDT funds:								
Cash and cash equivalents	$ 16			$ 16	10			10
Equity securities:								
U.S. large-cap	168	$ 132		300	180	$ 123		303
U.S. mid/small-cap	66	56		122	67	52		119
Debt securities:								
U.S. Treasury	73	4		77	71	4		75
U.S. government sponsored agency	10			10	6	1		7
Municipality	79	1	$ 1	79	69			69
Investment-grade corporate	35	2		37	31	2		33
Other	2			2	1			1
Receivables/payables, net	1			1	1			1
Total NDT funds	450	195	1	644	436	182		618
Auction rate securities	25			25	25			25
Total	$ 475	$ 195	$ 1	$ 669	$ 624	$ 182		$ 806
PPL Energy Supply								
NDT funds:								
Cash and cash equivalents	$ 16			$ 16	$ 10			$ 10
Equity securities:								
U.S. large-cap	168	$ 132		300	180	$ 123		303
U.S. mid/small-cap	66	56		122	67	52		119
Debt securities:								
U.S. Treasury	73	4		77	71	4		75
U.S. government sponsored agency	10			10	6	1		7
Municipality	79	1	$ 1	79	69			69
Investment-grade corporate	35	2		37	31	2		33
Other	2			2	1			1
Receivables/payables, net	1			1	1			1
Total NDT funds	450	195	1	644	436	182		618
Auction rate securities	20			20	20			20
Total	$ 470	$ 195	$ 1	$ 664	$ 456	$ 182		$ 638

There were no securities with credit losses at March 31, 2011 and December 31, 2010.

The following table shows the scheduled maturity dates of debt securities held at March 31, 2011.

	Maturity Less Than 1 Year	Maturity 1-5 Years	Maturity 5-10 Years	Maturity in Excess of 10 Years	Total
PPL					
Amortized cost	$ 12	$ 65	$ 69	$ 78	$ 224
Fair value	13	67	71	79	230
PPL Energy Supply					
Amortized cost	$ 12	$ 65	$ 69	$ 73	$ 219
Fair value	13	67	71	74	225

The following table shows proceeds from and realized gains and losses on sales of available-for-sale securities.

	Three Months Ended March 31, 2011	2010
PPL		
Proceeds from sales of NDT securities (a)	$ 75	$ 44
Other proceeds from sales	163	
Gross realized gains (b)	17	5
Gross realized losses (b)	5	1
PPL Energy Supply		
Proceeds from sales of NDT securities (a)	$ 75	$ 44
Gross realized gains (b)	17	5
Gross realized losses (b)	5	1

(a) These proceeds are used to pay income taxes and fees related to managing the trust. Remaining proceeds are reinvested in the trust.
(b) Excludes the impact of other-than-temporary impairment charges recognized in the Statements of Income.

(PPL)

At December 31, 2010, LG&E held $163 million aggregate principal amount of tax-exempt revenue bonds issued by Louisville/Jefferson County, Kentucky on behalf of LG&E that were purchased from the remarketing agent in 2008. At December 31, 2010, these investments were reflected in "Short-term investments" on the Balance Sheet. During the three months ended March 31, 2011, LG&E received $163 million for its investments in these bonds when they were remarketed to unaffiliated investors. No realized or unrealized gains (losses) were recorded on these securities, as the difference between carrying value and fair value was not significant.

18. Subsequent Event - Acquisition of Central Networks

(PPL)

On April 1, 2011, PPL, through its indirect, wholly owned subsidiary PPL WEM, completed its acquisition of all of the outstanding ordinary share capital of Central Networks East plc and Central Networks Limited, the sole owner of Central Networks West plc, together with certain other related assets and liabilities (collectively referred to as Central Networks and subsequently renamed WPD Midlands), from subsidiaries of E.ON AG. The consideration for the acquisition consisted of cash consideration of $5.7 billion, including the repayment of $1.6 billion of affiliate indebtedness owed to subsidiaries of E.ON AG, and approximately $800 million of long-term debt assumed through consolidation. WPD Midlands' regulated distribution operations serve five million end users in the Midlands area of England. The acquisition continues to reapportion the mix of PPL's regulated and competitive businesses by increasing the regulated portion of its business and enhances rate-regulated growth opportunities as the regulated businesses make investments to improve infrastructure and customer reliability. Further, the service territories of WPD (South Wales), WPD (South West) and WPD Midlands are contiguous and cost savings and other shared benefits are expected from the combined operations.

The fair value of the consideration paid for Central Networks was as follows (in billions):

Aggregate enterprise consideration	$ 6.5
Less: fair value of long-term debt outstanding, net, assumed through consolidation	0.8
Total cash consideration paid	5.7
Less: funds made available to Central Networks to repay pre-acquisition affiliate indebtedness	1.6
Cash consideration paid for Central Networks' outstanding ordinary share capital	$ 4.1

The total cash consideration paid was primarily funded by borrowings under the Bridge Facility on the date of acquisition. Subsequently, PPL repaid a portion of the borrowings under the Bridge Facility using proceeds from the April 2011 issuances of common stock and 2011 Equity Units, and proceeds from the April 2011 issuance of senior notes by PPL WEM. The remaining borrowings under the Bridge Facility are expected to be repaid through the issuance of other long-term debt securities. See Note 7 for additional information on the permanent financing.

The following table summarizes (in billions) the preliminary allocation of the purchase price to the fair values of the major classes of assets acquired and liabilities assumed. These fair value estimates are subject to change as updated information becomes available and as additional analyses are performed. As such, it is impracticable to provide further details and the final amounts recorded for each of the items below may be materially different than the information presented.

Working capital	$	(0.2)
PP&E		4.8
Other noncurrent assets		0.1
Long-term debt (current and noncurrent) (a)		(2.5)
Other noncurrent liabilities		(0.7)
Net identifiable assets acquired		1.5
Goodwill		2.6
Net assets acquired	$	4.1

(a) Does not reflect the repayment of affiliated debt.

Goodwill expected to be recorded as a result of the acquisition reflects the expected continued growth of a rate-regulated business with a defined service territory operating under a constructive regulatory framework, expected synergies including contiguous service territories and the ability to leverage WPD's existing management team's high level of performance both in capital cost efficiency and customer service. The goodwill is not expected to be included in customer rates or deductible for income tax purposes and is expected to be assigned to the International Regulated segment. No deferred taxes are expected to be recorded related to goodwill.

PPL's pro forma operating revenues and net income attributable to PPL for the three months ended March 31, 2011 and 2010, including LKE as if the acquisition had occurred January 1, 2009 and Central Networks as if the acquisition had occurred January 1, 2010, are as follows (in millions).

	Operating Revenues	Net Income (Loss) Attributable to PPL
Pro forma for 2011	$ 3,211	$ 522
Pro forma for 2010	3,987	388

The pro forma financial information presented above has been derived from the historical consolidated financial statements of PPL and LKE, which was acquired on November 1, 2010, and from the historical combined financial statements of Central Networks. Income from discontinued operations (net of income taxes) of PPL, LKE and Central Networks totaling $3 million and $5 million for the three months ended March 31, 2011 and 2010 was excluded from the pro forma amounts above.

The pro forma adjustments include adjustments to depreciation, net periodic pension costs, interest expense, nonrecurring adjustments and the related income tax effects. Nonrecurring adjustments include: (a) third-party Central Networks acquisition-related costs of $11 million, including advisory, accounting and legal fees, which were recorded in "Other Income (Expense) - net" in the Statement of Income; (b) $7 million of losses in connection with foreign currency economic hedges related to the acquisition, which were also recorded in "Other Income (Expense) - net" in the Statement of Income; and (c) Bridge Facility costs of $7 million which were recorded in "Interest Expense" in the Statement of Income.

Giving effect to the April 2011 acquisition (incorporating the preliminary purchase price allocation detailed above) and issuances of common stock, 2011 Equity Units and debt (including the remaining outstanding Bridge Facility borrowings) as if those events occurred on March 31, 2011, would have resulted in balances approximating the following (in billions):

PP&E	$	25.9
Goodwill		4.4
Debt, short-term and long-term		18.3
Total Equity		10.9

These estimates are subject to change as updated information becomes available and as additional analyses are performed. As such, the final amounts recorded may be materially different than the information presented.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

The following information should be read in conjunction with PPL's Condensed Consolidated Financial Statements and the accompanying Notes and with PPL's 2010 Form 10-K. Terms and abbreviations are explained in the glossary. Dollars are in millions, except per share data, unless otherwise noted.

PPL is an energy and utility holding company with headquarters in Allentown, Pennsylvania. Through subsidiaries, PPL generates electricity from power plants in the northeastern, northwestern and southeastern U.S., markets wholesale or retail energy primarily in northeastern and northwestern portions of the U.S., delivers electricity to customers in Pennsylvania, Kentucky, Virginia, Tennessee and the U.K. and delivers natural gas in Kentucky. Refer to "Item 1. Business - Background" in PPL's 2010 Form 10-K for descriptions of its reportable segments, which are Kentucky Regulated, International Regulated, Pennsylvania Regulated and Supply. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview" in PPL's 2010 Form 10-K for a discussion of PPL's strategy and the risks and challenges that it faces in its businesses. See "Forward-Looking Information," Note 10 to the Financial Statements, the remainder of Item 2 and Item "1A. Risk Factors" in this Form 10-Q, and "Item 1A. Risk Factors" and the rest of Item 7 in PPL's 2010 Form 10-K for more information concerning the material risks and uncertainties that PPL faces in its businesses and with respect to its future earnings and cash flows.

Acquisition of Central Networks

On April 1, 2011, PPL WEM, an indirect wholly owned subsidiary of PPL, acquired Central Networks, which operates a regulated distribution network that serves five million end users in the Midlands area of England, for $6.5 billion, including long-term debt assumed through consolidation. The cash consideration of $5.7 billion was initially funded by borrowings under the Bridge Facility. Permanent financing to repay the Bridge Facility borrowings includes a combination of the issuance of PPL common stock, 2011 Equity Units and debt. Subsequent to the close of the acquisition, the entities acquired were renamed and are collectively referred to as WPD Midlands. See Note 18 to the Financial Statements for additional information on the acquisition and Note 7 for additional information on the financing.

The acquisition continues to reapportion the mix of PPL's regulated and competitive businesses by increasing the regulated portion of its business and enhancing rate-regulated growth opportunities as the regulated businesses make investments to improve infrastructure and customer reliability. The increase in regulated assets is expected to provide earnings stability through regulated returns and the ability to recover costs of capital investments, in contrast to the competitive supply business where earnings and cash flows are subject to market conditions. Further, the WPD and WPD Midlands service territories are contiguous and cost savings and other benefits are expected from the combined operations.

Results of Operations

The following discussion begins with a summary of PPL's earnings and continues with a review of results by reportable segment and a description of key factors by segment that are expected to impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of significant changes in principal items on PPL's Statements of Income, comparing the three months ended March 31, 2011 with the same period in 2010.

As a result of the LKE acquisition on November 1, 2010, LKE's results for the three months ended March 31, 2011 are included in PPL's results with no comparable amounts for 2010. When discussing PPL's results of operations for 2011 compared with 2010, the results of LKE are isolated for purposes of comparability. LKE's results are included within "Segment Results – Kentucky Regulated Segment" and "Statement of Income Analysis - Kentucky Gross Electric and Gas Margins."

The results for interim periods can be disproportionately influenced by various factors and developments and by seasonal variations, and as such, the results of operations for interim periods do not necessarily indicate results or trends for the year or for future operating results.

Tables analyzing changes in amounts between periods within "Segment Results" and "Statement of Income Analysis" are presented on a constant U.K. foreign currency exchange rate basis, where applicable, in order to isolate the impact of the change in the exchange rate on the item being explained. Results computed on a constant U.K. foreign currency exchange rate basis are calculated by translating current year results at the prior year weighted-average foreign currency exchange rate.

Earnings

	Three Months Ended March 31,	
	2011	2010
Net Income Attributable to PPL Corporation	$ 401	$ 250
EPS - basic	$ 0.82	$ 0.66
EPS - diluted	$ 0.82	$ 0.66

The changes in Net Income Attributable to PPL Corporation from period to period were, in part, attributable to the acquisition of LKE and several items that management considers special. Details of these special items are provided within the review of each segment's earnings.

Segment Results

Net Income Attributable to PPL Corporation by segment was:

	Three Months Ended March 31,	
	2011	2010
Kentucky Regulated	$ 75	
International Regulated	55	$ 76
Pennsylvania Regulated	52	37
Supply	219	137
Total	$ 401	$ 250

Kentucky Regulated Segment

The Kentucky Regulated segment consists primarily of LKE's results from the operation of regulated electricity generation, transmission and distribution assets, primarily in Kentucky, as well as in Virginia and Tennessee. This segment also includes LKE's results from the regulated distribution and sale of natural gas in Kentucky.

Kentucky Regulated segment Net Income Attributable to PPL Corporation was:

	Three Months Ended March 31, 2011
Utility revenues	$ 766
Fuel and energy purchases	322
Other operation and maintenance	181
Depreciation	81
Taxes, other than income	9
Total operating expenses	593
Other Income (Expense) - net	(1)
Interest Expense (a)	54
Income Taxes	43
Net Income Attributable to PPL Corporation	$ 75

(a) Includes interest expense allocated to the Kentucky Regulated segment of $18 million ($12 million after tax) related to the 2010 Equity Units and interest rate swaps.

Outlook

Excluding special items and the impact of a full year of earnings versus two months in 2010, PPL expects higher utility revenues generally driven by the results of electricity and natural gas base rate increases that became effective August 1, 2010.

Earnings in 2011 are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, Note 10 to the Financial Statements and "Part II. Other Information - Item 1A. Risk Factors" in this Form 10-Q and "Item 1. Business," and "Item 1A. Risk Factors" in PPL's 2010 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

International Regulated Segment

The International Regulated segment consists primarily of the electric distribution operations in the U.K.

International Regulated segment Net Income Attributable to PPL Corporation was:

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Utility revenues	$ 216	$ 203
Energy-related businesses	9	10
Total operating revenues	225	213
Other operation and maintenance	42	44
Depreciation	30	29
Taxes, other than income	13	14
Energy-related businesses	4	4
Total operating expenses	89	91
Other Income (Expense) - net	(19)	1
Interest Expense	47	31
Income Taxes	15	16
Net Income Attributable to PPL Corporation	$ 55	$ 76

The after-tax changes in Net Income Attributable to PPL Corporation between these periods were due to the following factors.

U.K.	
Utility revenues	$ 11
Other operation and maintenance	(2)
Interest expense	(6)
Foreign currency exchange rates	(1)
U.S. income taxes	(3)
Special items	(20)
Total	$ (21)

- Higher U.K. utility revenues primarily due to a 2010 charge related to a revised estimate for network electricity line losses as well as positive changes in customer mix.

- Higher U.K. interest expense primarily due to higher debt balances arising from a March 2010 debt issuance.

- Higher U.S. income taxes due to a favorable 2010 change in an uncertain tax position related to windfall profits tax, partially offset by a current year tax benefit on anticipated U.K. pension plan contributions.

The following after-tax amounts, which management considers special items, also impacted the segment's earnings.

	Three Months Ended March 31, 2011
Foreign currency-related economic hedges (a)	$ (1)
Central Networks acquisition-related costs:	
Bridge Facility costs (Note 18)	(5)
Other acquisition-related costs (Note 18)	(10)
Foreign currency-related economic hedges (Note 14)	(4)
Total	$ (20)

(a) Represents unrealized losses on contracts that economically hedge anticipated earnings denominated in GBP.

Outlook

Excluding special items and the impact of the newly acquired U.K. businesses, in 2011 compared to 2010, PPL expects higher electricity delivery revenue and a more favorable currency exchange rate, partially offset by higher income taxes, higher depreciation and financing costs.

Earnings in 2011 are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, Note 10 to the Financial Statements and "Part II. Other Information - Item 1A. Risk Factors" in this Form 10-Q and "Item 1.

Business," and "Item 1A. Risk Factors" in PPL's 2010 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

Pennsylvania Regulated Segment

The Pennsylvania Regulated segment includes the regulated electric delivery operations of PPL Electric.

Pennsylvania Regulated segment Net Income Attributable to PPL Corporation was:

	Three Months Ended March 31,	
	2011	2010
Operating revenues		
External	$ 554	$ 811
Intersegment	4	2
Total operating revenues	558	813
Energy purchases		
External	251	410
Intersegment	6	115
Other operation and maintenance	130	120
Depreciation	33	34
Taxes, other than income	35	47
Total operating expenses	455	726
Other Income (Expense) - net		2
Interest Expense	24	26
Income Taxes	23	21
Net Income	56	42
Net Income Attributable to Noncontrolling Interests	4	5
Net Income Attributable to PPL Corporation	$ 52	$ 37

The after-tax changes in Net Income Attributable to PPL Corporation between these periods were due to the following factors.

Pennsylvania gross delivery margins	$ 17
Other operation and maintenance	(8)
Interest expense	1
Income taxes and other	5
Total	$ 15

- See "Pennsylvania Gross Delivery Margins by Component" in the "Statement of Income Analysis" section for an explanation of gross margins from the regulated electric delivery operations.

- Other operation and maintenance increased primarily due to higher payroll and related overhead, contractor costs resulting mainly from increased maintenance work and storm activity, and higher support group costs.

- Lower income taxes due to the indirect impact of Pennsylvania Department of Revenue interpretive guidance regarding 100% bonus depreciation. See Note 5 to the Financial Statements for additional information.

Outlook

Excluding special items, in 2011 compared to 2010, distribution revenues are expected to be higher resulting from the distribution base rate increase effective January 1, 2011.

Earnings in 2011 are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, Note 10 to the Financial Statements and "Part II. Other Information - Item 1A. Risk Factors" in this Form 10-Q and "Item 1. Business," and "Item 1A. Risk Factors" in PPL's 2010 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

In April 2011, legislation was introduced in the Pennsylvania General Assembly that would authorize the PUC to approve regulatory procedures and mechanisms to provide for timely recovery of a utility's costs. Those procedures and mechanisms include, but are not limited to, the use of a fully projected test year and an automatic adjustment clause to recover capital costs and related operating expenses. The legislation has been referred to the House Committee on Consumer Affairs. PPL Electric is working with other stakeholders to support passage of this legislation.

Supply Segment

The Supply segment primarily consists of the energy marketing and trading activities, as well as the competitive generation and development operations of PPL Energy Supply. In 2011 and 2010, PPL Energy Supply subsidiaries completed the sale of several businesses, which have been classified as Discontinued Operations. See Note 8 to the Financial Statements for additional information.

Supply segment Net Income Attributable to PPL Corporation was:

	Three Months Ended March 31, 2011	2010
Energy revenues		
External (a)	$ 1,253	$ 1,898
Intersegment	6	115
Energy-related businesses	112	84
Total operating revenues	1,371	2,097
Fuel and energy purchases		
External (a)	555	1,392
Intersegment	1	1
Other operation and maintenance	233	281
Depreciation	64	61
Taxes, other than income	16	11
Energy-related businesses	109	84
Total operating expenses	978	1,830
Other Income (Expense) - net	15	5
Other-Than-Temporary Impairments	1	
Interest Expense	49	54
Income Taxes	142	89
Income (Loss) from Discontinued Operations	3	8
Net Income Attributable to PPL Corporation	$ 219	$ 137

(a) Includes impact from energy-related economic activity. See "Commodity Price Risk (Non-trading) - Economic Activity" in Note 14 to the Financial Statements for additional information.

The after-tax changes in Net Income Attributable to PPL Corporation between these periods were due to the following factors.

U.S. non-trading margins	$ (42)
Other operation and maintenance	
Depreciation	(2)
Other income (expense) - net	5
Income taxes and other	(4)
Discontinued operations, excluding special items and certain revenues and expenses included in margins	4
Special items	121
Total	$ 82

- See "Unregulated Gross Energy Margins By Region" in the "Statement of Income Analysis" section for an explanation of margins.
- Other operation and maintenance primarily reflects the offsetting impact of lower costs due to the timing of the Susquehanna outage and higher outage costs at fossil/hydro plants.
- Higher other income (expense) - net due to realized earnings on securities in the NDT funds.
- Income taxes reflect the impact of increased valuation allowances on Pennsylvania net operating loss carryforwards related to the effect of 100% bonus depreciation on future projected Pennsylvania taxable income and differences in effective tax rates.

The following after-tax amounts, which management considers special items, also impacted the segment's earnings.

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Adjusted energy-related economic activity, net (a)	$ 17	$ (65)
Sales of assets:		
Non-core generation facilities (Note 8)	(1)	
Impairments:		
Emission allowances (Note 13)	(1)	(2)
RECs (Note 13)	(2)	
Adjustments - NDT investments (b)	1	
Other:		
Montana hydroelectric litigation (Note 10)		(32)
Health Care Reform - tax impact (Note 9)		(8)
Total	$ 14	$ (107)

(a) See "Reconciliation of Economic Activity" below.
(b) Represents the reversal of previous other-than-temporary impairment charges when securities previously impaired were sold.

Reconciliation of Economic Activity

The following table reconciles unrealized pre-tax gains (losses) from the table within "Commodity Price Risk (Non-trading) - Economic Activity" in Note 14 to the Financial Statements to the special item identified as "Adjusted energy-related economic activity, net."

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Operating Revenues		
Unregulated retail electric and gas	$ 4	$ 10
Wholesale energy marketing	57	424
Operating Expenses		
Fuel	23	5
Energy Purchases	18	(563)
Energy-related economic activity (a)	102	(124)
Option premiums (b)	5	14
Adjusted energy-related economic activity	107	(110)
Less: Economic activity now realized, associated with the monetization of certain full-requirement sales contracts in 2010	78	
Adjusted energy-related economic activity, net, pre-tax	$ 29	$ (110)
Adjusted energy-related economic activity, net, after-tax	$ 17	$ (65)

(a) The components of this item are from the table within "Commodity Price Risk (Non-trading) - Economic Activity" in Note 14 to the Financial Statements.
(b) Adjustment for the net deferral and amortization of option premiums over the delivery period of the item that was hedged or upon realization. After-tax gains for the three months ended March 31, 2011 and 2010 were $3 million and $8 million.

Outlook

Excluding special items, in 2011 compared to 2010, energy margins are expected to be lower driven by lower Eastern energy and capacity prices, higher average fuel costs and outages related to turbine blade inspections/replacements at the Susquehanna nuclear station, as well as higher income taxes and higher operation and maintenance expense.

Unit 2 at PPL's Susquehanna nuclear plant is currently in a scheduled outage for refueling and generation uprate. In connection with this outage, a planned inspection of the Unit 2 turbine revealed defects in certain of its low pressure turbine blades. Replacement of these blades is required but was not anticipated as part of the original scope of this outage. The necessary repair work is expected to extend the Unit 2 outage by approximately four to six weeks. As a precaution, PPL likely will also take Unit 1 out of service in the coming weeks to perform similar turbine blade inspections. No specific dates or timetable for that inspection have been established, and may be determined in part by the results of the inspection and repairs at Unit 2. There is no current expectation that repairs will be required at Unit 1. PPL's current estimate of the after-tax financial impact related to these outages is between $20 million and $30 million. There can be no assurance that additional repairs at Unit 2 or Unit 1 will not be required, or that the length of the current outage will not exceed the extended timeframe referred to above.

Earnings in 2011 are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, Note 10 to the Financial Statements and "Part II. Other Information - Item 1A. Risk Factors" in this Form 10-Q and "Item 1.

Business," and "Item 1A. Risk Factors" in PPL's 2010 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

Statement of Income Analysis --

Margins

Non-GAAP Financial Measures

The following discussion includes financial information prepared in accordance with GAAP, as well as three non-GAAP financial measures: "Kentucky Gross Electric and Gas Margins," "Pennsylvania Gross Delivery Margins" and "Unregulated Gross Energy Margins." PPL believes that these measures provide additional criteria to make investment decisions. These performance measures are used, in conjunction with other information, internally by senior management and the Board of Directors to manage PPL's operations. PPL's management also uses "Unregulated Gross Energy Margins" in measuring certain corporate performance goals used in determining variable compensation.

- "Kentucky Gross Electric and Gas Margins" is a single financial performance measure of the Kentucky Regulated segment's electricity generation, transmission and distribution operations as well as its distribution and sale of natural gas. In calculating this measure, utility revenues and expenses associated with approved cost recovery tracking mechanisms are offset. These mechanisms allow for recovery of certain expenses, returns on capital investments associated with environmental regulations and performance incentives. As a result, this measure represents the net revenues from the Kentucky Regulated segment's electric and gas operations.

- "Pennsylvania Gross Delivery Margins" is a single financial performance measure of the Pennsylvania Regulated segment's electric delivery operations, which includes transmission and distribution activities, including PLR electricity generation supply. In calculating this measure, utility revenues and expenses associated with approved recovery mechanisms, including energy provided as a PLR, are offset. These mechanisms allow for recovery of certain expenses; therefore, certain expenses and revenues offset with minimal impact on earnings. As a result, this measure represents the net revenues from the Pennsylvania Regulated segment's electric delivery operations.

- "Unregulated Gross Energy Margins" is a single financial performance measure of the Supply segment's competitive energy non-trading and trading activities. In calculating this measure, the Supply segment's energy revenues are offset by the cost of fuel and energy purchases, and adjusted for other related items. This performance measure is relevant to PPL due to the volatility in the individual revenue and expense lines on the Statements of Income that comprise "Unregulated Gross Energy Margins." This volatility stems from a number of factors, including the required netting of certain transactions with ISOs and significant swings in unrealized gains and losses. Such factors could result in gains or losses being recorded in either "Wholesale energy marketing" or "Energy purchases" on the Statements of Income. This performance measure includes PLR revenues from energy sales to PPL Electric by PPL EnergyPlus. In addition, PPL excludes from "Unregulated Gross Energy Margins" the Supply segment's energy-related economic activity, which includes the changes in fair value of positions used to economically hedge a portion of the economic value of PPL's competitive generation assets, full-requirement sales contracts and retail activities. This economic value is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power) prior to the delivery period that was hedged. Also included in this energy-related economic activity is the ineffective portion of qualifying cash flow hedges, the monetization of certain full-requirement sales contracts and premium amortization associated with options. This economic activity is deferred, with the exception of the full-requirement sales contracts that were monetized, and included in unregulated gross energy margins over the delivery period that was hedged or upon realization.

These measures are not intended to replace "Operating Income," which is determined in accordance with GAAP, as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations.

Kentucky Gross Electric and Gas Margins

The following table reconciles "Operating Income" to "Kentucky Gross Electric and Gas Margins" as defined by PPL.

		Three Months Ended March 31, 2011
Operating Income (a)	$	805
Adjustments:		
Unregulated retail electric and gas (a)		(147)
Wholesale energy marketing (a)		(1,095)
Net energy trading margins (a)		(11)
Energy-related businesses, net (b)		(8)
Other operation and maintenance (a)		583
Depreciation (a)		208
Taxes, other than income (a)		73
Revenue adjustments (c)		(770)
Expense adjustments (c)		773
Kentucky gross electric and gas margins	$	411

(a) As reported on the Statement of Income.
(b) Amount represents the net of "Energy-related businesses" revenue and expense as reported on the Statement of Income.
(c) The components of these adjustments are detailed in the table below.

The following table provides the income statement line items and other adjustments that comprise Kentucky Gross Electric and Gas Margins.

		Three Months Ended March 31, 2011
Revenue		
Utility (a)	$	1,536
Revenue adjustments (b)		
Exclude WPD utility revenue (c)		(216)
Exclude utility revenue included in Pennsylvania Gross Delivery Margins (c)		(548)
Exclude PLR revenue from energy supplied to PPL Electric by PPL EnergyPlus (c)		(6)
Total revenue adjustments		(770)
		766
Expense		
Fuel (a)		475
Energy purchases (a)		653
Expense adjustments (b)		
Exclude unregulated fuel and energy purchases (d)		(556)
Exclude external PLR energy purchases (e)		(250)
Include depreciation on ECR equipment (f)		12
Include other operation and maintenance costs related to recovery mechanisms (g)		17
Other		4
Total expense adjustments		(773)
		355
Kentucky gross electric and gas margins	$	411

(a) As reported on the Statement of Income.
(b) To include/exclude the impact of any revenues and expenses consistent with the way management reviews Kentucky Gross Electric and Gas Margins internally.
(c) Included in "Utility" on the Statement of Income.
(d) Included in "Energy Purchases" and "Fuel" on the Statement of Income.
(e) Included in "Energy Purchases" on the Statement of Income.
(f) Included in "Depreciation" on the Statement of Income.
(g) Included in "Other operation and maintenance" on the Statement of Income.

Pennsylvania Gross Delivery Margins

The following table reconciles "Operating Income" to "Pennsylvania Gross Delivery Margins" as defined by PPL.

	Three Months Ended March 31,	
	2011	2010
Operating Income (a)	$ 805	$ 476
Adjustments:		
Unregulated retail electric and gas (a)	(147)	(104)
Wholesale energy marketing (a)	(1,095)	(1,783)
Net energy trading margins (a)	(11)	(11)
Energy-related businesses, net (b)	(8)	(6)
Fuel (a)	475	230
Other operation and maintenance (a)	583	444
Depreciation (a)	208	124
Taxes, other than income (a)	73	72
Revenue adjustments (c)	(988)	(318)
Expense adjustments (c)	355	1,097
Pennsylvania gross delivery margins	$ 250	$ 221

(a) As reported on the Statements of Income.
(b) Amount represents the net of "Energy-related businesses" revenue and expense as reported on the Statements of Income.
(c) The components of these adjustments are detailed in the table below.

The following table provides the income statement line items and other adjustments that comprise Pennsylvania gross delivery margins.

	Three Months Ended March 31,		
	2011	2010	Change
Revenue			
Utility (a)	$ 1,536	$ 1,014	$ 522
Revenue adjustments (b)			
Exclude utility revenue included in Kentucky Gross Electric and Gas Margins (c)	(766)		(766)
Exclude WPD utility revenue (c)	(216)	(203)	(13)
Exclude PLR revenue from energy supplied to PPL Electric by PPL EnergyPlus (c)	(6)	(115)	109
Total revenue adjustments	(988)	(318)	(670)
	548	696	(148)
Expense			
Energy purchases (a)	653	1,572	(919)
Expense adjustments (b)			
Exclude energy purchases included in Unregulated Gross Energy Margins (d)	(296)	(1,163)	867
Exclude energy purchases included in Kentucky Gross Electric and Gas Margins (d)	(107)		(107)
Include gross receipts tax (e)	33	45	(12)
Include Act 129 (f)	15	18	(3)
Other		3	(3)
Total expense adjustments	(355)	(1,097)	742
	298	475	(177)
Pennsylvania gross delivery margins	$ 250	$ 221	$ 29

(a) As reported on the Statements of Income.
(b) To include/exclude the impact of any revenues and expenses consistent with the way management reviews Pennsylvania gross delivery margins internally.
(c) Included in "Utility" on the Statements of Income.
(d) Included in "Energy purchases" on the Statements of Income.
(e) Included in "Taxes, other than income" on the Statements of Income.
(f) Included in "Other operation and maintenance" on the Statements of Income.

Pennsylvania Gross Delivery Margins by Component

Pennsylvania gross delivery margins are generated through domestic regulated electric distribution activities, including PLR supply, and transmission activities.

	Three Months Ended March 31,		
	2011	2010	Change
Distribution	$ 208	$ 179	$ 29
Transmission	42	42	
Pennsylvania gross delivery margins	$ 250	$ 221	$ 29

Distribution

Distribution margins were higher during the three months ended March 31, 2011, compared with the same period in 2010. This increase resulted from the approval of the distribution rate case effective January 1, 2011 combined with favorable weather.

Unregulated Gross Energy Margins

The following table reconciles "Operating Income" to "Unregulated Gross Energy Margins" as defined by PPL.

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Operating Income (a)	$ 805	$ 476
Adjustments:		
Utility (a)	(1,536)	(1,014)
Energy-related businesses, net (b)	(8)	(6)
Other operation and maintenance (a)	583	444
Depreciation (a)	208	124
Taxes, other than income (a)	73	72
Revenue adjustments (c)	(52)	(300)
Expense adjustments (c)	598	947
Unregulated gross energy margins	$ 671	$ 743

(a) As reported on the Statements of Income.
(b) Amount represents the net of "Energy-related businesses" revenue and expense as reported on the Statements of Income.
(c) The components of these adjustments are detailed in the table below.

The following table provides the income statement line items and other adjustments that comprise unregulated gross energy margins.

	Three Months Ended March 31, 2011	2010	Change
Revenue			
Unregulated retail electric and gas (a)	$ 147	$ 104	$ 43
Wholesale energy marketing (a)	1,095	1,783	(688)
Net energy trading margins (a)	11	11	
Revenue adjustments (b)			
Exclude the impact from energy-related economic activity (c)	(77)	(447)	370
Include PLR revenue from energy supplied to PPL Electric by PPL EnergyPlus (d)	6	115	(109)
Include gains from sale of emission allowances/RECs (e)		1	(1)
Include revenue from certain discontinued operations (f)	19	31	(12)
Total revenue adjustments	(52)	(300)	248
	1,201	1,598	(397)
Expense			
Fuel (a)	475	230	245
Energy purchases (a)	653	1,572	(919)
Expense adjustments (b)			
Exclude fuel and energy purchases included in Kentucky Gross Electric and Gas Margins	(322)		(322)
Exclude the impact from energy-related economic activity (g)	(48)	(557)	509
Exclude external PLR energy purchases (h)	(250)	(409)	159
Include expenses from certain discontinued operations (i)	7	6	1
Include ancillary charges (e)	4	7	(3)
Include gross receipts tax (j)	7	3	4
Other	4	3	1
Total expense adjustments	(598)	(947)	349
	530	855	(325)
Unregulated gross energy margins	$ 671	$ 743	$ (72)

(a) As reported on the Statements of Income.
(b) To include/exclude the impact of any revenues and expenses consistent with the way management reviews unregulated gross energy margins internally.
(c) See "Commodity Price Risk (Non-trading) - Economic Activity" in Note 14 to the Financial Statements for additional information. In addition, the three months ended March 31, 2011 and 2010 includes pre-tax gains of $6 million and $13 million related to the amortization of option premiums, and in 2011 a realized gain of $10 million related to the monetization of certain full-requirement sales contracts. These amounts are reflected in "Wholesale energy marketing - Realized" on the Statements of Income.
(d) Included in "Utility" on the Statements of Income.
(e) Included in "Other operation and maintenance" on the Statements of Income.
(f) Represents the operating revenues associated with certain Supply segment businesses classified as discontinued operations. See Note 8 to the Financial Statements for additional information.

(g) See "Commodity Price Risk (Non-trading) - Economic Activity" in Note 14 to the Financial Statements for additional information. In addition, the three months ended March 31, 2011 and 2010 includes a pre-tax loss of $1 million and a pre-tax gain of $1 million related to the amortization of option premiums, and in 2011 a realized loss of $88 million related to the monetization of certain full-requirement sales contracts. These amounts are reflected in "Energy purchases – Realized" on the Statements of Income.
(h) Included in "Energy purchases" on the Statements of Income.
(i) Represents fuel costs and energy purchases associated with certain Supply segment businesses classified as discontinued operations. See Note 8 to the Financial Statements for additional information.
(j) Included in "Taxes, other than income" on the Statement of Income.

Unregulated Gross Energy Margins By Region

Unregulated gross energy margins are generated through non-trading and trading activities. The non-trading energy business is managed on a geographic basis that is aligned with its generation assets.

	Three Months Ended March 31,		
	2011	2010	Change
Non-trading:			
Eastern U.S. (a)	$ 578	$ 649	$ (71)
Western U.S.	82	83	(1)
Net energy trading	11	11	
Unregulated gross energy margins	$ 671	$ 743	$ (72)

(a) Change primarily due to lower pricing (including lower PJM basis and FTR values) and higher supply costs from the generation fleet.

Utility Revenues

The change in utility revenues was attributable to:

	Three Months Ended March 31, 2011 vs. March 31, 2010
Domestic:	
Retail electric revenue (a)	$ (257)
LKE	766
U.K.:	
Electric delivery revenue (b)	16
Foreign currency exchange rates	(3)
Total	$ 522

(a) See "Pennsylvania Gross Delivery Margins by Component" and "Unregulated Gross Energy Margins by Region" above.
(b) Change primarily due to a 2010 charge related to a revised estimate for network electricity line losses as well as positive changes in customer mix.

Other Operation and Maintenance

The change in other operation and maintenance expense was due to:

	Three Months Ended March 31, 2011 vs. March 31, 2010
LKE	$ 181
Montana hydroelectric litigation (Note 10)	(47)
Outage costs at Susquehanna nuclear plant (a)	(21)
Outage and other costs at fossil/hydroelectric plants (b)	18
Other - Domestic	6
Other - U.K.	2
Total	$ 139

(a) Primarily due to the timing of the refueling outage.
(b) Primarily due to the timing of a planned maintenance outage.

Depreciation

The change in depreciation expense was due to:

	Three Months Ended March 31, 2011 vs. March 31, 2010
Additions to PP&E	$ 3
LKE (a)	81
Total	$ 84

(a) Includes $10 million of depreciation expense for recently completed plant additions at TC2 and E.W. Brown.

Taxes, Other Than Income

The change in taxes, other than income was due to:

	Three Months Ended March 31, 2011 vs. March 31, 2010
Pennsylvania gross receipts tax (a)	$ (8)
LKE	9
Total	$ 1

(a) Primarily due to a decrease in electricity revenues as customers continue to select alternative suppliers in 2011. This tax is included in "Pennsylvania Gross Delivery Margins" and "Unregulated Gross Energy Margins" above.

Other Income (Expense) - net

See Note 12 to the Financial Statements for details.

Interest Expense

The change in interest expense was due to:

	Three Months Ended March 31, 2011 vs. March 31, 2010
Bridge Facility costs related to the acquisition of Central Networks (Note 18)	$ 7
2010 Equity Units (a)	15
Interest on the March 2010 WPD debt issuance	9
LKE (b)	36
Montana hydroelectric litigation (Note 10)	(6)
Other	2
Total	$ 63

(a) Interest related to the June 2010 issuance to support the November 2010 LKE acquisition.
(b) Includes $26 million of interest related to First Mortgage Bonds and Senior Notes, both issued in November 2010.

Income Taxes

The change in income taxes was due to:

	Three Months Ended March 31, 2011 vs. March 31, 2010
Higher pre-tax book income	$ 42
State valuation allowance adjustments	19
Domestic manufacturing deduction	4
Federal and state tax reserve adjustments	7
U.S. income tax on foreign earnings net of foreign tax credit	(8)
Health Care Reform	(8)
LKE	49
Depreciation not normalized	(3)
Other	(5)
Total	$ 97

See Note 5 to the Financial Statements for additional information on income taxes.

Discontinued Operations

See "Discontinued Operations" in Note 8 to the Financial Statements for information related to the sale of certain non-core generation facilities in 2011 and the sale of the Long Island generation business in 2010.

Financial Condition

Liquidity and Capital Resources

PPL had the following at:

	March 31, 2011	December 31, 2010
Cash and cash equivalents	$ 1,245	$ 925
Short-term investments		163
	$ 1,245	$ 1,088
Short-term debt	$ 881	$ 694

The $320 million increase in PPL's cash and cash equivalents position was primarily the net result of:

- proceeds of $381 million from the sale of certain non-core generation facilities;
- $196 million of cash provided by operating activities;
- a net increase in short-term debt of $187 million;
- proceeds of $163 million from the sale of other investments;
- $428 million of capital expenditures; and
- the payment of $170 million of common stock dividends.

PPL's cash provided by operating activities decreased $602 million for the three months ended March 31, 2011 compared with the same period in 2010 primarily due to increased defined benefit plan contributions and changes in working capital (mainly due to changes in counterparty collateral requirements).

Credit Facilities

At March 31, 2011, PPL's total committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	Committed Capacity	Borrowed	Letters of Credit Issued	Unused Capacity
LG&E Credit Facility	$ 400			$ 400
KU Credit Facility (a)	400		$ 198	202
PPL Energy Supply Credit Facilities (b)	3,200	$ 700	247	2,253
PPL Electric Credit Facilities (c)	350		13	337
Total Domestic Credit Facilities (d)	$ 4,350	$ 700	$ 458	$ 3,192
PPL WW Holdings Credit Facility	£ 150	£ 113	n/a	£ 37
WPD (South West) Credit Facility	210		n/a	210
Total WPD Credit Facilities (e)	£ 360	£ 113	n/a	£ 247

(a) In April 2011, KU entered into a new $198 million letter of credit facility that will be used to issue letters of credit to support outstanding tax exempt bonds. The facility matures in April 2014. In May 2011, letters of credit totaling $198 million were issued under the new facility, replacing the letters of credit issued under KU's Syndicated Credit Facility at March 31, 2011.

(b) In March 2011, PPL Energy Supply's $300 million 5-year Structured Credit Facility expired. PPL Energy Supply's obligations under this facility were supported by a $300 million letter of credit issued on PPL Energy Supply's behalf under a separate, but related $300 million five-year credit agreement, which also expired in March 2011.

(c) Committed capacity includes a $150 million credit facility related to an asset-backed commercial paper program through which PPL Electric obtains financing by selling and contributing its eligible accounts receivable and unbilled revenue to a special purpose, wholly owned subsidiary on an ongoing basis. The subsidiary pledges these assets to secure loans of up to an aggregate of $150 million from a commercial paper conduit sponsored by a financial institution. At March 31, 2011, based on accounts receivable and unbilled revenue pledged, the amount available for borrowing under the facility was limited to $119 million.

(d) Total borrowings outstanding under PPL's domestic credit facilities increased on a net basis by $187 million since December 31, 2010.

The commitments under PPL's domestic credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 10% of the total committed capacity.

(e) At March 31, 2011, the unused capacity of WPD's credit facilities was approximately $500 million.

The commitments under WPD's credit facilities are provided by 8 banks, with no one bank providing more than 25% of the total committed capacity.

In April 2011, following the completion of the acquisition of Central Networks, WPD (East Midlands) and WPD (West Midlands) each entered into a £300 million 5-year syndicated credit facility. Under the facilities, WPD (East Midlands) and WPD (West Midlands) each have the ability to make cash borrowings and to request the lenders to issue up to £80 million of letters of credit in lieu of borrowing.

See Note 7 to the Financial Statements for further discussion of PPL's credit facilities.

Bridge Facility

In March 2011, concurrently, and in connection with entering into the agreement to acquire Central Networks, PPL entered into a commitment letter with certain lenders pursuant to which the lenders committed to provide PPL with 364-day unsecured bridge financing of up to £3.6 billion solely to (i) fund the acquisition and (ii) pay certain fees and expenses in connection with the acquisition. The bridge financing commitment was subsequently syndicated to a group of banks, including the initial commitment lenders. Upon the syndication of the commitment, in March 2011, PPL Capital Funding and PPL WEM, as borrowers, and PPL, as guarantor, entered into a £3.6 billion Bridge Facility.

On April 1, 2011, concurrent with the closing of the Central Networks acquisition, PPL Capital Funding borrowed an aggregate of £1.75 billion and PPL WEM borrowed £1.85 billion under the Bridge Facility. Borrowings bear interest at a spread over LIBOR for periods of one, two, three or six months. The initial borrowings bear interest at approximately 2.62%. See Note 18 to the Financial Statements for additional information on the acquisition.

In accordance with the terms of the Bridge Facility, PPL Capital Funding's borrowings of £1.75 billion were repaid with approximately $2.8 billion of proceeds received from PPL's issuance of common stock and 2011 Equity Units in April 2011, as discussed in "Long-term Debt and Equity Securities" below. Pursuant to Amendment No. 1 to the Bridge Facility, PPL elected to retain a portion of the proceeds from the issuance of its common stock and 2011 Equity Units in excess of the amount repaid under the Bridge Facility. Later in April 2011, PPL WEM repaid £650 million of its Bridge Facility borrowing. Such repayment was funded primarily with proceeds received from PPL WEM's issuance of senior notes, which is also discussed below. As of May 6, 2011, £1.2 billion of borrowings remain outstanding under the Bridge Facility and continue to bear interest at approximately 2.62% through June 3, 2011 or the date of repayment if earlier.

The Bridge Facility matures 364 days after the closing of the acquisition. Subject to certain conditions, PPL Capital Funding may request, on behalf of PPL WEM, that the maturity date of the remaining £1.2 billion of borrowings under the Bridge Facility be extended for an additional six months. See Note 7 to the Financial Statements for additional information on the Bridge Facility.

In anticipation of the repayment of a portion of the borrowings under the Bridge Facility with U.S. dollar proceeds received from PPL's issuance of common stock and 2011 Equity Units and PPL WEM's issuance of senior notes, PPL entered into forward contracts to purchase GBP in order to economically hedge the foreign currency exchange rate risk related to the repayment. See Note 14 to the Financial Statements for further discussion.

Long-term Debt and Equity Securities

In January 2011, LG&E remarketed $163 million of variable rate tax-exempt revenue bonds, which were issued on its behalf by Louisville/Jefferson County, Kentucky, to unaffiliated investors in a term rate mode, bearing interest at 1.90% into 2012. The proceeds from the remarketing were used to repay a $163 million borrowing under LG&E's syndicated credit facility.

In connection with the closing of the acquisition of Central Networks, PPL assumed, through consolidation, £250 million of senior notes previously issued by WPD (East Midlands) and £250 million of senior notes previously issued by WPD (West Midlands), equating to an aggregate principal amount of approximately $800 million at the time of closing. See Note 18 to the Financial Statements for additional information on the acquisition.

In April 2011, PPL raised a total of approximately $3.2 billion, net of underwriting discounts, through the sale of (i) 92 million shares of PPL common stock at a public offering price of $25.30 per share and (ii) 19.55 million 2011 Equity Units at a stated amount per unit of $50.00. PPL used the net proceeds to repay PPL Capital Funding's borrowings under the Bridge Facility, as discussed above, to pay certain acquisition-related fees and expenses and for general corporate purposes.

Also in April 2011, PPL WEM issued $460 million of 3.90% Senior Notes due 2016 and $500 million of 5.375% Senior Notes due 2021. PPL WEM received proceeds of $953 million, net of discounts and underwriting fees, from the combined issuance of the notes. The net proceeds were used to repay a portion of PPL WEM's borrowing under the Bridge Facility, as discussed above. In connection with the issuance of the senior notes, PPL entered into cross currency interest rate swaps for the entire aggregate principal amount of each series of notes in order to hedge PPL WEM's risk of variability in the GBP functional currency equivalent cash flows related to its U.S. dollar interest and principal payments on the notes.

See Note 7 to the Financial Statements for additional information about long-term debt and equity securities.

Common Stock Dividends

In February 2011, PPL declared its quarterly common stock dividend, effective April 1, 2011, at 35.0 cents per share (equivalent to $1.40 per annum). Future dividends, declared at the discretion of the Board of Directors, will be dependent upon future earnings, cash flows, financial and legal requirements and other factors.

Rating Agency Decisions

Moody's, S&P and Fitch periodically review the credit ratings on the debt and preferred securities of PPL and its subsidiaries. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of PPL and its subsidiaries are based on information provided by PPL and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of PPL or its subsidiaries. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. A downgrade in PPL's or its subsidiaries' credit ratings could result in higher borrowing costs and reduced access to capital markets.

In prior periodic reports, PPL described its then-current credit ratings in connection with, and to facilitate, an understanding of its liquidity position. As a result of the passage of the Dodd-Frank Act and the attendant uncertainties relating to the extent to which issuers of non-asset backed securities may disclose credit ratings without being required to obtain rating agency consent to the inclusion of such disclosure, or incorporation by reference of such disclosure, in a registrant's registration statement or section 10(a) prospectus, PPL is limiting its credit rating disclosure to a description of the actions taken by the rating agencies with respect to PPL's ratings, but without stating what ratings have been assigned to PPL or its subsidiaries, or their securities. The ratings assigned by the rating agencies to PPL and its subsidiaries and their respective securities may be found, without charge, on each of the respective ratings agencies' websites, which ratings together with all other information contained on such rating agency websites is, hereby, explicitly not incorporated by reference in this report.

Following the announcement of the then-pending acquisition of Central Networks in March 2011, the rating agencies took the following actions:

Moody's affirmed all of the ratings for PPL and all of its rated subsidiaries.

S&P revised the outlook for PPL, PPL Capital Funding, PPL Energy Supply, PPL Electric, LKE, LG&E, KU, PPL WW Holdings, WPD (South West) and WPD (South Wales), affirmed the issuer and senior unsecured ratings of PPL WW Holdings, and lowered the following ratings:

- the issuer rating of PPL;
- the senior unsecured and junior subordinated ratings of PPL Capital Funding;
- the issuer and senior unsecured ratings of PPL Energy Supply;
- the issuer, senior secured, preference stock, and commercial paper ratings of PPL Electric;
- the issuer and senior unsecured ratings of LKE;
- the issuer and senior secured ratings of LG&E;
- the issuer and senior secured ratings of KU;
- the issuer and senior unsecured ratings of WPD (South West); and
- the issuer and senior unsecured ratings of WPD (South Wales).

Fitch affirmed all of the ratings for PPL, PPL Capital Funding, PPL Energy Supply, PPL Electric, LKE, KU, and LG&E.

In April 2011, Moody's and S&P took the following actions following the completion of the acquisition of Central Networks.

Moody's:
- lowered the issuer and senior unsecured debt ratings of WPD (East Midlands) and WPD (West Midlands);
- affirmed the short-term issuer rating of WPD (East Midlands); and
- assigned a senior unsecured rating and an outlook to PPL WEM.

S&P:
- lowered the issuer and senior unsecured debt ratings of WPD (East Midlands) and WPD (West Midlands);
- assigned issuer ratings to PPL WEM;
- raised the issuer rating of PPL WW Holdings;

- revised the outlook for PPL and all of its rated subsidiaries;
- raised the short-term ratings of KU, LG&E, WPD (East Midlands), WPD (West Midlands), PPL WEM, PPL WW Holdings, WPD (South West), WPD (South Wales), and PPL Electric; and
- affirmed all of the long-term ratings for PPL and its rated subsidiaries.

The Economic Stimulus Package

In April 2010, PPL Electric entered into an agreement with the DOE, in which the agency is to provide a grant for one-half of a $38 million smart grid project. The project involves installing and using smart grid technology to strengthen reliability, save energy and improve electric service for approximately 60,000 Harrisburg, Pennsylvania-area customers. It is expected to provide benefits beyond the Harrisburg region, helping to speed power restoration across PPL Electric's 29-county service territory. Work on the project is progressing on schedule, and PPL Electric is receiving reimbursements under the grant for costs incurred. The project is scheduled to be completed by the end of September 2012.

Ratings Triggers

PPL and its subsidiaries have various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity and fuel, commodity transportation and storage, tolling agreements and interest rate and foreign currency instruments, which contain provisions requiring PPL and its subsidiaries to post additional collateral, or permitting the counterparty to terminate the contract, if PPL's or the subsidiaries' credit rating were to fall below investment grade. See Note 14 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at March 31, 2011. At March 31, 2011, if PPL's or its subsidiaries' credit ratings had been below investment grade, the maximum amount that PPL would have been required to post as additional collateral to counterparties was $455 million for both derivative and non-derivative commodity and commodity-related contracts used in its generation, marketing and trading operations and interest rate and foreign currency contracts.

Capital Expenditures

The table below shows PPL's capital expenditure projections including the newly acquired WPD Midlands.

	Projected				
	2011	2012	2013	2014	2015
Construction expenditures (a) (b)					
Generating facilities	$ 777	$ 640	$ 554	$ 364	$ 501
Transmission and distribution facilities	1,487	1,925	2,248	2,215	2,071
Environmental	260	723	1,020	1,115	983
Other	161	173	133	123	138
Total Construction Expenditures	2,685	3,461	3,955	3,817	3,693
Nuclear fuel	152	159	161	158	160
Total Capital Expenditures	$ 2,837	$ 3,620	$ 4,116	$ 3,975	$ 3,853

(a) Construction expenditures include capitalized interest and AFUDC, which are expected to be approximately $320 million for the years 2011 through 2015.
(b) Includes expenditures for certain intangible assets.

PPL's capital expenditure projections for the years 2011 through 2015 total approximately $18.4 billion. Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. This table has been revised from that which was presented in PPL's 2010 Form 10-K for changes in estimates for LKE's environmental projects related to anticipated new EPA compliance standards (actual costs may be significantly lower or higher depending on the final requirements; environmental compliance costs incurred by LG&E and KU are generally subject to recovery through a rate recovery mechanism) and expenditures to be made by the newly acquired WPD Midlands. See Note 18 to the Financial Statements for information on PPL's April 2011 acquisition of Central Networks.

For additional information on PPL's liquidity and capital resources, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in PPL's 2010 Form 10-K.

Risk Management - Energy Marketing & Trading and Other

Market Risk

See Notes 13 and 14 to the Financial Statements for information about PPL's risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of possible losses under normal market conditions at a given confidence level.

Commodity Price Risk (Non-trading)

PPL segregates its non-trading activities into two categories: hedge activity and economic activity. Transactions that are accounted for as hedge activity qualify for hedge accounting treatment. The economic activity category includes transactions that address a specific risk, but were not eligible for hedge accounting or for which hedge accounting was not elected. This activity includes the changes in fair value of positions used to hedge a portion of the economic value of PPL's generation assets, full-requirement sales contracts and retail activities. This economic activity is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power). Although they do not receive hedge accounting treatment, these transactions are considered non-trading activity. The net fair value of economic positions at March 31, 2011 and December 31, 2010 was a net liability of $277 million and $400 million. See Note 14 to the Financial Statements for additional information on economic activity.

To hedge the impact of market price volatility on PPL's energy-related assets, liabilities and other contractual arrangements, PPL both sells and purchases physical energy at the wholesale level under FERC market-based tariffs throughout the U.S. and enters into financial exchange-traded and over-the-counter contracts. PPL's non-trading commodity derivative contracts mature at various times through 2017.

The following table sets forth the change in net fair value of PPL's non-trading commodity derivative contracts. See Notes 13 and 14 to the Financial Statements for additional information.

	Gains (Losses) Three Months Ended March 31, 2011	2010
Fair value of contracts outstanding at the beginning of the period	$ 947	$ 1,280
Contracts realized or otherwise settled during the period	(43)	(126)
Fair value of new contracts entered into during the period	(16)	18
Other changes in fair value	109	554
Fair value of contracts outstanding at the end of the period	$ 997	$ 1,726

The following table segregates the net fair value of PPL's non-trading commodity derivative contracts at March 31, 2011, based on whether the fair value was determined by prices quoted in active markets for identical instruments or other more subjective means.

	Net Asset (Liability) Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	Total Fair Value
Source of Fair Value					
Prices based on significant other observable inputs	$ 462	$ 490	$ 11		$ 963
Prices based on significant unobservable inputs	4	(14)	10	$ 34	34
Fair value of contracts outstanding at the end of the period	$ 466	$ 476	$ 21	$ 34	$ 997

PPL sells electricity, capacity and related services and buys fuel on a forward basis to hedge the value of energy from its generation assets. If PPL were unable to deliver firm capacity and energy or to accept the delivery of fuel under its agreements, under certain circumstances it could be required to pay liquidating damages. These damages would be based on the difference between the market price and the contract price of the commodity. Depending on price changes in the wholesale energy markets, such damages could be significant. Extreme weather conditions, unplanned power plant outages, transmission disruptions, nonperformance by counterparties (or their own counterparties) with which it has energy contracts and other factors could affect PPL's ability to meet its obligations, or cause significant increases in the market price of replacement energy. Although PPL attempts to mitigate these risks, there can be no assurance that it will be able to fully meet its firm obligations, that it will not be required to pay damages for failure to perform, or that it will not experience counterparty nonperformance in the future.

Commodity Price Risk (Trading)

PPL's trading contracts mature at various times through 2015. The following table sets forth changes in the net fair value of PPL's trading commodity derivative contracts. See Notes 13 and 14 to the Financial Statements for additional information.

	Gains (Losses)	
	Three Months Ended March 31,	
	2011	2010
Fair value of contracts outstanding at the beginning of the period	$ 4	$ (6)
Contracts realized or otherwise settled during the period	2	(4)
Fair value of new contracts entered into during the period	3	
Other changes in fair value	(2)	12
Fair value of contracts outstanding at the end of the period	$ 7	$ 2

Unrealized losses of approximately $1 million will be reversed over the next three months as the transactions are realized.

The following table segregates the net fair value of trading commodity derivative contracts at March 31, 2011, based on whether the fair value was determined by prices quoted in active markets for identical instruments or other more subjective means.

	Net Asset (Liability)				
	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	Total Fair Value
Source of Fair Value					
Prices based on significant other observable inputs	$ 5	$ 2	$ 2		$ 9
Prices based on significant unobservable inputs	(2)				(2)
Fair value of contracts outstanding at the end of the period	$ 3	$ 2	$ 2		$ 7

VaR Models

A VaR model is utilized to measure commodity price risk in domestic gross energy margins for the non-trading and trading portfolios. VaR is a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level. VaR is calculated using a Monte Carlo simulation technique based on a five-day holding period at a 95% confidence level. Given the company's conservative hedging program, the non-trading VaR exposure is expected to be limited in the short-term. The VaR for portfolios using end-of-month results for the period was as follows:

	Trading VaR		Non-Trading VaR	
	March 31, 2011	December 31, 2010	March 31, 2011	December 31, 2010
95% Confidence Level, Five-Day Holding Period				
Period End	$ 2	$ 1	$ 5	$ 5
Average for the Period	1	4	5	7
High	2	9	5	12
Low	1	1	5	4

The trading portfolio includes all speculative positions, regardless of the delivery period. All positions not considered speculative are considered non-trading. The non-trading portfolio includes the entire portfolio, including generation, with delivery periods through the next 12 months. Both the trading and non-trading VaR computations exclude FTRs due to the absence of reliable spot and forward markets. The fair value of the non-trading and trading FTR positions was insignificant at March 31, 2011.

Interest Rate Risk

PPL and its subsidiaries have issued debt to finance their operations, which exposes them to interest rate risk. PPL utilizes various financial derivative instruments to adjust the mix of fixed and floating interest rates in its debt portfolio, adjust the duration of its debt portfolio and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under the risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of PPL's debt portfolio due to changes in the absolute level of interest rates.

At March 31, 2011, PPL's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

PPL is also exposed to changes in the fair value of its domestic and international debt portfolios. PPL estimated that a 10% decrease in interest rates at March 31, 2011, would increase the fair value of its debt portfolio by $413 million.

At March 31, 2011, PPL had the following interest rate hedges outstanding:

	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates (b)
Cash flow hedges			
Interest rate swaps (c)	$ 250	$ (7)	$ (9)
Cross-currency swaps (d)	302	9	(19)
Fair value hedges			
Interest rate swaps (e)	349	15	(3)
Economic hedges			
Interest rate swaps (c)	179	(32)	(5)

(a) Includes accrued interest, if applicable.
(b) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability.
(c) PPL utilizes various risk management instruments to reduce its exposure to the expected future cash flow variability of its debt instruments. These risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financing. While PPL is exposed to changes in the fair value of these instruments, any changes in the fair value of such cash flow hedges are recorded in equity and any changes in the fair value of such economic hedges are recorded in regulatory assets and liabilities. The changes in fair value of these instruments are then reclassified into earnings in the same period during which the item being hedged affects earnings. Sensitivities represent a 10% adverse movement in interest rates.
(d) PPL WW Holdings uses cross-currency swaps to hedge the interest payments and principal of its U.S. dollar-denominated senior notes with maturity dates ranging from December 2017 to December 2028. While PPL is exposed to changes in the fair value of these instruments, any change in the fair value of these instruments is recorded in equity and reclassified into earnings in the same period during which the item being hedged affects earnings. Sensitivities represent a 10% adverse movement in both interest rates and foreign currency exchange rates.
(e) PPL utilizes various risk management instruments to adjust the mix of fixed and floating interest rates in its debt portfolio. The change in fair value of these instruments, as well as the offsetting change in the value of the hedged exposure of the debt, is reflected in earnings. Sensitivities represent a 10% adverse movement in interest rates.

Foreign Currency Risk

PPL is exposed to foreign currency risk, primarily through investments in U.K. affiliates. In addition, PPL's domestic operations may make purchases of equipment in currencies other than U.S. dollars.

PPL has adopted a foreign currency risk management program designed to hedge certain foreign currency exposures, including firm commitments, recognized assets or liabilities, anticipated transactions and net investments. In addition, PPL enters into financial instruments to protect against foreign currency translation risk of expected earnings.

At March 31, 2011, PPL had the following foreign currency hedges outstanding:

	Exposure Hedged	Fair Value, Net - Asset (Liability)	Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)
Net investment hedges (b)	£ 10	$	$ (2)
Economic hedges			
Earnings translation (c)	132	2	(17)
Bridge Facility repayment (d)	2,075	(7)	(333)

(a) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability.
(b) To protect the value of a portion of its net investment in WPD, PPL executes forward contracts to sell GBP.
(c) To economically hedge the translation of expected income denominated in GBP to U.S. dollars, PPL enters into a combination of average rate forwards and average rate options to sell GBP. The forwards and options outstanding at March 31, 2011, have termination dates ranging from April 2011 through December 2011.
(d) To economically hedge the foreign currency exchange rate risk related to the repayment of the GBP-denominated borrowings under the Bridge Facility with proceeds received from the issuance of PPL common stock and the 2011 Equity Units by PPL and U.S. dollar-denominated senior notes by PPL WEM, PPL executed forward contracts to purchase GBP. These trades were settled in April 2011.

NDT Funds - Securities Price Risk

In connection with certain NRC requirements, PPL Susquehanna maintains trust funds to fund certain costs of decommissioning the Susquehanna nuclear plant. At March 31, 2011, these funds were invested primarily in domestic equity securities and fixed-rate, fixed-income securities and are reflected at fair value on PPL's Balance Sheet. The mix of securities is designed to provide returns sufficient to fund Susquehanna's decommissioning and to compensate for inflationary increases in decommissioning costs. However, the equity securities included in the trusts are exposed to price fluctuation in equity markets, and the values of fixed-rate, fixed-income securities are exposed to changes in interest rates. PPL actively monitors the investment performance and periodically reviews asset allocation in accordance with its NDT policy statement. At March 31, 2011, a hypothetical 10% increase in interest rates and a 10% decrease in equity prices would have resulted in an estimated $47 million reduction in the fair value of the trust assets. See Notes 13 and 17 to the Financial Statements for additional information regarding the NDT funds.

Credit Risk

See Notes 13 and 14 to the Financial Statements in this Form 10-Q and "Risk Management - Energy Marketing & Trading and Other - Credit Risk" in PPL's 2010 Form 10-K for additional information.

Foreign Currency Translation

During 2011 and 2010, the GBP fluctuated in relation to the U.S. dollar. Changes in these exchange rates resulted in a foreign currency translation gain of $67 million for the three months ended March 31, 2011, which primarily reflected a $158 million increase to PP&E offset by an increase of $91 million to net liabilities. Changes in these exchange rates resulted in a foreign currency translation loss of $96 million for the three months ended March 31, 2010, which primarily reflected a $255 million reduction to PP&E offset by a reduction of $159 million to net liabilities. These adjustments resulting from translation are recorded in AOCI.

Related Party Transactions

PPL is not aware of any material ownership interests or operating responsibility by senior management of PPL, PPL Energy Supply or PPL Electric in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with PPL. See Note 11 to the Financial Statements for additional information on related party transactions.

Acquisitions, Development and Divestitures

See Note 18 to the Financial Statements for information on PPL's April 2011 acquisition of Central Networks.

See Notes 1 and 10 to the Financial Statements in PPL's 2010 Form 10-K for information on PPL's November 2010 acquisition of LKE.

Development projects are continuously reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options.

See Note 8 to the Financial Statements for additional information on the more significant activities.

Environmental Matters

See "Item 1. Business - Environmental Matters" in PPL's 2010 Form 10-K and Note 10 to the Financial Statements for a discussion of environmental matters.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations, and require estimates or other judgments of matters inherently uncertain: price risk management, defined benefits, asset impairment, loss accruals, AROs, income taxes, regulatory assets and liabilities and business combinations - purchase price allocation. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in PPL's 2010 Form 10-K for a discussion of each critical accounting policy.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

The following information should be read in conjunction with PPL Energy Supply's Condensed Consolidated Financial Statements and the accompanying Notes and with PPL Energy Supply's 2010 Form 10-K. Terms and abbreviations are explained in the glossary. Dollars are in millions unless otherwise noted.

PPL Energy Supply is an energy company with headquarters in Allentown, Pennsylvania. Through December 31, 2010, PPL Energy Supply had two reportable segments – International Regulated and Supply. However, in January 2011, PPL Energy Supply distributed its 100% membership interest in PPL Global to its parent, PPL Energy Funding, to better align PPL's organizational structure with the manner in which it manages its businesses and reports segment information in its consolidated financial statements. As a result, effective January 1, 2011, PPL Energy Supply operates in a single business segment and through its subsidiaries is primarily engaged in the generation and marketing of electricity in the northeastern and northwestern U.S. The 2010 operating results of the International Regulated segment have been reclassified to Discontinued Operations on the Statement of Income. See Note 8 to the Financial Statements for additional information on the January 2011 distribution. Refer to "Item 1. Business - Background" in PPL Energy Supply's 2010 Form 10-K for descriptions of its reportable segments. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview" in PPL Energy Supply's 2010 Form 10-K for a discussion of PPL Energy Supply's strategy and the risks and challenges that it faces in its businesses. See "Forward-Looking Information," Note 10 to the Financial Statements and the remainder of Item 2 in this Form 10-Q, and "Item 1A. Risk Factors" and the rest of Item 7 in PPL Energy Supply's 2010 Form 10-K for more information concerning the material risks and uncertainties that PPL Energy Supply faces in its businesses and with respect to its future earnings and cash flows.

Results of Operations

The following discussion begins with a summary of PPL Energy Supply's earnings and continues with a description of key factors that are expected to impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of significant changes in principal items on PPL Energy Supply's Statements of Income, comparing the three months ended March 31, 2011, with the same period in 2010.

The results for interim periods can be disproportionately influenced by various factors and developments and by seasonal variations, and as such, the results of operations for interim periods do not necessarily indicate results or trends for the year or for future operating results.

Earnings

	Three Months Ended March 31,	
	2011	2010
Net Income Attributable to PPL Energy Supply	$ 214	$ 200

The changes in Net Income Attributable to PPL Energy Supply from period to period were, in part, due to several items that management considers special. Details of these special items are provided below.

The after-tax change in Net Income Attributable to PPL Energy Supply between these periods was due to the following factors.

U.S. non-trading margins	$ (42)
Other operation and maintenance	3
Other income (expense) - net	5
Income taxes and other	(6)
Discontinued operations, excluding special items and certain revenues and expenses included in margins (a)	(64)
Special items	118
Total	$ 14

(a) 2010 includes the Discontinued Operations of PPL Global. See Note 8 to the Financial Statements for additional information.

- See "Unregulated Gross Energy Margins By Region" in the "Statement of Income Analysis" section for an explanation of margins.

- Lower other operation and maintenance expenses primarily due to the timing of the Susquehanna refueling outage, partially offset by higher outage costs at fossil/hydro plants.

- Higher other income (expense) – net due to realized earnings on securities in the NDT funds.

- Income taxes reflect the impact of increasing valuation allowances on Pennsylvania net operating loss carryforwards related to the effect of 100% bonus depreciation on future projected Pennsylvania taxable income and differences in effective tax rates.

The following after-tax amounts, which management considers special items, also impacted earnings.

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Adjusted energy-related economic activity, net (a)	$ 17	$ (65)
Sales of assets:		
Non-core generation facilities (Note 8)	(1)	
Impairments:		
Emission allowances (Note 13)	(1)	(2)
Adjustments - NDT investments (b)	1	
RECs (Note 13)	(2)	
Other:		
Montana hydroelectric litigation (Note 10)		(32)
Health Care Reform - tax impact (Note 9)		(5)
Total	$ 14	$ (104)

(a) See "Reconciliation of Economic Activity" below.
(b) Represents the reversal of previous other-than-temporary impairment charges when securities previously impaired were sold.

Reconciliation of Economic Activity

The following table reconciles unrealized pre-tax gains (losses) from the table within "Commodity Price Risk (Non-trading) - Economic Activity" in Note 14 to the Financial Statements to the special item identified as "Adjusted energy-related economic activity, net."

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Operating Revenues		
Unregulated retail electric and gas	$ 4	$ 10
Wholesale energy marketing	57	424
Operating Expenses		
Fuel	23	5
Energy Purchases	18	(563)
Energy-related economic activity (a)	102	(124)
Option premiums (b)	5	14
Adjusted energy-related economic activity	107	(110)
Less: Economic activity now realized, associated with the monetization of certain full-requirement sales contracts in 2010	78	
Adjusted energy-related economic activity, net, pre-tax	$ 29	$ (110)
Adjusted energy-related economic activity, net, after-tax	$ 17	$ (65)

(a) The components of this item are from the table within "Commodity Price Risk (Non-trading) - Economic Activity" in Note 14 to the Financial Statements.
(b) Adjustment for the net deferral and amortization of option premiums over the delivery period of the item that was hedged or upon realization. After-tax gains for the three months ended March 31, 2011 and 2010 were $3 million and $8 million.

Outlook

Excluding special items, in 2011 compared to 2010, energy margins are expected to be lower driven by lower Eastern energy and capacity prices, higher average fuel costs and outages related to turbine blade inspections/replacements at the Susquehanna nuclear station, as well as higher income taxes and higher operation and maintenance expense.

Unit 2 at PPL's Susquehanna nuclear plant is currently in a scheduled outage for refueling and generation uprate. In connection with this outage, a planned inspection of the Unit 2 turbine revealed defects in certain of its low pressure turbine blades. Replacement of these blades is required but was not anticipated as part of the original scope of this outage. The necessary repair work is expected to extend the Unit 2 outage by approximately four to six weeks. As a precaution, PPL likely will also take Unit 1 out of service in the coming weeks to perform similar turbine blade inspections. No specific dates or timetable for that inspection have been established, and may be determined in part by the results of the inspection and repairs at Unit 2. There is no current expectation that repairs will be required at Unit 1. PPL's current estimate of the after-tax financial impact related to these outages is between $20 million and $30 million. There can be no assurance that additional repairs at Unit 2 or Unit 1 will not be required, or that the length of the current outage will not exceed the extended timeframe referred to above.

Earnings in 2011 are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2 and Note 10 to the Financial Statements in this Form 10-Q and "Item 1. Business," and "Item 1A. Risk Factors" in PPL Energy Supply's 2010 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

Statement of Income Analysis --

Unregulated Gross Energy Margins

Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Unregulated Gross Energy Margins." "Unregulated Gross Energy Margins" is a single financial performance measure of PPL Energy Supply's competitive energy non-trading and trading activities. In calculating this measure, the Supply segment's energy revenues are offset by the cost of fuel and energy purchases, and adjusted for other related items. This performance measure is relevant to PPL Energy Supply due to the volatility in the individual revenue and expense lines on the Statements of Income that comprise "Unregulated Gross Energy Margins." This volatility stems from a number of factors, including the required netting of certain transactions with ISOs and significant swings in unrealized gains and losses. Such factors could result in gains or losses being recorded in either "Wholesale energy marketing" or "Energy purchases" on the Statements of Income. In addition, PPL Energy Supply excludes from "Unregulated Gross Energy Margins" energy-related economic activity, which includes the changes in fair value of positions used to economically hedge a portion of the economic value of PPL Energy Supply's competitive generation assets, full-requirement sales contracts and retail activities. This economic value is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power) prior to the delivery period that was hedged. Also included in this energy-related economic activity is the ineffective portion of qualifying cash flow hedges, the monetization of certain full-requirement sales contracts and premium amortization associated with options. This economic activity is deferred, with the exception of the full-requirement sales contracts that were monetized, and included in unregulated gross energy margins over the delivery period that was hedged or upon realization. PPL Energy Supply believes that "Unregulated Gross Energy Margins" provides another criterion to make investment decisions. This performance measure is used, in conjunction with other information, internally by senior management and the Board of Directors of PPL to manage its competitive energy non-trading and trading activities. PPL's management also uses "Unregulated Gross Energy Margins" in measuring certain PPL corporate performance goals used in determining variable compensation.

This measure is not intended to replace "Operating Income," which is determined in accordance with GAAP, as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. The following table reconciles "Operating Income" to "Unregulated Gross Energy Margins" as defined by PPL Energy Supply.

	Three Months Ended March 31,	
	2011	2010
Operating Income (a)	$ 384	$ 253
Adjustments:		
Energy-related businesses, net (b)	(2)	
Other operation and maintenance (a)	245	298
Depreciation (a)	59	57
Taxes, other than income (a)	16	11
Revenue adjustments (c)	(58)	(415)
Expense adjustments (c)	27	539
Unregulated gross energy margins	$ 671	$ 743

(a) As reported on the Statements of Income.
(b) Amount represents the net of "Energy-related businesses" revenue and expense as reported on the Statements of Income.
(c) The components of these adjustments are detailed in the table below.

The following table provides the income statement line items and other adjustments that comprise unregulated gross energy margins.

	Three Months Ended March 31,		
	2011	2010	Change
Revenue			
Wholesale energy marketing (a)	$ 1,095	$ 1,783	$ (688)
Wholesale energy marketing to affiliate (a)	6	115	(109)
Unregulated retail electric and gas (a)	147	104	43
Net energy trading margins (a)	11	11	
Revenue adjustments (b)			
Exclude impact from energy-related economic activity (c)	(77)	(447)	370
Include gains from sale of emission allowances/RECs (d)		1	(1)
Include revenue from certain discontinued operations (e)	19	31	(12)
Total revenue adjustments	(58)	(415)	357
	1,201	1,598	(397)
Expense			
Fuel (a)	260	230	30
Energy purchases (a)	296	1,163	(867)
Energy purchases from affiliate (a)	1	1	
Expense adjustments (b)			
Exclude impact from energy-related economic activity (f)	(48)	(557)	509
Include expenses from certain discontinued operations (g)	7	6	1
Include ancillary charges (d)	4	7	(3)
Include gross receipts tax (h)	7	3	4
Other	3	2	1
Total expense adjustments	(27)	(539)	512
	530	855	(325)
Unregulated gross energy margins	$ 671	$ 743	$ (72)

(a) As reported on the Statements of Income.
(b) To include/exclude the impact of any revenues and expenses consistent with the way management reviews unregulated gross energy margins internally.
(c) See "Commodity Price Risk (Non-trading) – Economic Activity" in Note 14 to the Financial Statements for additional information. In addition, the three months ended March 31, 2011 and 2010 includes pre-tax gains of $6 million and of $13 million related to the amortization of option premiums, and in 2011 a realized gain of $10 million related to the monetization of certain full-requirement sales contracts. These amounts are reflected in "Wholesale energy marketing – Realized" on the Statement of Income.
(d) Included in "Other operation and maintenance" on the Statements of Income.
(e) Represents the operating revenues associated with certain Supply segment businesses classified as discontinued operations. See Note 8 to the Financial Statements for additional information.
(f) See "Commodity Price Risk (Non-trading) – Economic Activity" in Note 14 to the Financial Statements for additional information. In addition, the three months ended March 31, 2011 and 2010 include a pre-tax loss of $1 million and a pre-tax gain of $1 million related to the amortization of option premiums, and in 2011 a realized loss of $88 million related to the monetization of certain full-requirement sales contracts. These amounts are reflected in "Energy purchases - Realized" on the Statement of Income.
(g) Represents fuel costs and energy purchases associated with certain Supply segment businesses classified as discontinued operations. See Note 8 to the Financial Statements for additional information.
(h) Included in "Taxes, other than income" on the Statement of Income.

Unregulated Gross Energy Margins By Region

Unregulated gross energy margins are generated through non-trading and trading activities. The non-trading energy business is managed on a geographic basis that is aligned with its generation assets.

	Three Months Ended March 31,		
	2011	2010	Change
Non-trading:			
Eastern U.S. (a)	$ 578	$ 649	$ (71)
Western U.S.	82	83	(1)
Net energy trading	11	11	
Unregulated gross energy margins	$ 671	$ 743	$ (72)

(a) Change primarily due to lower pricing (including lower PJM basis and FTR values) and higher supply costs from the generation fleet.

Other Operation and Maintenance

The change in other operation and maintenance expense was due to:

	Three Months Ended March 31, 2011 vs. March 31, 2010
Montana hydroelectric litigation (Note 10)	$ (47)
Outage costs at Susquehanna nuclear plant (a)	(21)
Outage and other costs at fossil/hydroelectric plants (b)	18
Other	(3)
Total	$ (53)

(a) Primarily due to the timing of the refueling outage.
(b) Primarily due to the timing of a planned maintenance outage.

Taxes, Other Than Income

Taxes, other than income increased by $5 million for the three months ended March 31, 2011, compared with the same period in 2010, primarily due to higher Pennsylvania gross receipts tax expense due to an increase in electricity revenues as customers continue to select alternative suppliers in 2011. This tax is included in "Unregulated Gross Energy Margins" above.

Other Income (Expense) - net

See Note 12 to the Financial Statements for details.

Interest Expense

The change in interest expense was due to:

	Three Months Ended March 31, 2011 vs. March 31, 2010
Capitalized interest	$ (4)
Montana hydroelectric litigation (Note 10)	(6)
Interest on debt, primarily short-term	4
Total	$ (6)

Income Taxes

The change in income taxes was due to:

	Three Months Ended March 31, 2011 vs. March 31, 2010
Higher pre-tax book income	$ 60
State valuation allowance adjustments	6
Domestic manufacturing deduction	4
Health Care Reform	(5)
Other	(5)
Total	$ 60

See Note 5 to the Financial Statements for additional information on income taxes.

Discontinued Operations

See "Discontinued Operations" in Note 8 to the Financial Statements for information related to the sale of certain non-core generation facilities in 2011 and the sale of the Long Island generation business in 2010, as well as the presentation of PPL Global as Discontinued Operations as a result of the January 2011 distribution by PPL Energy Supply of its membership interest in PPL Global to its parent, PPL Energy Funding.

Financial Condition

Liquidity and Capital Resources

PPL Energy Supply had the following at:

	March 31, 2011	December 31, 2010
Cash and cash equivalents	$ 583	$ 661
Short-term debt	$ 700	$ 531

The $78 million decrease in PPL Energy Supply's cash and cash equivalents position was primarily the net result of:

- a net increase of $458 million in notes receivable from affiliates;
- a distribution of $325 million of cash included in net assets of PPL Global distributed to Member;
- $127 million of capital expenditures;
- other distributions to Member of $81 million;
- proceeds of $381 million from the sale of certain non-core generation facilities;
- a net increase in short-term debt of $350 million (excluding short-term debt of PPL Global that existed at December 31, 2010; and
- $202 million of cash provided by operating activities.

PPL Energy Supply's cash provided by operating activities decreased by $759 million for the three months ended March 31, 2011, compared with the same period in 2010, primarily due to increased defined benefit plan contributions, changes in working capital (mainly due to changes in counterparty collateral requirements) and PPL Global no longer being a subsidiary of PPL Energy Supply. In January 2011, PPL Energy Supply distributed its membership interest in PPL Global to its parent, PPL Energy Funding. See Note 8 to the Financial Statements for additional information.

Credit Facilities

At March 31, 2011, PPL Energy Supply's total committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	Committed Capacity	Borrowed	Letters of Credit Issued (a)	Unused Capacity
Syndicated Credit Facility (a)	$ 3,000	$ 700	$ 145	$ 2,155
3-year Bilateral Credit Facility	200	n/a	102	98
Total PPL Energy Supply Credit Facilities (b)	$ 3,200	$ 700	$ 247	$ 2,253

(a) Outstanding borrowings under this facility increased on a net basis by $350 million since December 31, 2010.
(b) In March 2011, PPL Energy Supply's $300 million 5-year Structured Credit Facility expired. PPL Energy Supply's obligations under this facility were supported by a $300 million letter of credit issued on PPL Energy Supply's behalf under a separate, but related $300 million five-year credit agreement, which also expired in 2011.

The commitments under PPL Energy Supply's credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 11% of the total committed capacity.

See Note 7 to the Financial Statements for further discussion of PPL Energy Supply's credit facilities.

Rating Agency Decisions

Moody's, S&P and Fitch periodically review the credit ratings on the debt securities of PPL Energy Supply and its subsidiaries. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of PPL Energy Supply and its subsidiaries are based on information provided by PPL Energy Supply and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of PPL Energy Supply or its subsidiaries. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. A downgrade in PPL Energy Supply's or its subsidiaries' credit ratings could result in higher borrowing costs and reduced access to capital markets.

In prior periodic reports, PPL Energy Supply described its then-current credit ratings in connection with, and to facilitate, an understanding of its liquidity position. As a result of the passage of the Dodd-Frank Act and the attendant uncertainties relating to the extent to which issuers of non-asset backed securities may disclose credit ratings without being required to obtain rating agency consent to the inclusion of such disclosure, or incorporation by reference of such disclosure, in a registrant's registration statement or section 10(a) prospectus, PPL Energy Supply is limiting its credit rating disclosure to a description of the actions taken by the rating agencies with respect to PPL Energy Supply's ratings, but without stating what ratings have been assigned to PPL Energy Supply or its subsidiaries, or their securities. The ratings assigned by the rating agencies to PPL Energy Supply and its subsidiaries and their respective securities may be found, without charge, on each of the respective ratings agencies' websites, which ratings together with all other information contained on such rating agency websites is, hereby, explicitly not incorporated by reference in this report.

Following the announcement of PPL's then-pending acquisition of Central Networks in March 2011, the rating agencies took the following actions:

- Moody's affirmed its ratings for PPL Energy Supply;
- S&P revised the outlook and lowered the issuer and senior unsecured ratings of PPL Energy Supply; and
- Fitch affirmed its ratings for PPL Energy Supply.

In April 2011, following the completion of PPL's acquisition of Central Networks, S&P revised the outlook and affirmed its ratings for PPL Energy Supply.

Ratings Triggers

PPL Energy Supply and its subsidiaries have various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity and fuel, commodity transportation and storage, tolling agreements and interest rate instruments, which contain provisions requiring PPL Energy Supply and its subsidiaries to post additional collateral, or permitting the counterparty to terminate the contract, if PPL Energy Supply or its subsidiaries' credit rating were to fall below investment grade. See Note 14 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at March 31, 2011. At March 31, 2011, if PPL Energy Supply's or its subsidiaries' credit rating had been below investment grade, the maximum amount that PPL Energy Supply would have been required to post as additional collateral to counterparties was $367 million for both derivative and non-derivative commodity and commodity-related contracts used in its generation, marketing and trading operations and interest rate contracts.

For additional information on PPL Energy Supply's liquidity and capital resources, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in PPL Energy Supply's 2010 Form 10-K.

Risk Management - Energy Marketing & Trading and Other

Market Risk

See Notes 13 and 14 to the Financial Statements for information about PPL Energy Supply's risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of possible losses under normal market conditions at a given confidence level.

Commodity Price Risk (Non-trading)

PPL Energy Supply segregates its non-trading activities into two categories: hedge activity and economic activity. Transactions that are accounted for as hedge activity qualify for hedge accounting treatment. The economic activity category includes transactions that address a specific risk, but were not eligible for hedge accounting or for which hedge accounting was not elected. This activity includes the changes in fair value of positions used to hedge a portion of the economic value of PPL Energy Supply's generation assets, full-requirement sales contracts and retail activities. This economic activity is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power). Although they do not receive hedge accounting treatment, these transactions are considered non-trading activity. The net fair value of economic positions at March 31, 2011 and December 31, 2010 was a net liability of $276 million and $389 million. See Note 14 to the Financial Statements for additional information on economic activity.

To hedge the impact of market price volatility on PPL Energy Supply's energy-related assets, liabilities and other contractual arrangements, PPL Energy Supply both sells and purchases physical energy at the wholesale level under FERC market-based tariffs throughout the U.S. and enters into financial exchange-traded and over-the-counter contracts. PPL Energy Supply's non-trading commodity derivative contracts mature at various times through 2017.

The following table sets forth the changes in net fair value of PPL Energy Supply's non-trading commodity derivative contracts. See Notes 13 and 14 to the Financial Statements for additional information.

	Gains (Losses) Three Months Ended March 31, 2011	2010
Fair value of contracts outstanding at the beginning of the period	$ 958	$ 1,280
Contracts realized or otherwise settled during the period	(52)	(126)
Fair value of new contracts entered into during the period	(17)	18
Other changes in fair value	109	554
Fair value of contracts outstanding at the end of the period	$ 998	$ 1,726

The following table segregates the net fair value of PPL Energy Supply's non-trading commodity derivative contracts at March 31, 2011, based on whether the fair value was determined by prices quoted in active markets for identical instruments or other more subjective means.

	Net Asset (Liability)				
	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	Total Fair Value
Source of Fair Value					
Prices based on significant other observable inputs	$ 463	490	11		$ 964
Prices based on significant unobservable inputs	4	(14)	10	34	34
Fair value of contracts outstanding at the end of the period	$ 467	$ 476	$ 21	$ 34	$ 998

PPL Energy Supply sells electricity, capacity and related services and buys fuel on a forward basis to hedge the value of energy from its generation assets. If PPL Energy Supply were unable to deliver firm capacity and energy or to accept the delivery of fuel under its agreements, under certain circumstances it could be required to pay liquidating damages. These damages would be based on the difference between the market price and the contract price of the commodity. Depending on price changes in the wholesale energy markets, such damages could be significant. Extreme weather conditions, unplanned power plant outages, transmission disruptions, nonperformance by counterparties (or their own counterparties) with which it has energy contracts and other factors could affect PPL Energy Supply's ability to meet its obligations, or cause significant increases in the market price of replacement energy. Although PPL Energy Supply attempts to mitigate these risks, there can be no assurance that it will be able to fully meet its firm obligations, that it will not be required to pay damages for failure to perform, or that it will not experience counterparty nonperformance in the future.

Commodity Price Risk (Trading)

PPL Energy Supply's trading contracts mature at various times through 2015. The following table sets forth changes in the net fair value of PPL Energy Supply's trading commodity derivative contracts. See Notes 13 and 14 to the Financial Statements for additional information.

	Gains (Losses) Three Months Ended March 31, 2011	2010
Fair value of contracts outstanding at the beginning of the period	$ 4	$ (6)
Contracts realized or otherwise settled during the period	2	(4)
Fair value of new contracts entered into during the period	3	
Other changes in fair value	(2)	12
Fair value of contracts outstanding at the end of the period	$ 7	$ 2

Unrealized losses of approximately $1 million will be reversed over the next three months as the transactions are realized.

The following table segregates the net fair value of trading commodity derivative contracts at March 31, 2011, based on whether the fair value was determined by prices quoted in active markets for identical instruments or other more subjective means.

	Net Asset (Liability)				
Source of Fair Value	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	Total Fair Value
Prices based on significant other observable inputs	$ 5	$ 2	$ 2		$ 9
Prices based on significant unobservable inputs	(2)				(2)
Fair value of contracts outstanding at the end of the period	$ 3	$ 2	$ 2		$ 7

VaR Models

A VaR model is utilized to measure commodity price risk in domestic gross energy margins for the non-trading and trading portfolios. VaR is a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level. VaR is calculated using a Monte Carlo simulation technique based on a five-day holding period at a 95% confidence level. Given the company's conservative hedging program, the non-trading VaR exposure is expected to be limited in the short-term. The VaR for portfolios using end-of-month results for the period was as follows:

	Trading VaR		Non-Trading VaR	
	March 31, 2011	December 31, 2010	March 31, 2011	December 31, 2010
95% Confidence Level, Five-Day Holding Period				
Period End	$ 2	$ 1	$ 5	$ 5
Average for the Period	1	4	5	7
High	2	9	5	12
Low	1	1	5	4

The trading portfolio includes all speculative positions, regardless of the delivery period. All positions not considered speculative are considered non-trading. The non-trading portfolio includes the entire portfolio, including generation, with delivery periods through the next 12 months. Both the trading and non-trading VaR computations exclude FTRs due to the absence of reliable spot and forward markets. The fair value of the non-trading and trading FTR positions was insignificant at March 31, 2011.

Interest Rate Risk

PPL Energy Supply and its subsidiaries have issued debt to finance their operations, which exposes them to interest rate risk. PPL and PPL Energy Supply utilize various financial derivative instruments to adjust the mix of fixed and floating interest rates in PPL Energy Supply's debt portfolio, adjust the duration of its debt portfolio and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under the risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of PPL Energy Supply's debt portfolio due to changes in the absolute level of interest rates. PPL Energy Supply had no interest rate hedges outstanding in March 31, 2011.

At March 31, 2011, PPL Energy Supply's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

PPL Energy Supply is also exposed to changes in the fair value of its debt portfolio. PPL Energy Supply estimated that a 10% decrease in interest rates at March 31, 2011 would increase the fair value of its debt portfolio by $47 million.

NDT Funds - Securities Price Risk

In connection with certain NRC requirements, PPL Susquehanna maintains trust funds to fund certain costs of decommissioning the Susquehanna nuclear plant. At March 31, 2011, these funds were invested primarily in domestic equity securities and fixed-rate, fixed-income securities and are reflected at fair value on PPL Energy Supply's Balance Sheet. The mix of securities is designed to provide returns sufficient to fund Susquehanna's decommissioning and to compensate for inflationary increases in decommissioning costs. However, the equity securities included in the trusts are exposed to price fluctuation in equity markets, and the values of fixed-rate, fixed-income securities are primarily exposed to changes in interest rates. PPL actively monitors the investment performance and periodically reviews asset allocation in accordance with its NDT policy statement. At March 31, 2011, a hypothetical 10% increase in interest rates and a 10% decrease in equity prices would have resulted in an estimated $47 million reduction in the fair value of the trust assets. See Notes 13 and 17 to the Financial Statements for additional information regarding the NDT funds.

Credit Risk

See Notes 11, 13 and 14 to the Financial Statements in this Form 10-Q and "Risk Management - Energy Marketing & Trading and Other - Credit Risk" in PPL Energy Supply's 2010 Form 10-K for additional information.

Foreign Currency Translation

As noted previously, in January 2011, PPL Energy Supply distributed its interest in PPL Global to its parent, PPL Energy Funding. As a result, PPL Energy Supply no longer consolidates any foreign subsidiaries and has no foreign currency translation component within AOCI. In 2010, the British pound sterling weakened in relation to the U.S. dollar. Changes in these exchange rates resulted in a foreign currency translation loss of $96 million for the three months ended March 31, 2010, which primarily reflected a $255 million reduction to PP&E offset by a reduction of $159 million to net liabilities.

Related Party Transactions

PPL Energy Supply is not aware of any material ownership interests or operating responsibility by senior management of PPL Energy Supply in outside partnerships, including leasing transactions with variable interest entities, or other entities doing business with PPL Energy Supply. See Note 11 to the Financial Statements for additional information on related party transactions.

Acquisitions, Development and Divestitures

Development projects are continuously reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options. See Note 8 to the Financial Statements for information on the more significant activities.

Environmental Matters

See "Item 1. Business - Environmental Matters" in PPL Energy Supply's 2010 Form 10-K and Note 10 to the Financial Statements for a discussion of environmental matters.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations, and require estimates or other judgments of matters inherently uncertain: price risk management, defined benefits, asset impairment, loss accruals, AROs and income taxes. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in PPL Energy Supply's 2010 Form 10-K for a discussion of each critical accounting policy.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

The following information should be read in conjunction with PPL Electric's Condensed Consolidated Financial Statements and the accompanying Notes and with PPL Electric's 2010 Form 10-K. Terms and abbreviations are explained in the glossary. Dollars are in millions unless otherwise noted.

PPL Electric is an electricity delivery service provider in eastern and central Pennsylvania, with headquarters in Allentown, Pennsylvania. Refer to "Item 1. Business - Background" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview" in PPL Electric's 2010 Form 10-K for a description of its business, discussion of its strategy, and the risks and challenges that it faces in its business. See "Forward-Looking Information," Note 10 to the Financial Statements and the remainder of Item 2 in this Form 10-Q, and "Item 1A. Risk Factors" and the rest of Item 7 in PPL Electric's 2010 Form 10-K for more information concerning the material risks and uncertainties that PPL Electric faces in its business and with respect to its future earnings and cash flows.

Results of Operations

The following discussion begins with a summary of PPL Electric's earnings and continues with a description of key factors that management expects may impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of significant changes in principal items on PPL Electric's Statements of Income, comparing the three months ended March 31, 2011, with the same period in 2010.

The results for interim periods can be disproportionately influenced by various factors and developments and by seasonal variations, and as such, the results of operations for interim periods do not necessarily indicate results or trends for the year or for future operating results.

Earnings

	Three Months Ended March 31, 2011	2010
Net Income Available to PPL Corporation	$ 52	$ 37

The after-tax changes in Net Income Available to PPL Corporation between these periods were due to the following factors.

Pennsylvania gross delivery margins	$ 17
Other operation and maintenance	(8)
Interest expense	1
Income taxes and other	5
Total	$ 15

- See "Pennsylvania Gross Delivery Margins by Component" in the "Statement of Income Analysis" section for an explanation of gross margins from the regulated electric delivery operations.

- Other operation and maintenance increased primarily due to higher payroll and related overhead, contractor costs resulting mainly from increased maintenance work and storm activity, and higher support group costs.

- Lower income taxes due to the indirect impact of Pennsylvania Department of Revenue interpretive guidance regarding 100% bonus depreciation. See Note 5 to the Financial Statements for additional information.

Outlook

Excluding special items, in 2011 compared to 2010, distribution revenues are expected to be higher resulting from the distribution base rate increase effective January 1, 2011.

Earnings in 2011 are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2 and Note 10 to the Financial Statements in this Form 10-Q and "Item 1. Business," and "Item 1A. Risk Factors" in PPL Electric's 2010 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

In April 2011, legislation was introduced in the Pennsylvania General Assembly that would authorize the PUC to approve regulatory procedures and mechanisms to provide for timely recovery of a utility's costs. Those procedures and mechanisms include, but are not limited to, the use of a fully projected test year and an automatic adjustment clause to recover capital costs and related operating expenses. The legislation has been referred to the House Committee on Consumer Affairs. PPL Electric is working with other stakeholders to support passage of this legislation.

Statement of Income Analysis --

Pennsylvania Gross Delivery Margins

Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Pennsylvania Gross Delivery Margins." "Pennsylvania Gross Delivery Margins" is a single financial performance measure of PPL Electric's Pennsylvania regulated electric delivery operations, which includes transmission and distribution activities, including PLR electricity generation supply. In calculating this measure, utility revenues and expenses associated with approved recovery mechanisms, including energy provided as a PLR, are offset. These mechanisms allow for recovery of certain expenses; therefore, certain expenses and revenues offset with minimal impact on earnings. As a result, this measure represents the net revenues from PPL Electric's Pennsylvania regulated electric delivery operations. This performance measure is used, in conjunction with other information, internally by senior management and PPL's Board of Directors to manage its Pennsylvania regulated electric delivery operations. PPL Electric believes that "Pennsylvania Gross Delivery Margins" provides another criterion to make investment decisions.

This measure is not intended to replace "Operating Income," which is determined in accordance with GAAP, as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. The following table reconciles "Operating Income" to "Pennsylvania Gross Delivery Margins" as defined by PPL Electric.

	Three Months Ended March 31,	
	2011	2010
Operating Income (a)	$ 103	$ 87
Adjustments:		
Other operation and maintenance (a)	130	120
Depreciation (a)	33	34
Taxes, other than income (a)	35	47
Expense adjustments (b)	(51)	(67)
Pennsylvania gross delivery margins	$ 250	$ 221

(a) As reported on the Statements of Income.
(b) The components of these adjustments are detailed in the table below.

The following table provides the income statement line items and other adjustments that comprise Pennsylvania gross delivery margins.

	2011	2010	Change
Revenue			
Retail electric (a)	$ 554	$ 811	$ (257)
Retail and wholesale electric to affiliate (a)	4	2	2
	558	813	(255)
Expense			
Energy purchases (a)	251	410	(159)
Energy purchases from affiliate (a)	6	115	(109)
Expense adjustments (b)			
Include gross receipts tax (c)	33	45	(12)
Include Act 129 (d)	15	18	(3)
Other	3	4	(1)
Total expense adjustments	51	67	(16)
	308	592	(284)
Pennsylvania gross delivery margins	$ 250	$ 221	$ 29

(a) As reported on the Statements of Income.
(b) To include/exclude the impact of any expenses consistent with the way management reviews Pennsylvania gross delivery margins internally.
(c) Included in "Taxes, other than income" on the Statements of Income.
(d) Included in "Other operation and maintenance" on the Statements of Income.

Pennsylvania Gross Delivery Margins by Component

Pennsylvania gross delivery margins are generated through domestic regulated electric distribution activities, including PLR supply, and transmission activities.

	Three Months Ended March 31,		
	2011	2010	Change
Distribution	$ 208	$ 179	$ 29
Transmission	42	42	
Pennsylvania gross delivery margins	$ 250	$ 221	$ 29

Distribution

Distribution margins were higher during the three months ended March 31, 2011, compared with the same period in 2010. This increase resulted from the approval of the distribution rate case effective January 1, 2011 combined with favorable weather.

Other Operation and Maintenance

The change in other operation and maintenance expense was due to:

	Three Months Ended March 31, 2011 vs. March 31, 2010
Payroll-related costs	$ 4
Contractor-related expenses	5
Allocation of certain corporate support group costs	3
Other	(2)
Total	$ 10

Taxes, Other Than Income

Taxes, other than income decreased by $12 million during the three months ended March 31, 2011, compared with the same period in 2010, primarily due to lower Pennsylvania gross receipts tax expense due to a decrease in electricity revenues as customers continue to select alternate suppliers in 2011. This tax is included in "Pennsylvania Gross Delivery Margins" above.

Income Taxes

The change in income taxes was due to:

	Three Months Ended March 31, 2011 vs. March 31, 2010
Higher pre-tax book income	$ 6
Depreciation not normalized	(3)
Other	(1)
Total	$ 2

See Note 5 to the Financial Statements for additional information on income taxes.

Financial Condition

Liquidity and Capital Resources

PPL Electric had the following at:

	March 31, 2011	December 31, 2010
Cash and cash equivalents	$ 10	$ 204

The $194 million decrease in PPL Electric's cash and cash equivalents position was primarily the net result of:

- $129 million of capital expenditures;
- $47 million of cash used in operating activities; and
- the payment of $18 million of common stock dividends to PPL.

PPL Electric's cash used in operating activities improved by $66 million for the three months ended March 31, 2011, compared with the same period in 2010, primarily due to timing of the estimated annual gross receipts tax payment, partially offset by an increase in defined benefit plan contributions.

Credit Facilities

At March 31, 2011, PPL Electric's total committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	Committed Capacity	Borrowed	Letters of Credit Issued	Unused Capacity
Syndicated Credit Facility (a)	$ 200		$ 13	$ 187
Asset-backed Credit Facility (b)	150		n/a	150
Total PPL Electric Credit Facilities	$ 350		$ 13	$ 337

(a) The commitments under this credit facility are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 6% of the total committed capacity.
(b) PPL Electric obtains financing by selling and contributing its eligible accounts receivable and unbilled revenue to a special purpose, wholly owned subsidiary on an ongoing basis. The subsidiary pledges these assets to secure loans of up to an aggregate of $150 million from a commercial paper conduit sponsored by a financial institution. At March 31, 2011, based on accounts receivable and unbilled revenue pledged, the amount available for borrowing under this facility was limited to $119 million.

See Note 7 to the Financial Statements for further discussion of PPL Electric's credit facilities.

The Economic Stimulus Package

In April 2010, PPL Electric entered into an agreement with the DOE, in which the agency is to provide a grant for one-half of a $38 million smart grid project. The project involves installing and using smart grid technology to strengthen reliability, save energy and improve electric service for approximately 60,000 Harrisburg, Pennsylvania-area customers. It is expected to provide benefits beyond the Harrisburg region, helping to speed power restoration across PPL Electric's 29-county service territory. Work on the project is progressing on schedule, and PPL Electric is receiving reimbursements under the grant for costs incurred. The project is scheduled to be completed by the end of September 2012.

Rating Agency Decisions

Moody's, S&P and Fitch periodically review the credit ratings on the debt and preferred securities of PPL Electric. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of PPL Electric are based on information provided by PPL Electric and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of PPL Electric. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. A downgrade in PPL Electric's credit ratings could result in higher borrowing costs and reduced access to capital markets.

In prior periodic reports, PPL Electric described its then-current credit ratings in connection with, and to facilitate, an understanding of its liquidity position. As a result of the passage of the Dodd-Frank Act and the attendant uncertainties relating to the extent to which issuers of non-asset backed securities may disclose credit ratings without being required to obtain rating agency consent to the inclusion of such disclosure, or incorporation by reference of such disclosure, in a registrant's registration statement or section 10(a) prospectus, PPL Electric is limiting its credit rating disclosure to a description of the actions taken by the rating agencies with respect to PPL Electric's ratings, but without stating what ratings have been assigned to PPL Electric or its securities. The ratings assigned by the rating agencies to PPL Electric and its respective securities may be found, without charge, on each of the respective ratings agencies' websites, which ratings together with all other information contained on such rating agency websites is, hereby, explicitly not incorporated by reference in this report.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For additional information regarding various pending administrative and judicial proceedings involving regulatory, environmental and other matters, which information is incorporated by reference into this Part II, see:

- "Item 3. Legal Proceedings" in PPL's, PPL Energy Supply's and PPL Electric's 2010 Form 10-K; and
- Note 10 of the registrants' "Combined Notes to Condensed Consolidated Financial Statements" in Part I of this report.

Item 1A. Risk Factors

PPL Corporation

The risk factors discussed below are related to PPL's April 1, 2011 acquisition of Central Networks, as described in Note 18 to the Financial Statements. They should be read in conjunction with and update and supplement the risk factors disclosed in PPL's "Item 1A. Risk Factors" of the 2010 Form 10-K.

We have issued securities that contain provisions that could restrict our payment of dividends.
We and our subsidiaries currently have outstanding $2.6 billion principal amount of junior subordinated notes, and we and our subsidiaries may in the future issue additional junior subordinated notes or similar securities, that in certain circumstances, including the failure to pay current interest, would limit our ability to pay dividends on our common stock. While we currently do not anticipate that any of these circumstances will occur, no assurance can be given that these circumstances will not occur in the future.

Risks Relating to the Acquisition

The Central Networks acquisition may not achieve its intended results, including anticipated synergies and cost savings.

Although we completed the Central Networks acquisition with the expectation that it will result in various benefits, including a significant amount of cost savings and other financial and operational benefits, there can be no assurance regarding when or the extent to which we will be able to realize these cost-savings or other benefits. Achieving the anticipated benefits, including cost savings, is subject to a number of uncertainties, including whether the businesses acquired can be operated in the manner we intend and whether our costs to finance the Central Networks acquisition will be consistent with our expectations. Events outside of our control, including but not limited to regulatory changes or developments in the U.K., could also adversely affect our ability to realize the anticipated benefits from the Central Networks acquisition. Thus the integration may be unpredictable, subject to delays or changed circumstances, and we can give no assurance that the acquired businesses will perform in accordance with our expectations or that our expectations with respect to integration or cost savings as a result of the acquisition will materialize. In addition, we expect to incur additional costs and charges in connection with integrating the acquired businesses, including severance payments and other restructuring and transitional charges. Additional unanticipated costs may also arise during the integration process. The integration of the WPD (East Midlands) and WPD (West Midlands) businesses may place an additional burden on our management and internal resources, and the diversion of management's attention during the integration and restructuring process could have an adverse effect on our business, financial condition and expected operating results.

The Central Networks acquisition exposes us to additional risks and uncertainties with respect to the acquired businesses and their operations.

We expect that the Central Networks acquisition will rebalance our business mix to a greater percentage of regulated operations. While we believe this should help mitigate our exposure to downturns in the wholesale power markets, it will increase our dependence on rate-of-return regulation. Although we are already exposed to risks relating to rate-of-return regulation, the Central Networks acquisition will increase these risks.

The acquired businesses will generally be subject to risks similar to those that we are subject to in our existing U.K. businesses. These include:

- Under current regulation by Ofgem, our U.K. regulated businesses' allowed revenue is determined by the distribution price controls set out under the terms of their respective distribution licenses, and is typically set by Ofgem every five years. The current price control period runs from April 1, 2010 to March 31, 2015. Furthermore, our ability to earn additional revenue under Ofgem regulations is highly dependent on our ability to achieve certain operational efficiency, customer service and other incentives, and we can provide no assurance that we will be able to achieve such incentives.

- There are various changes being contemplated by Ofgem to the current electricity distribution, gas transmission and gas distribution regulatory frameworks in the U.K. and there can be no assurance as to the effects such changes will have on our U.K. regulated businesses in the future, including the acquired businesses. In particular, in October 2010, Ofgem announced a new regulatory framework that is expected to become effective in April 2015 for the electricity distribution sector in the U.K. The framework, known as RIIO (Revenues = Incentives + Innovation + Outputs), focuses on sustainability, environmental-focused output measures, promotion of low carbon energy networks and financing of new investments. The new regulatory framework is expected to have a wide-ranging effect on electricity distribution companies operating in the U.K., including changes to price controls and price review periods. Our U.K. regulated businesses' compliance with this new regulatory framework may result in significant additional capital expenditures, increases in operating and compliance costs and adjustments to our pricing models.

- Ofgem has formal powers to propose modifications to each distribution license. We are not currently aware of any planned modification to any of our U.K. regulated businesses distribution licenses that would result in a material adverse effect to the U.K. regulated businesses and PPL. There can, however, be no assurance that a restrictive modification will not be introduced in the future, which could have an adverse effect on the operations and financial condition of the U.K. regulated businesses and PPL.

- A failure to operate our U.K. networks properly could lead to compensation payments or penalties, or a failure to make capital expenditures in line with agreed investment programs could lead to deterioration of the network. While our U.K. regulated businesses' investment programs are targeted to maintain asset conditions over a five year period and reduce customer interruptions and customer minutes lost over the period, no assurance can be provided that these regulatory requirements will be met.

- A failure by any of our U.K. regulated businesses to comply with the terms of a distribution license may lead to the issuance of an enforcement order by Ofgem that could have an adverse impact on PPL. Ofgem has powers to levy fines of up to 10 percent of revenue for any breach of a distribution license or, in certain circumstances such as insolvency, the distribution license itself may be revoked. Unless terminated in the circumstances mentioned above, a distribution license continues indefinitely until revoked by Ofgem following no less than 25 years' written notice. Our U.K. regulated businesses have in place policies, systems and processes to help ensure compliance with their distribution licenses and relevant legislation. While none of our U.K. regulated businesses are currently subject to any formal or informal investigation by Ofgem in relation to enforcement matters and we are not aware of any area of material non-compliance, there can be no guarantee that our regulated U.K. businesses will not be subject to investigation or enforcement action in the future.

- We will be subject to increased foreign currency exchange rate risks because a greater portion of our cash flows and reported earnings will be generated by our U.K. business operations. These risks relate primarily to changes in the relative value of the pound sterling and the U.S. dollar between the time we initially invest U.S. dollars in our U.K. businesses and the time that cash is repatriated to the U.S. from the U.K., including cash flows from our U.K. businesses that may be distributed as future dividends to our shareholders. In addition, our consolidated reported earnings on a U.S. GAAP basis may be subject to increased earnings translation risk, which is the result of the conversion of earnings as reported in our U.K. businesses on a pound sterling basis to a U.S. dollar basis in accordance with U.S. GAAP requirements.

- Environmental costs and liabilities associated with aspects of the acquired businesses may differ from those of our existing business, including with respect to our electricity distribution, gas transmission and certain former operations, as well as with governmental and other third party proceedings.

We will incur significant transaction and acquisition-related costs in connection with financing and integrating the Central Networks acquisition.

We expect to incur significant non-recurring costs associated with financing and integrating the Central Networks acquisition, including costs associated with borrowings under the Bridge Facility. Concurrently with the Central Networks acquisition, we borrowed the full amount available under the Bridge Facility to fund the acquisition purchase price and pay certain fees and expenses incurred in connection with the acquisition. In April 2011, we raised a total of approximately $3.2 billion, net of underwriting discounts, through the sale of shares of common stock and Equity Units, and approximately $953 million, net of discounts and commissions, through the sale of senior notes. We used a portion of these proceeds to reduce borrowings under the Bridge Facility. While we expect that remaining borrowings under the Bridge Facility will be repaid with the proceeds of issuances of debt by WPD (East Midlands) and WPD (West Midlands), the costs of continued borrowing under the Bridge Facility are likely to be significant.

PPL Energy Supply, LLC and PPL Electric Utilities Corporation

Except as noted below for PPL Energy Supply, there have been no material changes in PPL Energy Supply's and PPL Electric's risk factors from those disclosed in "Item 1A. Risk Factors" of the 2010 Form 10-K.

In January 2011, PPL Energy Supply distributed its membership interest in PPL Global, representing 100% of the outstanding membership interest of PPL Global, to PPL Energy Supply's parent, PPL Energy Funding. As a result, PPL Energy Supply is no longer subject to "Risks Related to International Regulated Segment."

Item 6. Exhibits

The following Exhibits indicated by an asterisk preceding the Exhibit number are filed herewith. The balance of the Exhibits has heretofore been filed with the Commission and pursuant to Rule 12(b)-32 are incorporated herein by reference. Exhibits indicated by a [_] are filed or listed pursuant to Item 601(b)(10)(iii) of Regulation S-K.

1(a) - Common Stock Underwriting Agreement, dated April 11, 2011, among PPL Corporation and Merrill Lynch, Pierce, Fenner & Smith Incorporated and Credit Suisse Securities (USA) LLC, as representatives of the several underwriters (Exhibit 1.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 13, 2011)

1(b) - Equity Units Underwriting Agreement, dated April 11, 2011, among PPL Corporation, PPL Capital Funding, Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated and Credit Suisse Securities (USA) LLC, as representatives of the several underwriters (Exhibit 1.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 13, 2011)

4(a)	- Purchase Contract and Pledge Agreement, dated as of April 15, 2011, among PPL Corporation and The Bank of New York Mellon, as Purchase Contract Agent, and The Bank of New York Mellon, as Collateral Agent, Custodial Agent and Securities Intermediary (Exhibit 4.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 19, 2011)
4(b)	- Supplemental Indenture No. 3 among PPL Capital Funding, Inc., PPL Corporation and The Bank of New York Mellon (as successor to The Bank of New York), as Trustee, dated as of April 15, 2011 (Exhibit 4.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 19, 2011)
4(c)	- Form of Remarketing Agreement (included in Exhibit 4.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 19, 2011)
4(d)	- Form of Corporate Equity Unit Certificate (included in Exhibit 4.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 19, 2011)
4(e)	- Form of Treasury Equity Unit Certificate (included in Exhibit 4.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 19, 2011)
4(f)	- Form of 4.32% Junior Subordinated Notes due 2019 (included in Exhibit 4.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 19, 2011)
4(g)	- Indenture, dated April 21, 2011, between PPL WEM Holdings PLC, as Issuer, and The Bank of New York Mellon, as Trustee (Exhibit 10.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 21, 2011)
4(h)	- Supplemental Indenture No. 1, dated April 21, 2011, by and between PPL WEM Holdings PLC, as Issuer, and The Bank of New York Mellon, as Trustee (Exhibit 10.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 21, 2011)
*[_]10(a)	- Amendment No. 5 to Incentive Compensation Plan for Key Employees, dated March 24, 2011
10(b)	- £3,600,000,000 Senior Bridge Term Loan Credit Agreement, dated as of March 25, 2011, among PPL Capital Funding, Inc. and PPL WEM Holdings PLC (f/k/a WPD Investment Holdings Limited), as Borrowers, PPL, as Guarantor, the lenders from time to time party thereto and Bank of America, N.A., as Administrative Agent, Credit Suisse, AG, as Syndication Agent, and Merrill Lynch, Pierce, Fenner & Smith Incorporation and Credit Suisse Securities (USA) LLC as Joint Lead Arrangers and Joint Bookrunners (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 29, 2011)
*10(c)	- Amendment No. 4 to Credit and Security Agreement, dated as of March 31, 2011, among PPL Receivables Corporation, as Borrower, PPL Electric Utilities Corporation, as Servicer, Victory Receivables Corporation, as a Lender, and The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch, as Liquidity Bank and as Agent
10(d)	- £300,000,000 Multicurrency Revolving Credit Facility Agreement, dated April 4, 2011, among Western Power Distribution (West Midlands) plc and Royal Bank of Canada as Lead Arranger, Bank of America Securities Limited as Bookrunner and Facility Agent, Bank of America, N.A. as Issuing Bank and the other banks party thereto as Mandated Lead Arrangers (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 8, 2011)
10(e)	- £300,000,000 Multicurrency Revolving Credit Facility Agreement, dated April 4, 2011, among Western Power Distribution (East Midlands) plc and Royal Bank of Canada as Lead Arranger, Bank of America Securities Limited as Bookrunner and Facility Agent, Bank of America, N.A. as Issuing Bank and the other banks party thereto as Mandated Lead Arrangers (Exhibit 10.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 8, 2011)
10(f)	- Amendment No.1, dated April 15, 2011, to Senior Bridge Term Loan Credit Agreement dated as of March 25, 2011 among PPL Capital Funding, Inc., PPL WEM Holdings PLC, PPL Corporation, the Lenders party thereto from time to time and Bank of America, N.A., as Administrative Agent (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 19, 2011)
10(g)	- Purchase Agreement, dated April 18, 2011, between PPL WEM Holdings PLC and Barclays Capital Inc., Credit Suisse Securities (USA) LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated and RBS Securities Inc., as representatives of the several purchasers named in Schedule A thereto (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated April 21, 2011)
10(h)	- $198,309,583.05 Letter of Credit Agreement, dated as of April 29, 2011, among Kentucky Utilities Company, as Borrower, and Banco Bilbao Vizcaya Argentaria, S.A., New York Branch, as Administrative Agent and the lenders and letter of credit issuing banks party thereto from time to time

(Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated May 2, 2011)

12(a) - PPL Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends

12(b) - PPL Energy Supply, LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges

12(c) - PPL Electric Utilities Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends

99(a) - Share Purchase Agreement, dated as of March 1, 2011, by and among Avon Energy Partners Holdings Limited, East Midlands Electricity Distribution Holdings, E.ON AG, PPL Corporation and WPD Investment Holdings Limited (Exhibit 99.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 2, 2011)

99(b) - Debt Commitment Letter, dated March 1, 2011, by and between PPL Corporation, Bank of America, N.A., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Credit Suisse AG and Credit Suisse Securities (USA) LLC (Exhibit 99.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated March 2, 2011)

Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended March 31, 2011, filed by the following officers for the following companies:

31(a) - James H. Miller for PPL Corporation

31(b) - Paul A. Farr for PPL Corporation

31(c) - James H. Miller for PPL Energy Supply, LLC

31(d) - Paul A. Farr for PPL Energy Supply, LLC

31(e) - David G. DeCampli for PPL Electric Utilities Corporation

31(f) - Vincent Sorgi for PPL Electric Utilities Corporation

Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended March 31, 2011, furnished by the following officers for the following companies:

32(a) - James H. Miller for PPL Corporation

32(b) - Paul A. Farr for PPL Corporation

32(c) - James H. Miller for PPL Energy Supply, LLC

32(d) - Paul A. Farr for PPL Energy Supply, LLC

32(e) - David G. DeCampli for PPL Electric Utilities Corporation

32(f) - Vincent Sorgi for PPL Electric Utilities Corporation

**101.INS - XBRL Instance Document for PPL Corporation

**101.SCH - XBRL Taxonomy Extension Schema for PPL Corporation

**101.CAL - XBRL Taxonomy Extension Calculation Linkbase for PPL Corporation

**101.DEF - XBRL Taxonomy Extension Definition Linkbase for PPL Corporation

**101.LAB - XBRL Taxonomy Extension Label Linkbase for PPL Corporation

**101.PRE - XBRL Taxonomy Extension Presentation Linkbase for PPL Corporation

** - XBRL information will be considered to be furnished, not filed, for the first two years of a company's submission of XBRL information.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned thereunto duly authorized. The signature for each undersigned company shall be deemed to relate only to matters having reference to such company or its subsidiaries.

PPL Corporation
(Registrant)

PPL Energy Supply, LLC
(Registrant)

PPL Electric Utilities Corporation
(Registrant)

Date: May 6, 2011

/s/ Vincent Sorgi
Vincent Sorgi
Vice President and Controller
(Chief Accounting Officer)

Exhibit 12(a)

PPL CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

(Millions of Dollars)

	3 Months Ended March 31, 2011	Years Ended December 31, 2010	2009	2008	2007	2006
Earnings, as defined:						
Income from Continuing Operations Before Income Taxes	$ **625**	$ 1,239	$ 538	$ 1,273	$ 1,230	$ 1,061
Less earnings of equity method investments					1	2
Distributed income from equity method investments		7	1		3	1
	625	1,246	539	1,273	1,232	1,060
Total fixed charges as below	**205**	698	513	568	609	559
Less:						
Capitalized interest	**11**	30	43	57	55	23
Preferred security distributions of subsidiaries on a pre-tax basis	**6**	21	24	27	23	24
Interest expense and fixed charges related to discontinued operations	**3**	12	15	16	39	38
Total fixed charges included in Income from Continuing Operations Before Income Taxes	**185**	635	431	468	492	474
Total earnings	$ **810**	$ 1,881	$ 970	$ 1,741	$ 1,724	$ 1,534
Fixed charges, as defined:						
Interest on long-term debt	$ **159**	$ 481	$ 397	$ 478	$ 522	$ 482
Interest on short-term debt and other interest	**14**	46	34	28	35	13
Amortization of debt discount, expense and premium - net	**15**	110	15	12	8	11
Estimated interest component of operating rentals	**11**	39	42	22	21	29
Preferred securities distributions of subsidiaries on a pre-tax basis	**6**	21	24	27	23	24
Fixed charges of majority-owned share of 50% or less-owned persons		1	1	1		
Total fixed charges (a)	$ **205**	$ 698	$ 513	$ 568	$ 609	$ 559
Ratio of earnings to fixed charges	**4.0**	2.7	1.9	3.1	2.8	2.7
Ratio of earnings to combined fixed charges and preferred stock dividends (b)	**4.0**	2.7	1.9	3.1	2.8	2.7

(a) Interest on unrecognized tax benefits is not included in fixed charges.

(b) PPL, the parent holding company, does not have any preferred stock outstanding; therefore, the ratio of earnings to combined fixed charges and preferred stock dividends is the same as the ratio of earnings to fixed charges.

Exhibit 12(b)

PPL ENERGY SUPPLY, LLC AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	3 Months Ended March 31, 2011	Years Ended December 31, 2010 (b)	2009 (b)	2008 (b)	2007 (b)	2006 (b)
Earnings, as defined:						
Income (Loss) from Continuing Operations Before Income Taxes	**$ 353**	$ 881	$ (13)	$ 671	$ 785	$ 557
Less earnings of equity method investments					1	3
Distributed income from equity method investments		7	1		3	1
	353	888	(12)	671	787	555
Total fixed charges as below	**70**	426	364	390	388	326
Less:						
Capitalized interest	**11**	33	44	57	54	21
Interest expense and fixed charges related to discontinued operations	**3**	147	102	157	217	205
Total fixed charges included in Income from Continuing Operations Before Income Taxes	**56**	246	218	176	117	100
Total earnings	**$ 409**	$ 1,134	$ 206	$ 847	$ 904	$ 655
Fixed charges, as defined:						
Interest on long-term debt	**$ 51**	$ 330	$ 284	$ 345	$ 353	$ 296
Interest on short-term debt and other interest	**8**	37	29	27	24	16
Amortization of debt discount, expense and premium - net	**3**	20	8	2	(3)	(1)
Estimated interest component of operating rentals	**8**	38	42	15	14	15
Fixed charges of majority-owned share of 50% or less-owned persons		1	1	1		
Total fixed charges (a)	**$ 70**	$ 426	$ 364	$ 390	$ 388	$ 326
Ratio of earnings to fixed charges	**5.8**	2.7	0.6	2.2	2.3	2.0

(a) Interest on unrecognized tax benefits is not included in fixed charges.
(b) Years 2006 through 2010 have been adjusted to reflect the reclassification of the distribution of PPL Energy Supply's membership interest in PPL Global to PPL Energy Supply's parent, PPL Energy Funding, as Discontinued Operations. See Note 8 to the Financial Statements for additional information.

Exhibit 12(c)

PPL ELECTRIC UTILITIES CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

(Millions of Dollars)

	3 Months Ended March 31,	Years Ended December 31,				
	2011	**2010**	**2009**	**2008**	**2007**	**2006**
Earnings, as defined:						
Income Before Income Taxes	$ **79**	$ 192	$ 221	$ 278	$ 246	$ 298
Total fixed charges as below	**25**	102	121	114	143	159
Total earnings	$ **104**	$ 294	$ 342	$ 392	$ 389	$ 457
Fixed charges, as defined:						
Interest on long-term debt	$ **22**	$ 89	$ 105	$ 94	$ 109	$ 131
Interest on short-term debt and other interest	**1**	4	9	13	23	13
Amortization of debt discount, expense and premium - net	**2**	8	6	6	7	8
Estimated interest component of operating rentals		1	1	1	4	7
Total fixed charges (a)	$ **25**	$ 102	$ 121	$ 114	$ 143	$ 159
Ratio of earnings to fixed charges	**4.2**	2.9	2.8	3.4	2.7	2.9
Preferred stock dividend requirements on a pre-tax basis	$ **6**	$ 23	$ 28	$ 28	$ 27	$ 24
Fixed charges, as above	**25**	102	121	114	143	159
Total fixed charges and preferred stock dividends	$ **31**	$ 125	$ 149	$ 142	$ 170	$ 183
Ratio of earnings to combined fixed charges and preferred stock dividends	**3.4**	2.4	2.3	2.8	2.3	2.5

(a) Interest on unrecognized tax benefits is not included in fixed charges.

Exhibit 31(a)

CERTIFICATION

I, JAMES H. MILLER, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Corporation (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2011

/s/ James H. Miller
James H. Miller
Chairman, President and Chief Executive Officer
PPL Corporation

Exhibit 31(b)

CERTIFICATION

I, PAUL A. FARR, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Corporation (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2011

/s/ Paul A. Farr
Paul A. Farr
Executive Vice President and Chief Financial Officer
PPL Corporation

Exhibit 31(c)

CERTIFICATION

I, JAMES H. MILLER, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Energy Supply, LLC (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2011

/s/ James H. Miller
James H. Miller
President
PPL Energy Supply, LLC

Exhibit 31(d)

CERTIFICATION

I, PAUL A. FARR, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Energy Supply, LLC (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2011

/s/ Paul A. Farr
Paul A. Farr
Executive Vice President
PPL Energy Supply, LLC

Exhibit 31(e)

CERTIFICATION

I, DAVID G. DECAMPLI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2011

/s/ David G. DeCampli
David G. DeCampli
President
PPL Electric Utilities Corporation

Exhibit 31(f)

CERTIFICATION

I, VINCENT SORGI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2011

/s/ Vincent Sorgi
Vincent Sorgi
Vice President and Controller
PPL Electric Utilities Corporation

Exhibit 32(a)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 FOR PPL CORPORATION'S 10-Q FOR THE QUARTER ENDED MARCH 31, 2011

In connection with the annual report on Form 10-Q of PPL Corporation (the "Company") for the quarter ended March 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal executive officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 6, 2011

/s/ James H. Miller
James H. Miller
Chairman, President and Chief Executive Officer
PPL Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(b)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL CORPORATION'S 10-Q FOR THE QUARTER ENDED MARCH 31, 2011

In connection with the annual report on Form 10-Q of PPL Corporation (the "Company") for the quarter ended March 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal financial officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 6, 2011

/s/ Paul A. Farr
Paul A. Farr
Executive Vice President and Chief Financial Officer
PPL Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(c)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ENERGY SUPPLY, LLC'S 10-Q FOR THE QUARTER ENDED MARCH 31, 2011

In connection with the annual report on Form 10-Q of PPL Energy Supply, LLC (the "Company") for the quarter ended March 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal executive officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 6, 2011

/s/ James H. Miller
James H. Miller
President
PPL Energy Supply, LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(d)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ENERGY SUPPLY, LLC'S 10-Q FOR THE QUARTER ENDED MARCH 31, 2011

In connection with the annual report on Form 10-Q of PPL Energy Supply, LLC (the "Company") for the quarter ended March 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal financial officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 6, 2011

/s/ Paul A. Farr
Paul A. Farr
Executive Vice President
PPL Energy Supply, LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(e)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ELECTRIC UTILITIES CORPORATION'S 10-Q FOR THE QUARTER ENDED MARCH 31, 2011

In connection with the annual report on Form 10-Q of PPL Electric Utilities Corporation (the "Company") for the quarter ended March 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal executive officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 6, 2011

/s/ David G. DeCampli
David G. DeCampli
President
PPL Electric Utilities Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(f)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ELECTRIC UTILITIES CORPORATION'S 10-Q FOR THE QUARTER ENDED MARCH 31, 2011

In connection with the annual report on Form 10-Q of PPL Electric Utilities Corporation (the "Company") for the quarter ended March 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal financial officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 6, 2011

/s/ Vincent Sorgi
Vincent Sorgi
Vice President and Controller
PPL Electric Utilities Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Form 10-Q

Quarterly Report to the Securities and Exchange Commission

For the Quarter Ended September 30, 2011

PPL Corporation
PPL Energy Supply, LLC
PPL Electric Utilities Corporation
LG&E and KU Energy LLC
Louisville Gas and Electric Company
Kentucky Utilities Company

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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended September 30, 2011

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from ________ to __________

Commission File Number	Registrant; State of Incorporation; Address and Telephone Number	IRS Employer Identification No.
1-11459	**PPL Corporation** (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-2758192
1-32944	**PPL Energy Supply, LLC** (Exact name of Registrant as specified in its charter) (Delaware) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-3074920
1-905	**PPL Electric Utilities Corporation** (Exact name of Registrant as specified in its charter) (Pennsylvania) Two North Ninth Street Allentown, PA 18101-1179 (610) 774-5151	23-0959590
333-173665	**LG&E and KU Energy LLC** (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	20-0523163
1-2893	**Louisville Gas and Electric Company** (Exact name of Registrant as specified in its charter) (Kentucky) 220 West Main Street Louisville, KY 40202-1377 (502) 627-2000	61-0264150
1-3464	**Kentucky Utilities Company** (Exact name of Registrant as specified in its charter) (Kentucky and Virginia) One Quality Street Lexington, KY 40507-1462 (502) 627-2000	61-0247570

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

PPL Corporation	Yes X	No ___
PPL Energy Supply, LLC	Yes X	No ___
PPL Electric Utilities Corporation	Yes X	No ___
LG&E and KU Energy LLC	Yes X	No ___
Louisville Gas and Electric Company	Yes X	No ___
Kentucky Utilities Company	Yes X	No ___

Indicate by check mark whether the registrants have submitted electronically and posted on their corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrants were required to submit and post such files).

PPL Corporation	Yes X	No ___
PPL Energy Supply, LLC	Yes X	No ___
PPL Electric Utilities Corporation	Yes X	No ___
LG&E and KU Energy LLC	Yes X	No ___
Louisville Gas and Electric Company	Yes X	No ___
Kentucky Utilities Company	Yes X	No ___

Indicate by check mark whether the registrants are large accelerated filers, accelerated filers, non-accelerated filers, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

	Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company
PPL Corporation	[X]	[ ]	[ ]	[ ]
PPL Energy Supply, LLC	[ ]	[ ]	[X]	[ ]
PPL Electric Utilities Corporation	[ ]	[ ]	[X]	[ ]
LG&E and KU Energy LLC	[ ]	[ ]	[X]	[ ]
Louisville Gas and Electric Company	[ ]	[ ]	[X]	[ ]
Kentucky Utilities Company	[ ]	[ ]	[X]	[ ]

Indicate by check mark whether the registrants are shell companies (as defined in Rule 12b-2 of the Exchange Act).

PPL Corporation	Yes ___	No X
PPL Energy Supply, LLC	Yes ___	No X
PPL Electric Utilities Corporation	Yes ___	No X
LG&E and KU Energy LLC	Yes ___	No X
Louisville Gas and Electric Company	Yes ___	No X
Kentucky Utilities Company	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.

PPL Corporation	Common stock, $.01 par value, 578,298,607 shares outstanding at October 31, 2011.
PPL Energy Supply, LLC	PPL Corporation indirectly holds all of the membership interests in PPL Energy Supply, LLC.
PPL Electric Utilities Corporation	Common stock, no par value, 66,368,056 shares outstanding and all held by PPL Corporation at October 31, 2011.
LG&E and KU Energy LLC	PPL Corporation directly holds all of the membership interests in LG&E and KU Energy LLC.
Louisville Gas and Electric Company	Common stock, no par value, 21,294,223 shares outstanding and all held by LG&E and KU Energy LLC at October 31, 2011.
Kentucky Utilities Company	Common stock, no par value, 37,817,878 shares outstanding and all held by LG&E and KU Energy LLC at October 31, 2011.

This document is available free of charge at the Investor Center on PPL Corporation's website at www.pplweb.com. However, information on this website does not constitute a part of this Form 10-Q.

PPL CORPORATION
PPL ENERGY SUPPLY, LLC
PPL ELECTRIC UTILITIES CORPORATION
LG&E AND KU ENERGY LLC
LOUISVILLE GAS AND ELECTRIC COMPANY
KENTUCKY UTILITIES COMPANY

FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2011

Table of Contents

This combined Form 10-Q is separately filed by the following individual registrants: PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company. Information contained herein relating to any individual registrant is filed by such registrant solely on its own behalf, and no registrant makes any representation as to information relating to any other registrant, except that information under "Forward-Looking Information" relating to PPL Corporation subsidiaries is also attributed to PPL Corporation and information relating to the subsidiaries of LG&E and KU Energy LLC is also attributed to LG&E and KU Energy LLC.

GLOSSARY OF TERMS AND ABBREVIATIONS

PPL Corporation and its current and former subsidiaries

Central Networks - collectively Central Networks East plc, Central Networks Limited and certain other related assets and liabilities. On April 1, 2011, PPL WEM Holdings plc (formerly WPD Investment Holdings Limited) purchased all of the outstanding ordinary share capital of these companies from E.ON AG subsidiaries. Central Networks West plc (subsequently renamed Western Power Distribution (West Midlands) plc), wholly owned by Central Networks Limited (subsequently renamed WPD Midlands Holdings Limited), and Central Networks East plc (subsequently renamed Western Power Distribution (East Midlands) plc) are British regional electricity distribution utility companies.

KU - Kentucky Utilities Company, a public utility subsidiary of LKE engaged in the regulated generation, transmission, distribution and sale of electricity, primarily in Kentucky. The subsidiary was acquired by PPL through the acquisition of LKE in November 2010.

LG&E - Louisville Gas and Electric Company, a public utility subsidiary of LKE engaged in the regulated generation, transmission, distribution and sale of electricity and the distribution and sale of natural gas in Kentucky. The subsidiary was acquired by PPL through the acquisition of LKE in November 2010.

LG&E and KU Services Company - LG&E and KU Services Company (formerly E.ON U.S. Services Inc.), a subsidiary of LKE that provides services for LKE and its subsidiaries.

LKE - LG&E and KU Energy LLC (formerly E.ON U.S. LLC), a subsidiary of PPL and the parent of LG&E, KU, and other subsidiaries. PPL acquired E.ON U.S. LLC in November 2010 and changed the name to LG&E and KU Energy LLC. Within the context of this document, references to LKE also relate to the consolidated entity.

PPL - PPL Corporation, the parent holding company of PPL Electric, PPL Energy Funding, LKE and other subsidiaries.

PPL Capital Funding - PPL Capital Funding, Inc., a wholly owned financing subsidiary of PPL.

PPL Electric - PPL Electric Utilities Corporation, a public utility subsidiary of PPL that transmits and distributes electricity in its Pennsylvania service area and provides electric supply to retail customers in this area as a PLR.

PPL Energy Funding - PPL Energy Funding Corporation, a subsidiary of PPL and the parent holding company of PPL Energy Supply, PPL Global (effective January 2011) and other subsidiaries.

PPL EnergyPlus - PPL EnergyPlus, LLC, a subsidiary of PPL Energy Supply that markets and trades wholesale and retail electricity and gas, and supplies energy and energy services in competitive markets.

PPL Energy Supply - PPL Energy Supply, LLC, a subsidiary of PPL Energy Funding and the parent company of PPL Generation, PPL EnergyPlus and other subsidiaries. In January 2011, PPL Energy Supply distributed its membership interest in PPL Global, representing 100% of the outstanding membership interests of PPL Global, to PPL Energy Supply's parent, PPL Energy Funding.

PPL Gas Utilities - PPL Gas Utilities Corporation, which was a regulated utility subsidiary of PPL until its sale in October 2008, provided natural gas distribution, transmission and storage services, and the competitive sale of propane.

PPL Generation - PPL Generation, LLC, a subsidiary of PPL Energy Supply that owns and operates U.S. generating facilities through various subsidiaries.

PPL Global - PPL Global, LLC, a subsidiary of PPL Energy Funding that primarily owns and operates a business in the U.K., WPD, that is focused on the regulated distribution of electricity. In January 2011, PPL Energy Supply, PPL Global's former parent, distributed its membership interest in PPL Global, representing 100% of the outstanding membership interest of PPL Global, to its parent, PPL Energy Funding.

PPL Martins Creek - PPL Martins Creek, LLC, a subsidiary of PPL Generation that owns generating operations in Pennsylvania.

PPL Montana - PPL Montana, LLC, an indirect subsidiary of PPL Generation that generates electricity for wholesale sales in Montana and the Pacific Northwest.

PPL Services - PPL Services Corporation, a subsidiary of PPL that provides services for PPL and its subsidiaries.

PPL Susquehanna - PPL Susquehanna, LLC, the nuclear generating subsidiary of PPL Generation.

PPL WEM - PPL WEM Holdings plc (formerly WPD Investment Holdings Limited), an indirect, wholly owned U.K. subsidiary of PPL Global. PPL WEM directly wholly owns WPD (East Midlands) and indirectly wholly owns WPD (West Midlands).

PPL WW - PPL WW Holdings Limited (formerly Western Power Distribution Holdings Limited), an indirect, wholly owned U.K. subsidiary of PPL Global. PPL WW Holdings indirectly wholly owns WPD (South Wales) and WPD (South West).

WPD - refers to PPL WW and PPL WEM and their subsidiaries.

WPD (East Midlands) - Western Power Distribution (East Midlands) plc, a British regional electricity distribution utility company. The company, formerly Central Networks East plc, was acquired and renamed in April 2011.

WPD Midlands - refers to Central Networks, which was renamed after the acquisition.

WPD (South Wales) - Western Power Distribution (South Wales) plc, a British regional electricity distribution utility company.

WPD (South West) - Western Power Distribution (South West) plc, a British regional electricity distribution utility company.

WPD (West Midlands) - Western Power Distribution (West Midlands) plc, a British regional electricity distribution utility company. The company, formerly Central Networks West plc, was acquired and renamed in April 2011.

WKE - Western Kentucky Energy Corp., a subsidiary of LKE that leased certain non-utility generating stations in western Kentucky until July 2009.

Other terms and abbreviations

£ - British pounds sterling.

2001 Mortgage Indenture - PPL Electric's Indenture, dated as of August 1, 2001, to The Bank of New York Mellon (as successor to JPMorgan Chase Bank), as trustee, as supplemented.

2010 Bridge Facility - an up to $6.5 billion Senior Bridge Term Loan Credit Agreement between PPL Capital Funding, as borrower, and PPL, as guarantor, and a group of banks syndicated in June 2010, to serve as a funding backstop in the event alternative financing was not available prior to the closing of PPL's acquisition of E.ON U.S.

2010 Equity Unit(s) - a PPL equity unit, issued in June 2010, consisting of a 2010 Purchase Contract and, initially, a 5.0% undivided beneficial ownership interest in $1,000 principal amount of PPL Capital Funding 4.625% Junior Subordinated Notes due 2018.

2010 Form 10-K - Annual Report to the SEC on Form 10-K for the year ended December 31, 2010.

2010 Purchase Contract(s) - a contract that is a component of a 2010 Equity Unit that requires holders to purchase shares of PPL common stock on or prior to July 1, 2013.

2011 Bridge Facility - the £3.6 billion Senior Bridge Term Loan Credit Agreement between PPL Capital Funding and PPL WEM, as borrowers, and PPL, as guarantor, and lenders party thereto, used to fund the April 1, 2011 acquisition of Central Networks, as amended by Amendment No. 1 thereto dated April 15, 2011.

2011 Equity Unit(s) - a PPL equity unit, issued in April 2011, consisting of a 2011 Purchase Contract and, initially, a 5.0% undivided beneficial ownership interest in $1,000 principal amount of PPL Capital Funding 4.32% Junior Subordinated Notes due 2019.

2011 Purchase Contract(s) - a contract that is a component of a 2011 Equity Unit that requires holders to purchase shares of PPL common stock on or prior to May 1, 2014.

2011 Registration Statement(s) - refers to the registration statements on Form S-4 filed with the SEC by each of LKE (Registration No. 333-173665) on April 21, 2011, LG&E (Registration No 333-173676) on April 22, 2011 and KU (Registration No. 333-173675) on April 22, 2011, each as amended by Amendment No. 1 filed with the SEC on May 26, 2011 and effective June 1, 2011.

Acid Rain Program - allowance trading system established by the Clean Air Act to reduce levels of sulfur dioxide. Under this program, affected power plants are allocated allowances based on their fuel consumption during specified baseline years and a specific emissions rate.

Act 129 - became effective in October 2008. The law amends the Pennsylvania Public Utility Code and creates an energy efficiency and conservation program and smart metering technology requirements, adopts new PLR electricity supply procurement rules, provides remedies for market misconduct and makes changes to the existing Alternative Energy Portfolio Standard.

AFUDC - Allowance for Funds Used During Construction, the cost of equity and debt funds used to finance construction projects of regulated businesses, which is capitalized as part of construction costs.

A.M. Best - A.M. Best Company, a company that reports on the financial condition of insurance companies.

AOCI - accumulated other comprehensive income or loss.

ARO - asset retirement obligation.

Baseload generation - includes the output provided by PPL's nuclear, coal, hydroelectric and qualifying facilities.

Basis - when used in the context of derivatives and commodity trading, the commodity price differential between two locations, products or time periods.

Bcf - billion cubic feet.

CAIR - the EPA's Clean Air Interstate Rule.

Clean Air Act - federal legislation enacted to address certain environmental issues related to air emissions, including acid rain, ozone and toxic air emissions.

COLA - license application for a combined construction permit and operating license from the NRC for a nuclear plant.

CPCN - Certificate of Public Convenience and Necessity. A license given to a public utility by the KPSC to build and own transmission and other gas and electricity infrastructure.

CSAPR - Cross State Air Pollution Rule, the CSAPR implements Clean Air Act requirements concerning the transport of air pollution from power plants across state boundaries. The CSAPR replaces the 2005 CAIR, which the U.S. Court of Appeals for the D.C. Circuit ordered the EPA to revise in 2008. The court allowed CAIR to remain in place temporarily while the EPA worked to finalize the replacement rule.

Customer Choice Act - the Pennsylvania Electricity Generation Customer Choice and Competition Act, legislation enacted to restructure the state's electric utility industry to create retail access to a competitive market for generation of electricity.

Depreciation not normalized - the flow-through income tax impact related to the state regulatory treatment of depreciation-related timing differences.

Dodd-Frank Act - the Dodd-Frank Wall Street Reform and Consumer Protection Act that was signed into law in July 2010.

DOE - Department of Energy, a U.S. government agency.

DRIP - Dividend Reinvestment and Direct Stock Purchase Plan.

DSM - Demand Side Management. Pursuant to Kentucky Revised Statute 278.285, the KPSC may determine the reasonableness of DSM plans proposed by any utility under its jurisdiction. Proposed DSM mechanisms may seek full recovery of DSM programs and revenues lost by implementing those programs and/or incentives designed to provide financial rewards to the utility for implementing cost-effective DSM programs. The cost of such programs shall be assigned only to the class or classes of customers which benefit from the programs.

ECR - Environmental Cost Recovery. Pursuant to Kentucky Revised Statute 278.183, effective January 1993, Kentucky electric utilities are entitled to the current recovery of costs of complying with the Clean Air Act, as amended, and those federal, state or local environmental requirements which apply to coal combustion and by-products from the production of energy from coal.

EMF - electric and magnetic fields.

E.ON AG - a German corporation and the parent of E.ON UK plc, the former parent of Central Networks.

EPA - Environmental Protection Agency, a U.S. government agency.

EPS - earnings per share.

Equity Units - refers collectively to the 2011 and 2010 Equity Units.

ESOP - Employee Stock Ownership Plan.

Euro - the basic monetary unit among participating members of the European Union.

E.W. Brown - a generating station in Kentucky with capacity of 1,631 MW. LG&E and KU are participants in a sale-leaseback transaction involving two combustion turbines at the station.

FERC - Federal Energy Regulatory Commission, the federal agency that regulates, among other things, interstate transmission and wholesale sales of electricity, hydroelectric power projects and related matters.

Fitch - Fitch, Inc., a credit rating agency.

FTR - financial transmission rights, which are financial instruments established to manage price risk related to electricity transmission congestion. They entitle the holder to receive compensation or require the holder to remit payment for certain congestion-related transmission charges based on the level of congestion in the transmission grid.

Fundamental Change - as it relates to the terms of the 2011 and 2010 Equity Units, will be deemed to have occurred if any of the following occurs with respect to PPL, subject to certain exceptions: (i) a change of control; (ii) a consolidation with or merger into any other entity; (iii) common stock ceases to be listed or quoted; or (iv) a liquidation, dissolution or termination.

GAAP - generally accepted accounting principles in the U.S.

GBP - British pound sterling.

GHG - greenhouse gas(es).

GWh - gigawatt-hour, one million kilowatt-hours.

Health Care Reform - The Patient Protection and Affordable Care Act (HR 3590) and the Health Care and Education Reconciliation Act of 2010 (HR 4872), signed into law in March 2010.

Intermediate and peaking generation - includes the output provided by PPL's oil- and natural gas-fired units.

IRP - Integrated Resource Plan. Pursuant to Kentucky Administrative Regulation 807 5:058, Kentucky electric utilities are required to file triennially an IRP with the KPSC. The filing is to provide the utilities' load forecasts and resource plans to meet future demand with an adequate and reliable supply of electricity at the lowest possible cost for all customers while satisfying all related state and federal laws and regulations.

IRS - Internal Revenue Service, a U.S. government agency.

ISO - Independent System Operator.

KPSC - Kentucky Public Service Commission, the state agency that has jurisdiction over the regulation of rates and service of utilities in Kentucky.

LIBOR - London Interbank Offered Rate.

Long Island generation business - includes a 79.9 MW gas-fired plant in the Edgewood section of Brentwood, New York and a 79.9 MW oil-fired plant in Shoreham, New York and related tolling agreements. This business was sold in February 2010.

MACT - maximum achievable control technology.

MISO - Midwest Independent System Operator, an independent system operator and the regional transmission organization that provides open-access transmission service and monitors the high-voltage transmission system in all or parts of Illinois, Indiana, Iowa, Michigan, Minnesota, Missouri, Montana, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin and Manitoba, Canada.

Moody's - Moody's Investors Service, Inc., a credit rating agency.

MW - megawatt, one thousand kilowatts.

NDT - PPL Susquehanna's nuclear plant decommissioning trust.

NERC - North American Electric Reliability Corporation.

NGCC - Natural gas-fired combined-cycle turbine.

NPDES - National Pollutant Discharge Elimination System.

NPNS - the normal purchases and normal sales exception as permitted by derivative accounting rules.

NRC - Nuclear Regulatory Commission, the federal agency that regulates nuclear power facilities.

OCI - other comprehensive income or loss.

Ofgem - Office of Gas and Electricity Markets, the British agency that regulates transmission, distribution and wholesale sales of electricity and related matters.

Opacity - The degree to which emissions reduce the transmission of light and obscure the view of an object in the background. There are emission regulations that limit the opacity in power plant stack gas emissions.

OVEC - Ohio Valley Electric Corporation, located in Piketon, Ohio, an entity in which LKE indirectly owns an 8.13% interest (consists of LG&E's 5.63% and KU's 2.50% interests), which is accounted for as a cost-method investment. OVEC owns and operates two coal-fired power plants, the Kyger Creek Station in Ohio and the Clifty Creek Station in Indiana, with combined nameplate capacities of 2,390 MW.

PADEP - the Pennsylvania Department of Environmental Protection, a state government agency.

PJM - PJM Interconnection, L.L.C., operator of the electric transmission network and electric energy market in all or parts of Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia.

PLR - Provider of Last Resort, the role of PPL Electric in providing default electricity supply to retail customers within its delivery area who have not chosen to select an alternative electricity supplier under the Customer Choice Act.

PP&E - property, plant and equipment.

PUC - Pennsylvania Public Utility Commission, the state agency that regulates certain ratemaking, services, accounting and operations of Pennsylvania utilities.

Purchase Contracts - refers collectively to the 2010 and 2011 Purchase Contracts.

PURTA - The Pennsylvania Public Utility Realty Tax Act.

RAV - regulatory asset value. This term is also commonly known as RAB or regulatory asset base.

RECs - renewable energy credits.

Regional Transmission Expansion Plan - PJM conducts a long-range Regional Transmission Expansion Planning process that identifies what changes and additions to the grid are needed to ensure future needs are met for both the reliability and the economic performance of the grid. Under PJM agreements, transmission owners are obligated to build transmission projects that are needed to maintain reliability standards and that are reviewed and approved by the PJM Board.

Regulation S-X - SEC regulation governing the form and content of and requirements for financial statements required to be filed pursuant to the federal securities laws.

Rev. Proc(s). - Revenue Procedure(s), an official published statement by the IRS of a matter of procedural importance to both taxpayers and the IRS concerning administration of the tax laws.

RMC - Risk Management Committee.

S&P - Standard & Poor's Ratings Services, a credit rating agency.

Sarbanes-Oxley - Sarbanes-Oxley Act of 2002, which sets requirements for management's assessment of internal controls for financial reporting. It also requires an independent auditor to make its own assessment.

SCR - selective catalytic reduction, a pollution control process for the removal of nitrogen oxide from exhaust gases.

Scrubber - an air pollution control device that can remove particulates and/or gases (such as sulfur dioxide) from exhaust gases.

SEC - the U.S. Securities and Exchange Commission, a U.S. government agency whose primary mission is to protect investors and maintain the integrity of the securities markets.

Securities Act of 1933 - the Securities Act of 1933, 15 U.S. Code, Sections 77a-77aa, as amended.

SIFMA Index - the Securities Industry and Financial Markets Association Municipal Swap Index.

Smart meter - an electric meter that utilizes smart metering technology.

Smart metering technology - technology that can measure, among other things, time of electricity consumption to permit offering rate incentives for usage during lower cost or demand intervals. The use of this technology also strengthens network reliability.

Superfund - federal environmental legislation that addresses remediation of contaminated sites; states also have similar statutes.

TC2 - Trimble County Unit 2, a coal-fired plant located in Kentucky with a capacity of 760 MW. LKE indirectly owns a 75% interest (consists of LG&E's 14.25% and KU's 60.75% interests) in TC2, or 570 MW of the capacity.

Tolling agreement - agreement whereby the owner of an electric generating facility agrees to use that facility to convert fuel provided by a third-party into electricity for delivery back to the third-party.

TRA - Tennessee Regulatory Authority, the state agency that has jurisdiction over the regulation of rates and service of utilities in Tennessee.

VaR - value-at-risk, a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level.

VIE - variable interest entity.

Volumetric risk - the risk that the actual load volumes provided under full-requirement sales contracts could vary significantly from forecasted volumes.

VSCC - Virginia State Corporation Commission, the state agency that has jurisdiction over the regulation of Virginia corporations, including utilities.

VWAP - as it relates to the 2011 and 2010 Equity Units issued by PPL, the per share volume-weighted-average price as displayed under the heading Bloomberg VWAP on Bloomberg page "PPL <EQUITY> AQR" (or its equivalent successor if such page is not available) in respect of the period from the scheduled open of trading on the relevant trading day until the scheduled close of trading on the relevant trading day (or if such volume-weighted-average price is unavailable, the market price of one share of PPL common stock on such trading day determined, using a volume-weighted-average method, by a nationally recognized independent investment banking firm retained for this purpose by PPL).

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FORWARD-LOOKING INFORMATION

Statements contained in this Form 10-Q concerning expectations, beliefs, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements which are other than statements of historical fact are "forward-looking statements" within the meaning of the federal securities laws. Although PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU believe that the expectations and assumptions reflected in these statements are reasonable, there can be no assurance that these expectations will prove to be correct. Forward-looking statements are subject to many risks and uncertainties, and actual results may differ materially from the results discussed in forward-looking statements. In addition to the specific factors discussed in "Item 1A. Risk Factors" in this Form 10-Q and each Registrant's 2010 Form 10-K (in the case of PPL, PPL Energy Supply and PPL Electric) or 2011 Registration Statements (in the case of LKE, LG&E and KU), and in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-Q report, the following are among the important factors that could cause actual results to differ materially from the forward-looking statements.

- fuel supply cost and availability;
- continuing ability to recover fuel costs and environmental expenditures in a timely manner at LG&E and KU, and natural gas supply costs at LG&E;
- weather conditions affecting generation, customer energy use and operating costs;
- operation, availability and operating costs of existing generation facilities;
- the length of scheduled and unscheduled outages at our generating facilities;
- transmission and distribution system conditions and operating costs;
- potential expansion of alternative sources of electricity generation;
- potential laws or regulations to reduce emissions of "greenhouse" gases or the physical effects of climate change;
- collective labor bargaining negotiations;
- the outcome of litigation against PPL and its subsidiaries;
- potential effects of threatened or actual terrorism, war or other hostilities, or natural disasters;
- the commitments and liabilities of PPL and its subsidiaries;
- market demand and prices for energy, capacity, transmission services, emission allowances, RECs and delivered fuel;
- competition in retail and wholesale power and natural gas markets;
- liquidity of wholesale power markets;
- defaults by counterparties under energy, fuel or other power product contracts;
- market prices of commodity inputs for ongoing capital expenditures;
- capital market conditions, including the availability of capital or credit, changes in interest rates and certain economic indices, and decisions regarding capital structure;
- stock price performance of PPL;
- volatility in the fair value of debt and equity securities and its impact on the value of assets in the NDT funds and in defined benefit plans, and the potential cash funding requirements if fair value declines;
- interest rates and their effect on pension, retiree medical, and nuclear decommissioning liabilities, and interest payable on certain debt securities;
- volatility in or the impact of other changes in financial or commodity markets and economic conditions;
- the profitability and liquidity, including access to capital markets and credit facilities, of PPL and its subsidiaries;
- new accounting requirements or new interpretations or applications of existing requirements;
- changes in securities and credit ratings;
- foreign currency exchange rates;
- current and future environmental conditions, regulations and other requirements and the related costs of compliance, including environmental capital expenditures, emission allowance costs and other expenses;
- legal, regulatory, political, market or other reactions to the 2011 incident at the nuclear generating facility at Fukushima, Japan, including additional NRC requirements;
- political, regulatory or economic conditions in states, regions or countries where PPL or its subsidiaries conduct business;
- receipt of necessary governmental permits, approvals and rate relief;
- new state, federal or foreign legislation, including new tax, environmental, healthcare or pension-related legislation;
- state, federal and foreign regulatory developments;
- the outcome of any rate cases by PPL Electric at the PUC or the FERC; by LG&E at the KPSC; by KU at the KPSC, VSCC, TRA or the FERC; or by WPD at Ofgem in the U.K.;
- the impact of any state, federal or foreign investigations applicable to PPL and its subsidiaries and the energy industry;
- the effect of any business or industry restructuring;
- development of new projects, markets and technologies;
- performance of new ventures; and

- business dispositions or acquisitions and our ability to successfully operate such acquired businesses and realize expected benefits from business acquisitions, including PPL's 2011 acquisition of WPD Midlands and 2010 acquisition of LKE.

Any such forward-looking statements should be considered in light of such important factors and in conjunction with other documents of PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU on file with the SEC.

New factors that could cause actual results to differ materially from those described in forward-looking statements emerge from time to time, and it is not possible for PPL, PPL Energy Supply, PPL Electric, LKE, LG&E or KU to predict all such factors, or the extent to which any such factor or combination of factors may cause actual results to differ from those contained in any forward-looking statement. Any forward-looking statement speaks only as of the date on which such statement is made, and PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU undertake no obligation to update the information contained in such statement to reflect subsequent developments or information.

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PART I. FINANCIAL INFORMATION
ITEM 1. Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, except share data)

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Operating Revenues				
Utility	$ 1,675	$ 732	$ 4,695	$ 2,438
Unregulated retail electric and gas	189	116	517	321
Wholesale energy marketing				
Realized	907	1,192	2,677	3,782
Unrealized economic activity (Note 14)	216	52	229	(190)
Net energy trading margins	(7)	(20)	14	(4)
Energy-related businesses	140	107	387	311
Total Operating Revenues	3,120	2,179	8,519	6,658
Operating Expenses				
Operation				
Fuel	603	322	1,492	810
Energy purchases				
Realized	362	386	1,467	2,132
Unrealized economic activity (Note 14)	176	300	49	418
Other operation and maintenance	735	366	2,041	1,229
Depreciation	252	127	697	376
Taxes, other than income	90	56	238	181
Energy-related businesses	135	100	368	288
Total Operating Expenses	2,353	1,657	6,352	5,434
Operating Income	767	522	2,167	1,224
Other Income (Expense) - net	37	(26)	(2)	(18)
Other-Than-Temporary Impairments	5		6	3
Interest Expense	240	171	678	413
Income from Continuing Operations Before Income Taxes	559	325	1,481	790
Income Taxes	110	19	429	152
Income from Continuing Operations After Income Taxes	449	306	1,052	638
Income (Loss) from Discontinued Operations (net of income taxes)		(53)	2	(38)
Net Income	449	253	1,054	600
Net Income Attributable to Noncontrolling Interests	5	5	13	17
Net Income Attributable to PPL Corporation	$ 444	$ 248	$ 1,041	$ 583
Amounts Attributable to PPL Corporation:				
Income from Continuing Operations After Income Taxes	$ 444	$ 301	$ 1,039	$ 621
Income (Loss) from Discontinued Operations (net of income taxes)		(53)	2	(38)
Net Income	$ 444	$ 248	$ 1,041	$ 583
Earnings Per Share of Common Stock:				
Income from Continuing Operations After Income Taxes Available to PPL Corporation Common Shareowners:				
Basic	$ 0.76	$ 0.62	$ 1.91	$ 1.49
Diluted	$ 0.76	$ 0.62	$ 1.91	$ 1.49
Net Income Available to PPL Corporation Common Shareowners:				
Basic	$ 0.76	$ 0.51	$ 1.92	$ 1.40
Diluted	$ 0.76	$ 0.51	$ 1.91	$ 1.40
Dividends Declared Per Share of Common Stock	$ 0.350	$ 0.350	$ 1.050	$ 1.050
Weighted-Average Shares of Common Stock Outstanding (in thousands)				
Basic	577,595	482,552	541,135	414,068
Diluted	578,054	482,762	541,480	414,287

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
PPL Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Cash Flows from Operating Activities		
Net income	$ 1,054	$ 600
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	697	387
Amortization	180	156
Defined benefit plans - expense	165	72
Deferred income taxes and investment tax credits	403	(179)
Impairment of assets	13	118
Unrealized (gains) losses on derivatives, and other hedging activities	(190)	595
Provision for Montana hydroelectric litigation	10	62
Other	87	54
Change in current assets and current liabilities		
Accounts receivable	(134)	(93)
Accounts payable	(164)	74
Unbilled revenues	236	37
Prepayments	286	(48)
Counterparty collateral	(273)	169
Taxes	(64)	45
Regulatory assets and liabilities, net	96	(31)
Accrued interest	111	56
Other	(9)	26
Other operating activities		
Defined benefit plans - funding	(565)	(371)
Other assets	(22)	(31)
Other liabilities	(71)	(2)
Net cash provided by operating activities	1,846	1,696
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(1,685)	(980)
Proceeds from the sale of certain non-core generation facilities	381	
Proceeds from the sale of the Long Island generation business		124
Acquisition of WPD Midlands	(5,763)	
Purchases of nuclear plant decommissioning trust investments	(144)	(93)
Proceeds from the sale of nuclear plant decommissioning trust investments	134	83
Proceeds from the sale of other investments	163	
Net (increase) decrease in restricted cash and cash equivalents	(51)	78
Other investing activities	(74)	(52)
Net cash provided by (used in) investing activities	(7,039)	(840)
Cash Flows from Financing Activities		
Issuance of long-term debt	5,245	1,750
Retirement of long-term debt	(708)	
Issuance of common stock	2,281	2,425
Payment of common stock dividends	(543)	(397)
Redemption of preferred stock of a subsidiary		(54)
Debt issuance and credit facility costs	(84)	(79)
Net increase (decrease) in short-term debt	(322)	(443)
Other financing activities	(65)	(16)
Net cash provided by (used in) financing activities	5,804	3,186
Effect of Exchange Rates on Cash and Cash Equivalents	(25)	10
Net Increase (Decrease) in Cash and Cash Equivalents	586	4,052
Cash and Cash Equivalents at Beginning of Period	925	801
Cash and Cash Equivalents at End of Period	$ 1,511	$ 4,853

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
PPL Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars, shares in thousands)

	September 30, 2011	December 31, 2010
Assets		
Current Assets		
Cash and cash equivalents	**$ 1,511**	$ 925
Short-term investments	**16**	163
Restricted cash and cash equivalents	**62**	28
Accounts receivable (less reserve: 2011, $42; 2010, $55)		
Customer	**753**	652
Other	**122**	90
Unbilled revenues	**664**	789
Fuel, materials and supplies	**633**	643
Prepayments	**166**	435
Price risk management assets	**1,393**	1,918
Other intangibles	**22**	70
Assets held for sale		374
Regulatory assets	**19**	85
Other current assets	**51**	16
Total Current Assets	**5,412**	6,188
Investments		
Nuclear plant decommissioning trust funds	**594**	618
Other investments	**77**	75
Total Investments	**671**	693
Property, Plant and Equipment		
Regulated utility plant	**22,865**	15,994
Less: accumulated depreciation - regulated utility plant	**3,419**	3,037
Regulated utility plant, net	**19,446**	12,957
Non-regulated property, plant and equipment		
Generation	**10,395**	10,165
Nuclear fuel	**620**	578
Other	**521**	403
Less: accumulated depreciation - non-regulated property, plant and equipment	**5,609**	5,440
Non-regulated property, plant and equipment, net	**5,927**	5,706
Construction work in progress	**1,549**	2,160
Property, Plant and Equipment, net (a)	**26,922**	20,823
Other Noncurrent Assets		
Regulatory assets	**1,277**	1,180
Goodwill (Note 15)	**4,196**	1,761
Other intangibles (a)	**1,074**	966
Price risk management assets	**726**	655
Other noncurrent assets	**678**	571
Total Other Noncurrent Assets	**7,951**	5,133
Total Assets	**$ 40,956**	$ 32,837

(a) At September 30, 2011 and December 31, 2010, includes $419 million and $424 million of PP&E, consisting primarily of "Generation," including leasehold improvements, and $11 million of "Other intangibles" from the consolidation of a VIE that is the owner/lessor of the Lower Mt. Bethel plant.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
PPL Corporation and Subsidiaries

(Unaudited)

(Millions of Dollars, shares in thousands)

	September 30, 2011	December 31, 2010
Liabilities and Equity		
Current Liabilities		
Short-term debt	$ **428**	$ 694
Long-term debt	**502**	502
Accounts payable	**1,120**	1,028
Taxes	**109**	134
Interest	**294**	166
Dividends	**207**	174
Price risk management liabilities	**805**	1,144
Counterparty collateral	**65**	338
Regulatory liabilities	**83**	109
Other current liabilities	**927**	925
Total Current Liabilities	**4,540**	5,214
Long-term Debt	**17,675**	12,161
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**3,451**	2,563
Investment tax credits	**273**	237
Price risk management liabilities	**508**	470
Accrued pension obligations	**1,027**	1,496
Asset retirement obligations	**479**	435
Regulatory liabilities	**1,020**	1,031
Other deferred credits and noncurrent liabilities	**867**	752
Total Deferred Credits and Other Noncurrent Liabilities	**7,625**	6,984
Commitments and Contingent Liabilities (Notes 6 and 10)		
Equity		
PPL Corporation Shareowners' Common Equity		
Common stock - $0.01 par value (a)	**6**	5
Additional paid-in capital	**6,795**	4,602
Earnings reinvested	**4,547**	4,082
Accumulated other comprehensive loss	**(500)**	(479)
Total PPL Corporation Shareowners' Common Equity	**10,848**	8,210
Noncontrolling Interests	**268**	268
Total Equity	**11,116**	8,478
Total Liabilities and Equity	$ **40,956**	$ 32,837

(a) 780,000 shares authorized; 577,844 and 483,391 shares issued and outstanding at September 30, 2011 and December 31, 2010.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
PPL Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars)

	PPL Corporation Shareowners												
	Common stock shares outstanding (a)		Common stock		Additional paid-in capital		Earnings reinvested		Accumulated other comprehensive loss		Non-controlling interests		Total
June 30, 2011	577,265	$	6	$	6,774	$	4,306	$	(435)	$	268	$	10,919
Common stock issued (b)	579				16								16
Stock-based compensation					5								5
Net income							444				5		449
Dividends, dividend equivalents and distributions (d)							(203)				(5)		(208)
Other comprehensive income (loss)									(65)				(65)
September 30, 2011	577,844	$	6	$	6,795	$	4,547	$	(500)	$	268	$	11,116
December 31, 2010	483,391	$	5	$	4,602	$	4,082	$	(479)	$	268	$	8,478
Common stock issued (b)	94,453		1		2,328								2,329
Purchase Contracts (c)					(141)								(141)
Stock-based compensation					6								6
Net income							1,041				13		1,054
Dividends, dividend equivalents and distributions (d)							(576)				(13)		(589)
Other comprehensive income (loss)									(21)				(21)
September 30, 2011	577,844	$	6	$	6,795	$	4,547	$	(500)	$	268	$	11,116
June 30, 2010	482,188	$	5	$	4,553	$	3,818	$	(439)	$	268	$	8,205
Common stock issued (b)	625				16								16
Purchase Contracts (c)					10								10
Stock-based compensation					3								3
Net income							248				5		253
Dividends, dividend equivalents, redemptions and distributions (d)							(169)				(5)		(174)
Other comprehensive income (loss)									279				279
September 30, 2010	482,813	$	5	$	4,582	$	3,897	$	(160)	$	268	$	8,592
December 31, 2009	377,183	$	4	$	2,280	$	3,749	$	(537)	$	319	$	5,815
Common stock issued (b)	105,630		1		2,474								2,475
Purchase Contracts (c)					(176)								(176)
Stock-based compensation					4								4
Net income							583				17		600
Dividends, dividend equivalents, redemptions and distributions (d)							(435)				(68)		(503)
Other comprehensive income (loss)									377				377
September 30, 2010	482,813	$	5	$	4,582	$	3,897	$	(160)	$	268	$	8,592

(a) Shares in thousands. Each share entitles the holder to one vote on any question presented to any shareowners' meeting.
(b) The nine months ended September 30, 2011 includes the April issuance of 92 million shares of common stock. See Note 7 for additional information. The nine months ended September 30, 2010 includes the June issuance of 103.5 million shares of common stock. The 2011 and 2010 periods include shares of common stock issued through various stock and incentive compensation plans.
(c) The nine months ended September 30, 2011 include $123 million for the 2011 Purchase Contracts and $18 million of related fees and expenses, net of tax. See Note 7 for additional information. The three months ended September 30, 2010 includes the recording of a deferred tax benefit for the issuance costs related to the 2010 Purchase Contracts. The nine months ended September 30, 2010 include $157 million for the 2010 Purchase Contracts and $19 million of related fees and expenses, net of tax.
(d) "Earnings reinvested" includes dividends and dividend equivalents on PPL Corporation common stock and restricted stock units. "Noncontrolling interests" includes dividends, redemptions and distributions to noncontrolling interests, for which the nine months ended September 30, 2010 includes $54 million paid to redeem PPL Electric's preferred stock.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
PPL Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Net income	**$ 449**	$ 253	**$ 1,054**	$ 600
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Foreign currency translation adjustments, net of tax of ($2), $1, ($1), $0	**(4)**	81	**156**	(79)
Available-for-sale securities, net of tax of $28, ($22), $15, ($12)	**(26)**	19	**(13)**	12
Qualifying derivatives, net of tax of ($19), ($96), ($30), ($244)	**41**	134	**48**	360
Equity investees' other comprehensive income (loss), net of tax of $0, $0, $0, $0			**(1)**	
Defined benefit plans:				
Prior service costs, net of tax of $0, ($14), $0, ($14)		17		17
Net actuarial gain (loss), net of tax of $0, $11, $0, ($20)	**1**	(17)	**1**	63
Transition obligation, net of tax of $0, ($4), $0, ($4)		7		7
Reclassifications to net income - (gains) losses, net of tax expense (benefit):				
Available-for-sale securities, net of tax of $0, $0, $5, $2	**2**	1	**(6)**	(3)
Qualifying derivatives, net of tax of $57, ($15), $163, $23	**(94)**	26	**(252)**	(41)
Equity investees' other comprehensive (income) loss, net of tax of $0, $0, $0, $0			**3**	
Defined benefit plans:				
Prior service costs, net of tax of ($2), ($2), ($5), ($6)	**2**	2	**7**	9
Net actuarial loss, net of tax of ($4), ($4), ($14), ($10)	**13**	9	**36**	30
Transition obligation, net of tax of $0, $0, $0, ($1)				2
Total other comprehensive income (loss) attributable to PPL Corporation	**(65)**	279	**(21)**	377
Comprehensive income (loss)	**384**	532	**1,033**	977
Comprehensive income attributable to noncontrolling interests	**5**	5	**13**	17
Comprehensive income (loss) attributable to PPL Corporation	**$ 379**	$ 527	**$ 1,020**	$ 960

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
PPL Energy Supply, LLC and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	**2011**	2010
Operating Revenues				
Wholesale energy marketing				
Realized	**$ 907**	$ 1,192	**$ 2,677**	$ 3,782
Unrealized economic activity (Note 14)	**216**	52	**229**	(190)
Wholesale energy marketing to affiliate	**5**	71	**15**	250
Unregulated retail electric and gas	**190**	116	**518**	321
Net energy trading margins	**(7)**	(20)	**14**	(4)
Energy-related businesses	**130**	97	**354**	278
Total Operating Revenues	**1,441**	1,508	**3,807**	4,437
Operating Expenses				
Operation				
Fuel	**358**	322	**826**	810
Energy purchases				
Realized	**161**	159	**701**	1,289
Unrealized economic activity (Note 14)	**176**	300	**49**	418
Energy purchases from affiliate	**1**	1	**3**	2
Other operation and maintenance	**208**	213	**741**	765
Depreciation	**62**	59	**181**	176
Taxes, other than income	**18**	12	**50**	34
Energy-related businesses	**130**	95	**350**	269
Total Operating Expenses	**1,114**	1,161	**2,901**	3,763
Operating Income	**327**	347	**906**	674
Other Income (Expense) - net	**2**	6	**20**	17
Other-Than-Temporary Impairments	**5**		**6**	3
Interest Income from Affiliates	**2**	1	**6**	3
Interest Expense	**52**	48	**150**	150
Income from Continuing Operations Before Income Taxes	**274**	306	**776**	541
Income Taxes	**104**	93	**305**	178
Income from Continuing Operations After Income Taxes	**170**	213	**471**	363
Income (Loss) from Discontinued Operations (net of income taxes)		53	**2**	189
Net Income	**170**	266	**473**	552
Net Income Attributable to Noncontrolling Interests	**1**	1	**1**	1
Net Income Attributable to PPL Energy Supply	**$ 169**	$ 265	**$ 472**	$ 551
Amounts Attributable to PPL Energy Supply:				
Income from Continuing Operations After Income Taxes	**$ 169**	$ 212	**$ 470**	$ 362
Income (Loss) from Discontinued Operations (net of income taxes)		53	**2**	189
Net Income	**$ 169**	$ 265	**$ 472**	$ 551

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
PPL Energy Supply, LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Cash Flows from Operating Activities		
Net income	$ **473**	$ 552
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	**182**	274
Amortization	**96**	109
Defined benefit plans - expense	**26**	41
Deferred income taxes and investment tax credits	**226**	(235)
Impairment of assets	**13**	118
Unrealized (gains) losses on derivatives, and other hedging activities	**(155)**	602
Provision for Montana hydroelectric litigation	**10**	62
Other	**19**	47
Change in current assets and current liabilities		
Accounts receivable	**(43)**	43
Accounts payable	**(163)**	(31)
Unbilled revenues	**116**	(45)
Taxes	**61**	112
Counterparty collateral	**(273)**	169
Other	**31**	80
Other operating activities		
Defined benefit plans - funding	**(136)**	(293)
Other assets	**(31)**	(64)
Other liabilities	**(12)**	54
Net cash provided by operating activities	**440**	1,595
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	**(499)**	(707)
Proceeds from the sale of certain non-core generation facilities	**381**	
Proceeds from the sale of the Long Island generation business		124
Expenditures for intangible assets	**(45)**	(60)
Purchases of nuclear plant decommissioning trust investments	**(144)**	(93)
Proceeds from the sale of nuclear plant decommissioning trust investments	**134**	83
Net (increase) decrease in restricted cash and cash equivalents	**(36)**	76
Other investing activities	**7**	9
Net cash provided by (used in) investing activities	**(202)**	(568)
Cash Flows from Financing Activities		
Issuance of long-term debt		600
Retirement of long-term debt	**(250)**	
Contributions from member	**361**	3,525
Distributions to member	**(209)**	(512)
Cash included in net assets of subsidiary distributed to member	**(325)**	
Net increase (decrease) in short-term debt	**(100)**	(443)
Other financing activities	**(1)**	(10)
Net cash provided by (used in) financing activities	**(524)**	3,160
Effect of Exchange Rates on Cash and Cash Equivalents		10
Net Increase (Decrease) in Cash and Cash Equivalents	**(286)**	4,197
Cash and Cash Equivalents at Beginning of Period	**661**	245
Cash and Cash Equivalents at End of Period	$ **375**	$ 4,442

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
PPL Energy Supply, LLC and Subsidiaries

(Unaudited)
(Millions of Dollars)

	September 30, 2011	December 31, 2010
Assets		
Current Assets		
Cash and cash equivalents	$ **375**	$ 661
Restricted cash and cash equivalents	**53**	19
Accounts receivable (less reserve: 2011, $2; 2010, $20)		
Customer	**204**	225
Other	**29**	24
Unbilled revenues	**300**	486
Accounts receivable from affiliates	**124**	124
Fuel, materials and supplies	**293**	297
Prepayments	**17**	89
Price risk management assets	**1,366**	1,907
Other intangibles	**6**	11
Assets held for sale		374
Other current assets	**1**	11
Total Current Assets	**2,768**	4,228
Investments		
Nuclear plant decommissioning trust funds	**594**	618
Other investments	**38**	37
Total Investments	**632**	655
Property, Plant and Equipment (Note 8)		
Regulated utility plant		4,269
Less: accumulated depreciation - regulated utility plant		888
Regulated utility plant, net		3,381
Non-regulated property, plant and equipment		
Generation	**10,399**	10,169
Nuclear fuel	**620**	578
Other	**242**	314
Less: accumulated depreciation - non-regulated property, plant and equipment	**5,506**	5,401
Non-regulated property, plant and equipment, net	**5,755**	5,660
Construction work in progress	**634**	594
Property, Plant and Equipment, net (a)	**6,389**	9,635
Other Noncurrent Assets		
Goodwill (Note 8)	**86**	765
Other intangibles (a) (Note 8)	**384**	464
Price risk management assets	**675**	651
Other noncurrent assets	**379**	398
Total Other Noncurrent Assets	**1,524**	2,278
Total Assets	$ **11,313**	$ 16,796

(a) At September 30, 2011 and December 31, 2010, includes $419 million and $424 million of PP&E, consisting primarily of "Generation," including leasehold improvements, and $11 million of "Other intangibles" from the consolidation of a VIE that is the owner/lessor of the Lower Mt. Bethel plant.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
PPL Energy Supply, LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	September 30, 2011	December 31, 2010
Liabilities and Equity		
Current Liabilities		
Short-term debt	$ **250**	$ 531
Long-term debt	**500**	500
Accounts payable	**359**	592
Accounts payable to affiliates	**10**	43
Taxes	**127**	119
Interest	**60**	110
Price risk management liabilities	**735**	1,112
Counterparty collateral	**65**	338
Other current liabilities	**439**	624
Total Current Liabilities	**2,545**	3,969
Long-term Debt (Note 8)	**2,525**	5,089
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**1,266**	1,548
Investment tax credits	**123**	81
Price risk management liabilities	**455**	438
Accrued pension obligations (Note 8)	**178**	619
Asset retirement obligations	**345**	332
Other deferred credits and noncurrent liabilities	**192**	211
Total Deferred Credits and Other Noncurrent Liabilities	**2,559**	3,229
Commitments and Contingent Liabilities (Note 10)		
Equity		
Member's equity	**3,666**	4,491
Noncontrolling interests	**18**	18
Total Equity	**3,684**	4,509
Total Liabilities and Equity	$ **11,313**	$ 16,796

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
PPL Energy Supply, LLC and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Member's equity	Non-controlling interests	Total
June 30, 2011	$ 3,434	$ 18	$ 3,452
Net income	169	1	170
Other comprehensive income (loss)	(55)		(55)
Contributions from member	193		193
Distributions	(75)	(1)	(76)
September 30, 2011	$ 3,666	$ 18	$ 3,684
December 31, 2010	$ 4,491	$ 18	$ 4,509
Net income	472	1	473
Other comprehensive income (loss)	(161)		(161)
Contributions from member	361		361
Distributions	(209)	(1)	(210)
Distribution of membership interest in PPL Global (a)	(1,288)		(1,288)
September 30, 2011	$ 3,666	$ 18	$ 3,684
June 30, 2010	$ 8,168	$ 18	$ 8,186
Net income	265	1	266
Other comprehensive income (loss)	332		332
Distributions	(148)	(1)	(149)
September 30, 2010	$ 8,617	$ 18	$ 8,635
December 31, 2009	$ 4,568	$ 18	$ 4,586
Net income	551	1	552
Other comprehensive income (loss)	485		485
Contributions from member	3,525		3,525
Distributions	(512)	(1)	(513)
September 30, 2010	$ 8,617	$ 18	$ 8,635

(a) See Note 8 for additional information.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
PPL Energy Supply, LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income	$ **170**	$ 266	$ **473**	$ 552
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Foreign currency translation adjustments, net of tax of $0, $1, $0, $0		81		(79)
Available-for-sale securities, net of tax of $28, ($22), $15, ($12)	**(26)**	19	**(13)**	12
Qualifying derivatives, net of tax of ($27), ($147), ($48), ($337)	**39**	207	**68**	492
Defined benefit plans:				
Prior service costs, net of tax of $0, ($9), $0, ($9)		12		12
Net actuarial gain (loss), net of tax of $0, $7, $0, ($24)	**1**	(13)	**1**	67
Transition obligation, net of tax of $0, ($3), $0, ($3)		6		6
Reclassifications to net income - (gains) losses, net of tax expense (benefit):				
Available-for-sale securities, net of tax of $0, $0, $5, $2	**2**	1	**(6)**	(3)
Qualifying derivatives, net of tax of $50, ($2), $153, $36	**(73)**	9	**(220)**	(59)
Equity investee's other comprehensive (income) loss, net of tax of $0, $0, $0, $0			**3**	
Defined benefit plans:				
Prior service costs, net of tax of ($1), ($1), ($3), ($4)	**1**	1	**3**	6
Net actuarial loss, net of tax of ($1), ($4), ($2), ($10)	**1**	9	**3**	29
Transition obligation, net of tax of $0, ($1), $0, ($1)				2
Total other comprehensive income (loss) attributable to PPL Energy Supply	**(55)**	332	**(161)**	485
Comprehensive income (loss)	**115**	598	**312**	1,037
Comprehensive income attributable to noncontrolling interests	**1**	1	**1**	1
Comprehensive income (loss) attributable to PPL Energy Supply	$ **114**	$ 597	$ **311**	$ 1,036

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
Operating Revenues				
Retail electric	**$ 454**	$ 570	**$ 1,444**	$ 1,901
Electric revenue from affiliate	**1**	1	**9**	5
Total Operating Revenues	**455**	571	**1,453**	1,906
Operating Expenses				
Operation				
Energy purchases	**171**	229	**591**	848
Energy purchases from affiliate	**5**	71	**15**	250
Other operation and maintenance	**146**	126	**402**	377
Depreciation	**38**	34	**108**	101
Taxes, other than income	**26**	32	**83**	108
Total Operating Expenses	**386**	492	**1,199**	1,684
Operating Income	**69**	79	**254**	222
Other Income (Expense) - net	**2**		**3**	3
Interest Income from Affiliate	**1**		**1**	1
Interest Expense	**26**	24	**74**	74
Income Before Income Taxes	**46**	55	**184**	152
Income Taxes	**14**	15	**56**	47
Net Income	**32**	40	**128**	105
Distributions on Preferred Securities	**4**	4	**12**	16
Net Income Available to PPL Corporation	**$ 28**	$ 36	**$ 116**	$ 89

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Cash Flows from Operating Activities		
Net income	**$ 128**	$ 105
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation	**108**	101
Amortization	**5**	(15)
Defined benefit plans - expense	**13**	16
Deferred income taxes and investment tax credits	**9**	52
Other	**2**	5
Change in current assets and current liabilities		
Accounts receivable	**(5)**	(34)
Accounts payable	**(105)**	(15)
Unbilled revenues	**53**	82
Prepayments	**58**	(71)
Regulatory assets and liabilities	**95**	(31)
Taxes	**19**	(11)
Other	**(7)**	(7)
Other operating activities		
Defined benefit plans - funding	**(102)**	(49)
Other assets	**(1)**	22
Other liabilities	**(9)**	(23)
Net cash provided by (used in) operating activities	**261**	127
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	**(357)**	(251)
Other investing activities	**4**	(2)
Net cash provided by (used in) investing activities	**(353)**	(253)
Cash Flows from Financing Activities		
Issuance of long-term debt	**645**	
Retirement of long-term debt	**(458)**	
Contributions from parent	**56**	55
Redemption of preferred stock		(54)
Payment of common stock dividends to parent	**(76)**	(49)
Distributions on preferred securities	**(12)**	(13)
Other financing activities	**(6)**	(1)
Net cash provided by (used in) financing activities	**149**	(62)
Net Increase (Decrease) in Cash and Cash Equivalents	**57**	(188)
Cash and Cash Equivalents at Beginning of Period	**204**	485
Cash and Cash Equivalents at End of Period	**$ 261**	$ 297

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
PPL Electric Utilities Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars, shares in thousands)

	September 30, 2011	December 31, 2010
Assets		
Current Assets		
Cash and cash equivalents	$ 261	$ 204
Accounts receivable (less reserve: 2011, $17; 2010, $17)		
Customer	270	268
Other	10	24
Accounts receivable from affiliates	36	8
Unbilled revenues	81	134
Materials and supplies	47	47
Prepayments	78	136
Regulatory assets	3	63
Other current assets	23	4
Total Current Assets	809	888
Property, Plant and Equipment		
Regulated utility plant	5,751	5,494
Less: accumulated depreciation - regulated utility plant	2,206	2,123
Regulated utility plant, net	3,545	3,371
Other, net	2	2
Construction work in progress	219	177
Property, Plant and Equipment, net	3,766	3,550
Other Noncurrent Assets		
Regulatory assets	663	592
Intangibles	153	147
Other noncurrent assets	81	76
Total Other Noncurrent Assets	897	815
Total Assets	$ 5,472	$ 5,253

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
PPL Electric Utilities Corporation and Subsidiaries
(Unaudited)
(Millions of Dollars, shares in thousands)

	September 30, 2011	December 31, 2010
Liabilities and Equity		
Current Liabilities		
Accounts payable	$ **145**	$ 221
Accounts payable to affiliates	**43**	73
Taxes	**42**	23
Interest	**20**	17
Regulatory liabilities	**46**	18
Other current liabilities	**97**	126
Total Current Liabilities	**393**	478
Long-term Debt	**1,718**	1,472
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**998**	932
Accrued pension obligations	**166**	259
Regulatory liabilities	**13**	14
Other deferred credits and noncurrent liabilities	**144**	154
Total Deferred Credits and Other Noncurrent Liabilities	**1,321**	1,359
Commitments and Contingent Liabilities (Notes 6 and 10)		
Shareowners' Equity		
Preferred securities	**250**	250
Common stock - no par value (a)	**364**	364
Additional paid-in capital	**935**	879
Earnings reinvested	**491**	451
Total Equity	**2,040**	1,944
Total Liabilities and Equity	$ **5,472**	$ 5,253

(a) 170,000 shares authorized; 66,368 shares issued and outstanding at September 30, 2011 and December 31, 2010.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF SHAREOWNERS' EQUITY
PPL Electric Utilities Corporation and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Common stock shares outstanding (a)	Preferred securities	Common stock	Additional paid-in capital	Earnings reinvested	Total
June 30, 2011	66,368	$ 250	$ 364	$ 879	$ 487	$ 1,980
Net income (b)					32	32
Capital contributions from PPL				56		56
Cash dividends declared on preferred securities					(4)	(4)
Cash dividends declared on common stock					(24)	(24)
September 30, 2011	66,368	$ 250	$ 364	$ 935	$ 491	$ 2,040
December 31, 2010	66,368	$ 250	$ 364	$ 879	$ 451	$ 1,944
Net income (b)					128	128
Capital contributions from PPL				56		56
Cash dividends declared on preferred securities					(12)	(12)
Cash dividends declared on common stock					(76)	(76)
September 30, 2011	66,368	$ 250	$ 364	$ 935	$ 491	$ 2,040
June 30, 2010	66,368	$ 250	$ 364	$ 879	$ 420	$ 1,913
Net income (b)					40	40
Cash dividends declared on preferred securities					(4)	(4)
Cash dividends declared on common stock					(9)	(9)
September 30, 2010	66,368	$ 250	$ 364	$ 879	$ 447	$ 1,940
December 31, 2009	66,368	$ 301	$ 364	$ 824	$ 407	$ 1,896
Net income (b)					105	105
Redemption of preferred stock (c)		(51)			(3)	(54)
Capital contributions from PPL				55		55
Cash dividends declared on preferred securities					(13)	(13)
Cash dividends declared on common stock					(49)	(49)
September 30, 2010	66,368	$ 250	$ 364	$ 879	$ 447	$ 1,940

(a) Shares in thousands. All common shares of PPL Electric stock are owned by PPL.
(b) PPL Electric's net income approximates comprehensive income.
(c) In April 2010, PPL Electric redeemed all five series of its outstanding preferred stock.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME
LG&E and KU Energy LLC and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011 Successor	2010 Predecessor	2011 Successor	2010 Predecessor
Operating Revenues	**$ 736**	$ 719	**$ 2,140**	$ 2,035
Operating Expenses				
Operation				
Fuel	**245**	250	**666**	668
Energy purchases	**32**	39	**179**	200
Other operation and maintenance	**187**	177	**566**	509
Depreciation	**84**	73	**249**	211
Taxes, other than income	**10**	5	**28**	19
Total Operating Expenses	**558**	544	**1,688**	1,607
Operating Income	**178**	175	**452**	428
Other Income (Expense) - net		31	**(1)**	17
Interest Expense	**36**	6	**108**	19
Interest Expense with Affiliate		39		118
Income from Continuing Operations Before Income Taxes	**142**	161	**343**	308
Income Taxes	**52**	59	**125**	112
Income from Continuing Operations After Income Taxes	**90**	102	**218**	196
Income (Loss) from Discontinued Operations (net of income taxes)	**(1)**		**(1)**	(2)
Net Income	**$ 89**	$ 102	**$ 217**	$ 194

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
LG&E and KU Energy LLC and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Nine Months Ended September 30, 2011 Successor	Nine Months Ended September 30, 2010 Predecessor
Cash Flows from Operating Activities		
Net income	$ 217	$ 194
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	249	211
Defined benefit plans - expense	38	55
Deferred income taxes and investment tax credits	206	83
Unrealized (gains) losses on derivatives		14
Regulatory asset for previously recorded losses on interest rate swaps		(22)
Other	(9)	(2)
Change in current assets and current liabilities		
Accounts receivable	2	(31)
Accounts payable	(28)	(33)
Unbilled revenues	58	22
Fuel, materials and supplies	30	(14)
Regulatory assets		11
Income tax receivable	40	15
Other current assets	5	9
Regulatory liabilities		(17)
Other current liabilities	21	7
Other operating activities		
Defined benefit plans - funding	(159)	(54)
Regulatory liabilities		(20)
Discontinued operations		27
Change in smelter contract liability		(45)
Other assets	6	(35)
Other liabilities	(2)	35
Net cash provided by operating activities	674	410
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	(287)	(326)
Proceeds from sales of discontinued operations		21
Proceeds from the sale of other investments	163	
Net (increase) decrease in notes receivable from affiliates	8	
Net (increase) decrease in restricted cash and cash equivalents	(11)	
Net cash provided by (used in) investing activities	(127)	(305)
Cash Flows from Financing Activities		
Issuance of short-term debt with affiliate		825
Retirement of short-term debt with affiliate		(575)
Net increase (decrease) in notes payable with affiliates		(94)
Issuance of long-term debt with affiliate		50
Retirement of long-term debt with affiliate		(250)
Issuance of long-term debt	250	
Net increase (decrease) in short-term debt	(163)	
Debt issuance and credit facility costs	(6)	
Distributions to member	(469)	(62)
Net cash provided by (used in) financing activities	(388)	(106)
Net Increase (Decrease) in Cash and Cash Equivalents	159	(1)
Cash and Cash Equivalents at Beginning of Period	11	7
Cash and Cash Equivalents at End of Period	$ 170	$ 6

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
LG&E and KU Energy LLC and Subsidiaries
(Unaudited)
(Millions of Dollars)

	September 30, 2011	December 31, 2010
Assets		
Current Assets		
Cash and cash equivalents	$ **170**	$ 11
Short-term investments		163
Accounts receivable (less reserve: 2011, $17; 2010, $17)		
Customer	**154**	160
Other	**11**	33
Unbilled revenues	**112**	170
Accounts receivable from affiliates	**1**	2
Fuel, materials and supplies	**268**	298
Notes receivable from affiliates	**53**	61
Income tax receivable		40
Deferred income taxes	**96**	66
Regulatory assets	**16**	22
Other intangibles	**15**	58
Other current assets	**26**	26
Total Current Assets	**922**	1,110
Investments	**32**	31
Property, Plant and Equipment		
Regulated utility plant	**7,344**	6,230
Less: accumulated depreciation - regulated utility plant	**211**	31
Regulated utility plant, net	**7,133**	6,199
Other, net	**4**	4
Construction work in progress	**501**	1,340
Property, Plant and Equipment, net	**7,638**	7,543
Other Noncurrent Assets		
Regulatory assets	**614**	588
Goodwill	**996**	996
Other intangibles	**324**	356
Other noncurrent assets	**106**	94
Total Other Noncurrent Assets	**2,040**	2,034
Total Assets	$ **10,632**	$ 10,718

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS
LG&E and KU Energy LLC and Subsidiaries

(Unaudited)
(Millions of Dollars)

	September 30, 2011	December 31, 2010
Liabilities and Equity		
Current Liabilities		
Short-term debt		$ 163
Long-term debt	$ **2**	2
Accounts payable	**164**	189
Accounts payable to affiliates	**2**	3
Customer deposits	**46**	46
Taxes	**29**	27
Regulatory liabilities	**37**	91
Other current liabilities	**139**	122
Total Current Liabilities	**419**	643
Long-term Debt	**4,073**	3,823
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**482**	240
Investment tax credits	**146**	150
Accrued pension obligations	**339**	449
Asset retirement obligations	**113**	103
Regulatory liabilities	**1,007**	1,017
Price risk management liabilities	**53**	32
Other deferred credits and noncurrent liabilities	**243**	250
Total Deferred Credits and Other Noncurrent Liabilities	**2,383**	2,241
Commitments and Contingent Liabilities (Notes 6 and 10)		
Member's equity	**3,757**	4,011
Total Liabilities and Equity	$ **10,632**	$ 10,718

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
LG&E and KU Energy LLC and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Member's Equity	Non-controlling interests	Total
June 30, 2011 - Successor	$ 3,991		$ 3,991
Net income	89		89
Distributions to member	(323)		(323)
September 30, 2011 - Successor	$ 3,757		$ 3,757
December 31, 2010 - Successor	$ 4,011		$ 4,011
Net income	217		217
Distributions to member	(469)		(469)
Other comprehensive income (loss)	(2)		(2)
September 30, 2011 - Successor	$ 3,757		$ 3,757
June 30, 2010 - Predecessor	$ 2,241		$ 2,241
Net income	102		102
Distributions to member	(25)		(25)
Disposal of discontinued operations	1		1
Other comprehensive income (loss)	9		9
September 30, 2010 - Predecessor	$ 2,328		$ 2,328
December 31, 2009 - Predecessor	$ 2,192	$ 32	$ 2,224
Net income	194		194
Distributions to member	(56)		(56)
Disposal of discontinued operations	(10)	(32)	(42)
Other comprehensive income (loss)	8		8
September 30, 2010 - Predecessor	$ 2,328	$	$ 2,328

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
LG&E and KU Energy LLC and Subsidiaries

(Unaudited)
(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	Successor	Predecessor	Successor	Predecessor
Net income	$ 89	$ 102	$ 217	$ 194
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Qualifying derivatives, net of tax of $0, ($9), $0, and ($7)		11		10
Equity investee's other comprehensive income (loss), net of tax of $0, $1, $0, and $1	1	(2)		(2)
Reclassification to net income - (gains) losses, net of tax expense (benefit):				
Defined benefit plans:				
Net actuarial loss, net of tax of $0, $0, $1, and $0	(1)		(2)	
Total other comprehensive income (loss)		9	(2)	8
Comprehensive income (loss)	$ 89	$ 111	$ 215	$ 202

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF INCOME
Louisville Gas and Electric Company

(Unaudited)
(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011 Successor	2010 Predecessor	2011 Successor	2010 Predecessor
Operating Revenues				
Retail and wholesale	**$ 323**	$ 304	**$ 974**	$ 901
Electric revenue from affiliate	**17**	23	**61**	71
Total Operating Revenues	**340**	327	**1,035**	972
Operating Expenses				
Operation				
Fuel	**98**	104	**265**	277
Energy purchases	**24**	20	**155**	133
Energy purchases from affiliate	**7**	3	**25**	13
Other operation and maintenance	**91**	85	**272**	250
Depreciation	**37**	35	**110**	104
Taxes, other than income	**5**	3	**14**	11
Total Operating Expenses	**262**	250	**841**	788
Operating Income	**78**	77	**194**	184
Other Income (Expense) - net		29		17
Interest Expense	**11**	5	**34**	14
Interest Expense with Affiliate		6		20
Income Before Income Taxes	**67**	95	**160**	167
Income Taxes	**24**	35	**58**	60
Net Income	**$ 43**	$ 60	**$ 102**	$ 107

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF CASH FLOWS
Louisville Gas and Electric Company

(Unaudited)
(Millions of Dollars)

	Nine Months Ended September 30, 2011 Successor	2010 Predecessor
Cash Flows from Operating Activities		
Net income	**$ 102**	$ 107
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	**110**	104
Defined benefit plans - expense	**24**	17
Deferred income taxes and investment tax credits	**38**	30
Unrealized (gains) losses on derivatives		14
Regulatory asset for previously recorded losses on interest rate swaps		(22)
Other	**3**	1
Change in current assets and current liabilities		
Accounts receivable	**12**	(12)
Accounts payable	**(16)**	(5)
Unbilled revenues	**39**	14
Fuel, materials and supplies	**16**	(11)
Other current assets	**2**	(4)
Regulatory liabilities		(25)
Other current liabilities	**13**	(2)
Other operating activities		
Defined benefit plans - funding	**(68)**	(24)
Regulatory liabilities		(11)
Other assets		(6)
Other liabilities	**(1)**	(3)
Net cash provided by operating activities	**274**	162
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	**(122)**	(108)
Proceeds from the sale of assets to affiliate		48
Proceeds from the sale of other investments	**163**	
Net (increase) decrease in restricted cash and cash equivalents	**(11)**	
Net cash provided by (used in) investing activities	**30**	(60)
Cash Flows from Financing Activities		
Net increase (decrease) in notes payable with affiliates	**(12)**	(48)
Net increase (decrease) in short-term debt	**(163)**	
Debt issuance and credit facility costs	**(1)**	
Payment of common stock dividends to parent	**(55)**	(55)
Net cash provided by (used in) financing activities	**(231)**	(103)
Net Increase (Decrease) in Cash and Cash Equivalents	**73**	(1)
Cash and Cash Equivalents at Beginning of Period	**2**	5
Cash and Cash Equivalents at End of Period	**$ 75**	$ 4

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS
Louisville Gas and Electric Company
(Unaudited)
(Millions of Dollars, shares in thousands)

	September 30, 2011	December 31, 2010
Assets		
Current Assets		
Cash and cash equivalents	$ 75	$ 2
Short-term investments		163
Accounts receivable (less reserve: 2011, $2; 2010, $2)		
Customer	69	70
Other	5	13
Unbilled revenues	42	81
Accounts receivable from affiliates	11	30
Fuel, materials and supplies	146	162
Regulatory assets	10	13
Other intangibles	9	36
Other current assets	14	13
Total Current Assets	381	583
Property, Plant and Equipment		
Regulated utility plant	2,899	2,600
Less: accumulated depreciation - regulated utility plant	91	17
Regulated utility plant, net	2,808	2,583
Construction work in progress	192	385
Property, Plant and Equipment, net	3,000	2,968
Other Noncurrent Assets		
Regulatory assets	390	367
Goodwill	389	389
Other intangibles	170	181
Other noncurrent assets	40	31
Total Other Noncurrent Assets	989	968
Total Assets	$ 4,370	$ 4,519

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS
Louisville Gas and Electric Company
(Unaudited)
(Millions of Dollars, shares in thousands)

	September 30, 2011	December 31, 2010
Liabilities and Equity		
Current Liabilities		
Short-term debt		$ 163
Notes payable with affiliates		12
Accounts payable	**$ 81**	100
Accounts payable to affiliates	**21**	20
Customer deposits	**23**	23
Taxes	**19**	10
Regulatory liabilities	**20**	51
Other current liabilities	**42**	38
Total Current Liabilities	**206**	417
Long-term Debt	**1,112**	1,112
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**461**	419
Investment tax credits	**44**	46
Accrued pension obligations	**78**	126
Asset retirement obligations	**54**	49
Regulatory liabilities	**481**	483
Price risk management liabilities	**53**	32
Other deferred credits and noncurrent liabilities	**113**	114
Total Deferred Credits and Other Noncurrent Liabilities	**1,284**	1,269
Commitments and Contingent Liabilities (Notes 6 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	**424**	424
Additional paid-in capital	**1,278**	1,278
Earnings reinvested	**66**	19
Total Equity	**1,768**	1,721
Total Liabilities and Equity	**$ 4,370**	$ 4,519

(a) 75,000 shares authorized, 21,294 shares issued and outstanding at September 30, 2011 and December 31, 2010.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF EQUITY
Louisville Gas and Electric Company

(Unaudited)
(Millions of Dollars)

	Common stock shares outstanding (a)		Common stock		Additional paid-in capital		Earnings reinvested		Accumulated other comprehensive income (loss)		Total
June 30, 2011 - Successor	21,294	$	424	$	1,278	$	36			$	1,738
Net income							43				43
Cash dividends declared on common stock							(13)				(13)
September 30, 2011 - Successor	21,294	$	424	$	1,278	$	66			$	1,768
December 31, 2010 - Successor	21,294	$	424	$	1,278	$	19			$	1,721
Net income							102				102
Cash dividends declared on common stock							(55)				(55)
September 30, 2011 - Successor	21,294	$	424	$	1,278	$	66			$	1,768
June 30, 2010 - Predecessor	21,294	$	424	$	84	$	772	$	(13)	$	1,267
Net income							60				60
Cash dividends declared on common stock							(25)				(25)
Other comprehensive income (loss)									13		13
September 30, 2010 - Predecessor	21,294	$	424	$	84	$	807	$		$	1,315
December 31, 2009 - Predecessor	21,294	$	424	$	84	$	755	$	(10)	$	1,253
Net income							107				107
Cash dividends declared on common stock							(55)				(55)
Other comprehensive income (loss)									10		10
September 30, 2010 - Predecessor	21,294	$	424	$	84	$	807	$		$	1,315

(a) Shares in thousands. All common shares of LG&E stock are owned by LKE.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF INCOME
Kentucky Utilities Company

(Unaudited)
(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	Successor	Predecessor	Successor	Predecessor
Operating Revenues				
Retail and wholesale	**$ 413**	$ 413	**$ 1,166**	$ 1,133
Electric revenue from affiliate	**7**	3	**25**	13
Total Operating Revenues	**420**	416	**1,191**	1,146
Operating Expenses				
Operation				
Fuel	**147**	146	**401**	391
Energy purchases	**8**	19	**24**	67
Energy purchases from affiliate	**17**	23	**61**	71
Other operation and maintenance	**90**	83	**274**	240
Depreciation	**47**	38	**139**	106
Taxes, other than income	**5**	2	**14**	8
Total Operating Expenses	**314**	311	**913**	883
Operating Income	**106**	105	**278**	263
Other Income (Expense) - net		1	**1**	2
Interest Expense	**18**	2	**53**	5
Interest Expense with Affiliate		18		55
Income Before Income Taxes	**88**	86	**226**	205
Income Taxes	**32**	32	**82**	76
Net Income	**$ 56**	$ 54	**$ 144**	$ 129

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME
Louisville Gas and Electric Company
(Unaudited)
(Millions of Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	Successor	Predecessor	Successor	Predecessor
Net income	$ **43**	$ 60	$ **102**	$ 107
Other comprehensive income (loss):				
Amounts arising during the period - gains (losses), net of tax (expense) benefit:				
Qualifying derivatives, net of tax of $0, ($8), $0, and ($7)		13		10
Total other comprehensive income (loss)		13		10
Comprehensive income (loss)	$ **43**	$ 73	$ **102**	$ 117

The accompanying Notes to the Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS
Kentucky Utilities Company
(Unaudited)
(Millions of Dollars, shares in thousands)

	September 30, 2011	December 31, 2010
Assets		
Current Assets		
Cash and cash equivalents	$ **94**	$ 3
Accounts receivable (less reserve: 2011, $3; 2010, $6)		
Customer	**85**	90
Other	**5**	20
Unbilled revenues	**70**	89
Accounts receivable from affiliates	**2**	12
Fuel, materials and supplies	**122**	136
Regulatory assets	**6**	9
Other intangibles	**6**	22
Other current assets	**17**	15
Total Current Assets	**407**	396
Investments	**31**	30
Property, Plant and Equipment		
Regulated utility plant	**4,446**	3,630
Less: accumulated depreciation - regulated utility plant	**120**	14
Regulated utility plant, net	**4,326**	3,616
Construction work in progress	**308**	955
Property, Plant and Equipment, net	**4,634**	4,571
Other Noncurrent Assets		
Regulatory assets	**224**	221
Goodwill	**607**	607
Other intangibles	**154**	175
Other noncurrent assets	**59**	58
Total Other Noncurrent Assets	**1,044**	1,061
Total Assets	$ **6,116**	$ 6,058

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF CASH FLOWS
Kentucky Utilities Company
(Unaudited)
(Millions of Dollars)

	Nine Months Ended September 30, 2011 Successor	Nine Months Ended September 30, 2010 Predecessor
Cash Flows from Operating Activities		
Net income	**$ 144**	$ 129
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	**139**	106
Defined benefit plans - expense	**19**	11
Deferred income taxes and investment tax credits	**78**	42
Other	**(14)**	(3)
Change in current assets and current liabilities		
Accounts receivable	**(3)**	(14)
Accounts payable	**(16)**	11
Unbilled revenues	**19**	8
Fuel, materials and supplies	**14**	(3)
Regulatory assets		18
Other current assets		2
Other current liabilities	**11**	6
Other operating activities		
Defined benefit plans - funding	**(46)**	(17)
Other assets	**7**	13
Other liabilities		(9)
Net cash provided by operating activities	**352**	300
Cash Flows from Investing Activities		
Expenditures for property, plant and equipment	**(161)**	(218)
Purchases of assets from affiliate		(48)
Net cash provided by (used in) investing activities	**(161)**	(266)
Cash Flows from Financing Activities		
Net increase (decrease) in notes payable with affiliates	**(10)**	16
Debt issuance and credit facility costs	**(2)**	
Payment of common stock dividends to parent	**(88)**	(50)
Net cash provided by (used in) financing activities	**(100)**	(34)
Net Increase (Decrease) in Cash and Cash Equivalents	**91**	
Cash and Cash Equivalents at Beginning of Period	**3**	2
Cash and Cash Equivalents at End of Period	**$ 94**	$ 2

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED STATEMENTS OF EQUITY
Kentucky Utilities Company

(Unaudited)
(Millions of Dollars)

	Common stock shares outstanding (a)		Common stock		Additional paid-in capital		Earnings reinvested		Accumulated other comprehensive income (loss)		Total
June 30, 2011 - Successor	37,818	$	308	$	2,348	$	55	$	(1)	$	2,710
Net income (b)							56				56
Cash dividends declared on common stock							(20)				(20)
Other comprehensive income (loss)									1		1
September 30, 2011 - Successor	37,818	$	308	$	2,348	$	91	$		$	2,747
December 31, 2010 - Successor	37,818	$	308	$	2,348	$	35			$	2,691
Net income (b)							144				144
Cash dividends declared on common stock							(88)				(88)
September 30, 2011 - Successor	37,818	$	308	$	2,348	$	91			$	2,747
June 30, 2010 - Predecessor	37,818	$	308	$	316	$	1,403			$	2,027
Net income (b)							54				54
Cash dividends declared on common stock							(50)				(50)
Other comprehensive income (loss)								$	(2)		(2)
September 30, 2010 - Predecessor	37,818	$	308	$	316	$	1,407	$	(2)	$	2,029
December 31, 2009 - Predecessor	37,818	$	308	$	316	$	1,328			$	1,952
Net income (b)							129				129
Cash dividends declared on common stock							(50)				(50)
Other comprehensive income (loss)								$	(2)		(2)
September 30, 2010 - Predecessor	37,818	$	308	$	316	$	1,407	$	(2)	$	2,029

(a) Shares in thousands. All common shares of KU stock are owned by LKE.
(b) KU's net income approximates comprehensive income.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

CONDENSED BALANCE SHEETS
Kentucky Utilities Company

(Unaudited)

(Millions of Dollars, shares in thousands)

	September 30, 2011	December 31, 2010
Liabilities and Equity		
Current Liabilities		
Notes payable with affiliates		$ 10
Accounts payable	$ **75**	67
Accounts payable to affiliates	**24**	45
Customer deposits	**23**	23
Taxes	**20**	25
Regulatory liabilities	**17**	40
Other current liabilities	**54**	41
Total Current Liabilities	**213**	251
Long-term Debt	**1,841**	1,841
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	**456**	376
Investment tax credits	**102**	104
Accrued pension obligations	**83**	113
Asset retirement obligations	**59**	54
Regulatory liabilities	**526**	534
Other deferred credits and noncurrent liabilities	**89**	94
Total Deferred Credits and Other Noncurrent Liabilities	**1,315**	1,275
Commitments and Contingent Liabilities (Notes 6 and 10)		
Stockholder's Equity		
Common stock - no par value (a)	**308**	308
Additional paid-in capital	**2,348**	2,348
Earnings reinvested	**91**	35
Total Equity	**2,747**	2,691
Total Liabilities and Equity	$ **6,116**	$ 6,058

(a) 80,000 shares authorized; 37,818 shares issued and outstanding at September 30, 2011 and December 31, 2010.

The accompanying Notes to Condensed Financial Statements are an integral part of the financial statements.

1. Interim Financial Statements

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Capitalized terms and abbreviations appearing in the unaudited combined notes to condensed financial statements are explained in the glossary. Dollars are in millions, except per share data, unless otherwise noted.

The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all of the information and footnotes required by accounting principles generally accepted in the U.S. for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation in accordance with accounting principles generally accepted in the U.S. are reflected in the condensed financial statements. All adjustments are of a normal recurring nature, except as otherwise disclosed. Each Registrant's Balance Sheet at December 31, 2010 is derived from that Registrant's 2010 audited Balance Sheet. The financial statements and notes thereto should be read in conjunction with the financial statements and notes contained in the 2010 Form 10-K (in the case of PPL and PPL Electric), in the Form 8-K dated June 24, 2011 (in the case of PPL Energy Supply), or the annual financial statements included in the 2011 Registration Statements (in the case of LKE, LG&E and KU). The results of operations for the three and nine months ended September 30, 2011 are not necessarily indicative of the results to be expected for the full year ending December 31, 2011 or other future periods, because results for interim periods can be disproportionately influenced by various factors and developments and seasonal variations.

The classification of certain prior period amounts has been changed to conform to the presentation in the September 30, 2011 financial statements.

(PPL)

On April 1, 2011, PPL, through its indirect, wholly owned subsidiary, PPL WEM, completed its acquisition of all of the outstanding ordinary share capital of Central Networks East plc and Central Networks Limited, the sole owner of Central Networks West plc, together with certain other related assets and liabilities (collectively referred to as Central Networks and subsequently renamed WPD Midlands), from subsidiaries of E.ON AG. See Note 8 for additional information. As PPL is consolidating WPD Midlands on a one-month lag, three and five months of WPD Midlands' operating results are included in PPL's results of operations for the three and nine months ended September 30, 2011 with no comparable amounts for the same periods in 2010. See Note 2 for additional information regarding PPL's consolidation policy.

In November 2010, PPL completed the acquisition of LKE. See Notes 1 and 10 in PPL's 2010 Form 10-K for additional information. LKE's operating results for the three and nine months ended September 30, 2011 are included in PPL's results of operations with no comparable amounts for the same periods in 2010.

(LKE, LG&E and KU)

LKE's, LG&E's and KU's financial statements and accompanying footnotes have been segregated to present pre-acquisition activity as the "Predecessor" and post-acquisition activity as the "Successor." Predecessor activity covers the time period prior to November 1, 2010. Successor activity covers the time period after October 31, 2010. Certain accounting and presentation methods were changed to acceptable alternatives in the Successor financial statements to conform to PPL's accounting policies, which are discussed in the annual financial statements included in LKE's, LG&E's and KU's 2011 Registration Statements. The cost bases of certain assets and liabilities were changed as of November 1, 2010 as a result of the application of push-down accounting. Consequently, the financial position, results of operations and cash flows for the Successor period are not comparable to the Predecessor period.

(PPL Energy Supply)

In January 2011, PPL Energy Supply distributed its membership interest in PPL Global, representing 100% of the outstanding membership interest of PPL Global, to PPL Energy Supply's parent, PPL Energy Funding. The distribution was made based on the book value of the assets and liabilities of PPL Global with financial effect as of January 1, 2011. See Note 8 for additional information.

(PPL, PPL Energy Supply and LKE)

"Income (Loss) from Discontinued Operations (net of income taxes)" on the Statements of Income includes the activities of various businesses that were sold or distributed in 2011 and 2010. See Note 8 for additional information. The Statements of Cash Flows do not separately report the cash flows of the Discontinued Operations, except for the LKE Predecessor period, which separately discloses these cash flows within operating, investing and financing activities, consistent with LKE's pre-acquisition accounting policy.

2. Summary of Significant Accounting Policies

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

The following accounting policy disclosures represent updates to Note 1 in the 2010 Form 10-K (in the case of PPL and PPL Electric), in the Form 8-K dated June 24, 2011 (in the case of PPL Energy Supply), or in the annual financial statements included in the 2011 Registration Statements (in the case of LKE, LG&E and KU) and should be read in conjunction with those disclosures.

General

Business and Consolidation *(PPL)*

As noted above, on April 1, 2011, PPL, through its indirect, wholly owned subsidiary, PPL WEM, completed the acquisition of WPD Midlands. PPL consolidates WPD, including WPD Midlands, on a one-month lag. Material intervening events, such as debt issuances that occur in the lag period, are recognized in the current period financial statements. Events that are significant but not material are disclosed. See Note 8 for additional information.

Regulation *(PPL, PPL Electric, LKE, LG&E and KU)*

The electricity distribution subsidiaries of PPL WW and PPL WEM are not subject to accounting for the effects of certain types of regulation as prescribed by GAAP, as their operations do not meet the requirements for such accounting guidance. However, PPL Electric, LG&E and KU all apply this accounting guidance.

Accounts Receivable *(PPL, PPL Energy Supply and PPL Electric)*

PPL Electric's customers may elect to procure generation supply from an alternative supplier. As a result of a PUC-approved purchase of accounts receivable program, PPL Electric has purchased certain accounts receivable from alternative suppliers at a nominal discount, which reflects a provision for uncollectible accounts. The alternative suppliers (including PPL Electric's affiliate, PPL EnergyPlus) have no continuing involvement or interest in the purchased accounts receivable. The purchased accounts receivable are initially recorded at fair value using a market approach based on the purchase price paid and are classified as Level 2 in the fair value hierarchy. PPL Electric receives a nominal fee for administering its program. During the three and nine months ended September 30, 2011, PPL Electric purchased $219 million and $671 million of accounts receivable from unaffiliated third parties and $74 million and $194 million from its affiliate, PPL EnergyPlus. During the three and nine months ended September 30, 2010, PPL Electric purchased $203 million and $428 million of accounts receivable from unaffiliated third parties and $66 million and $157 million from its affiliate, PPL EnergyPlus.

New Accounting Guidance Adopted *(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

No new accounting guidance has been adopted during the three or nine months ended September 30, 2011. See Note 18 for a discussion of new accounting guidance pending adoption.

3. Segment and Related Information

(PPL and PPL Energy Supply)

See Note 2 to the Financial Statements in the 2010 Form 10-K for PPL and in the Form 8-K dated June 24, 2011 for PPL Energy Supply for a discussion of reportable segments. In January 2011, PPL Energy Supply distributed its membership interest in PPL Global to its parent, PPL Energy Funding. Following the distribution, PPL Energy Supply operates in a single business segment, the Supply segment. PPL Energy Supply's 2010 segment information was restated to reflect PPL Global as a Discontinued Operation. See Note 8 for additional information.

(PPL)

PPL includes the results of PPL Global in the International Regulated segment. This includes the operating results and assets of WPD Midlands since the acquisition date, April 1, 2011, on a one-month lag. See Note 8 for additional information regarding the acquisition.

The Kentucky Regulated and International Regulated segments include certain acquisition-related costs and financing activities associated with the acquisitions of LKE and WPD Midlands.

Financial data for the segments for the periods ended September 30 are:

	Three Months		Nine Months	
	2011	2010	2011	2010
PPL				
Income Statement Data				
Revenues from external customers				
Kentucky Regulated	$ 736		$ 2,140	
International Regulated	493	$ 172	1,138	$ 563
Pennsylvania Regulated	454	570	1,444	1,901
Supply (a)	1,437	1,437	3,797	4,194
Total	$ 3,120	$ 2,179	$ 8,519	$ 6,658
Intersegment electric revenues				
Pennsylvania Regulated	$ 1	$ 1	$ 9	$ 5
Supply (b)	5	71	15	250
Net Income Attributable to PPL				
Kentucky Regulated	$ 78		$ 184	
International Regulated	138	$ 93	231	$ 227
Pennsylvania Regulated	28	36	116	89
Supply (a) (d)	200	153	510	320
Unallocated Costs (e)		(34)		(53)
Total	$ 444	$ 248	$ 1,041	$ 583
PPL Energy Supply				
Income Statement Data				
Revenues from external customers				
Supply (a)	$ 1,441	$ 1,508	$ 3,807	$ 4,437
Net Income				
International Regulated (c)		$ 106		$ 227
Supply (a) (d)	$ 169	159	$ 472	324
Total	$ 169	$ 265	$ 472	$ 551

	PPL		PPL Energy Supply	
	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010
Balance Sheet Data				
Assets				
Kentucky Regulated (f)	$ 10,304	$ 10,318		
International Regulated	13,513	4,800		$ 4,800
Pennsylvania Regulated	5,385	5,189		
Supply (f)	11,754	12,530	$ 11,313	11,996
Total assets	$ 40,956	$ 32,837	$ 11,313	$ 16,796

(a) Includes unrealized gains and losses from economic activity. See Note 14 for additional information.
(b) See "PLR Contracts/Purchase of Accounts Receivable" in Note 11 for a discussion of the basis of accounting between reportable segments.
(c) Reported in Discontinued Operations. See Note 8 for additional information.
(d) In April 2011, during the PPL Susquehanna Unit 2 refueling and generation uprate outage, a planned inspection of the Unit 2 turbine revealed cracks in certain of its low pressure turbine blades. As a precaution, PPL Susquehanna also took Unit 1 out of service in mid-May to inspect that unit's turbine blades. This inspection revealed cracked blades similar to those found in Unit 2. Replacement of these blades was completed, significantly extending these outages. The after-tax earnings impact, including reduced energy sales margins and repair expense for both units was $63 million for the nine months ended September 30, 2011.
(e) Represents LKE acquisition-related costs and 2010 Bridge Facility financing costs.
(f) A portion of the goodwill related to the 2010 LKE acquisition has been attributed to PPL's Supply segment

4. Earnings Per Share

(PPL)

Basic EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of common shares outstanding during the period. Diluted EPS is computed by dividing income available to PPL common shareowners by the weighted-average number of shares outstanding that are increased for additional shares that would be outstanding if potentially dilutive non-participating securities were converted to common shares as calculated using the treasury stock method. In 2011 and 2010, these securities included stock options, performance units granted under incentive compensation plans and the 2010 Purchase Contract component of the 2010 Equity Units. Additionally, in 2011, these securities included the 2011 Purchase Contract component of the 2011 Equity Units. The 2011 Purchase Contracts will be dilutive under the treasury stock method if the average VWAP of PPL's common stock for a certain period exceeds approximately $30.99. The 2010 Purchase Contracts will be dilutive under the treasury stock method if the average VWAP of PPL's common stock for a certain period exceeds $28.80. The 2011 and 2010 Purchase Contracts were excluded from the diluted EPS calculations because they did not meet this criteria during the three and nine months ended September 30, 2011 and 2010. Subject to antidilution adjustments at September 30, 2011, the maximum number of shares issuable to settle the Purchase Contracts was 103,372,695 shares, including 86,552,565 shares that could be issued under standard provisions of the Purchase Contracts and 16,820,130 shares that could be issued under make-whole provisions in the event of early settlement upon a Fundamental Change. See Note 7 for additional information on the 2011 Equity Units.

Reconciliations of the amounts of income and shares of PPL common stock (in thousands) for the periods ended September 30 used in the EPS calculation are:

	Three Months		Nine Months	
	2011	2010	2011	2010
Income (Numerator)				
Income from continuing operations after income taxes attributable to PPL	$ 444	$ 301	$ 1,039	$ 621
Less amounts allocated to participating securities	2	1	4	2
Income from continuing operations after income taxes available to PPL common shareowners	$ 442	$ 300	$ 1,035	$ 619
Income (loss) from discontinued operations (net of income taxes) available to PPL	$	$ (53)	$ 2	$ (38)
Net income attributable to PPL	$ 444	$ 248	$ 1,041	$ 583
Less amounts allocated to participating securities	2	1	4	2
Net income available to PPL common shareowners	$ 442	$ 247	$ 1,037	$ 581
Shares of Common Stock (Denominator)				
Weighted-average shares - Basic EPS	577,595	482,552	541,135	414,068
Add incremental non-participating securities:				
Stock options and performance units	459	210	345	219
Weighted-average shares - Diluted EPS	578,054	482,762	541,480	414,287
Basic EPS				
Available to PPL common shareowners:				
Income from continuing operations after income taxes	$ 0.76	$ 0.62	$ 1.91	$ 1.49
Income (loss) from discontinued operations (net of income taxes)		(0.11)	0.01	(0.09)
Net Income	$ 0.76	$ 0.51	$ 1.92	$ 1.40
Diluted EPS				
Available to PPL common shareowners:				
Income from continuing operations after income taxes	$ 0.76	$ 0.62	$ 1.91	$ 1.49
Income (loss) from discontinued operations (net of income taxes)		(0.11)		(0.09)
Net Income	$ 0.76	$ 0.51	$ 1.91	$ 1.40

For the periods ended September 30 the following options to purchase PPL common stock and performance units were excluded from the computations of diluted EPS because the effect would have been antidilutive.

	Three Months		Nine Months	
(Shares in thousands)	2011	2010	2011	2010
Stock options	4,473	5,194	5,377	4,844
Performance units	3		3	61

During the three and nine months ended September 30, 2011, PPL issued 17,311 and 410,283 shares of common stock related to the exercise of stock options, vesting of restricted stock and restricted stock units and conversion of stock units granted to directors under its stock-based compensation plans. In addition, PPL issued 561,918 and 1,741,827 shares of common stock related to its DRIP during the three and nine months ended September 30, 2011. PPL also issued 301,319 shares related to its ESOP during the nine months ended September 30, 2011.

See Note 7 for information on the April 2011 issuance of common stock and 2011 Equity Units.

5. Income Taxes

Reconciliations of income tax expense for the periods ended September 30 are:

(PPL)

	Three Months		Nine Months	
	2011	2010	2011	2010
Reconciliation of Income Tax Expense				
Federal income tax on Income from Continuing Operations Before Income Taxes at statutory tax rate - 35%	$ 196	$ 114	$ 518	$ 277
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	8	17	47	32
State valuation allowance adjustments (a)			11	(8)
Impact of lower U.K. income tax rates	(12)	(8)	(31)	(15)
U.S. income tax on foreign earnings - net of foreign tax credit (b)	(10)	(8)	(25)	(14)
Federal and state tax reserve adjustments (c)	4	(52)	1	(59)
Foreign tax reserve adjustments (d)	2	24	2	46
Domestic manufacturing deduction (e)		(12)		(24)
Health Care Reform (f)				8
Foreign losses resulting from restructuring (d)		(27)		(52)
Enactment of the U.K.'s Finance Act of 2011 and 2010 (g)	(69)	(19)	(69)	(19)
Federal income tax credits	(4)	(4)	(11)	(8)
Amortization of investment tax credit	(2)		(6)	(2)
Depreciation not normalized (a)	(1)	(1)	(7)	(1)
Nondeductible acquisition-related costs (h)	1		9	
Other	(3)	(5)	(10)	(9)
Total increase (decrease)	(86)	(95)	(89)	(125)
Total income taxes from continuing operations	$ 110	$ 19	$ 429	$ 152

(a) In February 2011, the Pennsylvania Department of Revenue issued interpretive guidance on the treatment of bonus depreciation for Pennsylvania income tax purposes. In accordance with Corporation Tax Bulletin 2011-01, Pennsylvania allows 100% bonus depreciation for qualifying assets in the same year bonus depreciation is allowed for federal income tax purposes. Due to the reduction in projected Pennsylvania taxable income for tax years 2011 and 2012 related to the 100% bonus depreciation deduction, PPL adjusted its deferred tax valuation allowances for Pennsylvania net operating losses by $11 million in the first quarter of 2011.

Additionally, the 100% Pennsylvania bonus depreciation deduction created a current state income tax benefit for the flow-through impact of Pennsylvania regulated state tax depreciation.

(b) During the three and nine months ended September 30, 2011, PPL recorded a $7 million and $21 million federal income tax benefit related to U.K. pension contributions.

(c) In 1997, the U.K. imposed a Windfall Profits Tax on privatized utilities, including WPD. In September 2010, the U.S. Tax Court ruled in PPL's favor in a pending dispute with the IRS, concluding that the U.K. Windfall Profits Tax is a creditable tax for U.S. tax purposes. As a result and with the finalization of other issues, PPL recorded a $42 million tax benefit which impacted federal and state income tax reserves and related deferred income taxes during the third quarter of 2010. In January 2011, the IRS appealed the U.S. Tax Court's decision to the U.S. Court of Appeals for the Third Circuit.

In July 2010, the U.S. Tax Court ruled in PPL's favor in a pending dispute with the IRS, concluding that street lighting assets of PPL Electric are depreciable for tax purposes over seven years. As a result, PPL recorded a $7 million tax benefit to federal and state income tax reserves and related deferred income taxes in the third quarter of 2010.

See "Tax Litigation" below for additional information.

(d) During the three and nine months ended September 30, 2010, PPL recorded $27 million and $52 million in foreign tax benefits and related adjustments to foreign tax reserves of $24 and $46 million in conjunction with losses resulting from restructuring in the U.K. These losses offset tax on a deferred gain from a prior year sale of WPD's supply business.

(e) In December 2010, Congress enacted legislation allowing for 100% bonus depreciation on qualified property. The increased tax depreciation eliminates the estimated tax benefit related to the domestic manufacturing deduction in 2011.

(f) Beginning in 2013, provisions within Health Care Reform eliminated the income tax deductibility of retiree health care costs to the extent of federal subsidies received by plan sponsors that provide retiree prescription drug benefits equivalent to Medicare Part D Coverage. As a result, PPL recorded deferred income tax expense in the first quarter of 2010. See Note 9 for additional information.

(g) The U.K.'s Finance Act of 2011, enacted in July 2011, included reductions in the U.K. statutory income tax rate. The statutory income tax rate was reduced from 27% to 26% retroactive to April 1, 2011 and will be reduced from 26% to 25% effective April 1, 2012. As a result, PPL reduced its net deferred tax liabilities and recognized a deferred tax benefit in the third quarter of 2011 to comprehend both rate decreases.

The U.K.'s Finance Act of 2010, enacted in July 2010, included a reduction in the U.K. statutory income tax rate. Effective April 1, 2011, the statutory income tax rate was reduced from 28% to 27%. As a result, PPL reduced its net deferred tax liabilities and recognized a deferred tax benefit in the third quarter of 2010.

(h) During the three and nine months ended September 30, 2011, PPL recorded nondeductible acquisition-related costs (primarily the U.K. stamp duty tax) associated with its acquisition of WPD Midlands. See Note 8 for additional information on the acquisition.

PPL has evaluated the impact of the change in earnings estimates on its projected annual effective tax rate. The result of the change in estimate reduced income tax expense for the three months ended September 30, 2011 by $18 million ($0.03 per share, basic and diluted).

(PPL Energy Supply)

	Three Months 2011	Three Months 2010	Nine Months 2011	Nine Months 2010
Reconciliation of Income Tax Expense				
Federal income tax on Income from Continuing Operations Before Income Taxes at statutory tax rate - 35%	$ 96	$ 107	$ 272	$ 189
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	11	15	38	27
State valuation allowance adjustments (a)			6	
Federal and state tax reserve adjustments	1	(11)	2	(11)
Domestic manufacturing deduction (b)		(12)		(24)
Health Care Reform (c)				5
Federal income tax credits	(5)	(4)	(11)	(7)
Other	1	(2)	(2)	(1)
Total increase (decrease)	8	(14)	33	(11)
Total income taxes from continuing operations	$ 104	$ 93	$ 305	$ 178

(a) In February 2011, the Pennsylvania Department of Revenue issued interpretive guidance on the treatment of bonus depreciation for Pennsylvania income tax purposes. In accordance with Corporation Tax Bulletin 2011-01, Pennsylvania allows 100% bonus depreciation for qualifying assets in the same year bonus depreciation is allowed for federal income tax purposes. Due to the reduction in projected Pennsylvania taxable income for tax years 2011 and 2012 related to the 100% bonus depreciation deduction, PPL Energy Supply adjusted its deferred tax valuation allowances for Pennsylvania net operating losses in the first quarter of 2011.

(b) In December 2010, Congress enacted legislation allowing for 100% bonus depreciation on qualified property. The increased tax depreciation eliminates the estimated tax benefit related to the domestic manufacturing deduction in 2011.

(c) Beginning in 2013, provisions within Health Care Reform eliminated the income tax deductibility of retiree health care costs to the extent of federal subsidies received by plan sponsors that provide retiree prescription drug benefits equivalent to Medicare Part D Coverage. As a result, PPL Energy Supply recorded deferred income tax expense in the first quarter of 2010. See Note 9 for additional information.

(PPL Electric)

	Three Months 2011	Three Months 2010	Nine Months 2011	Nine Months 2010
Reconciliation of Income Tax Expense				
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$ 16	$ 19	$ 64	$ 53
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	2	3	9	7
Federal and state tax reserve adjustments (a)	(2)	(6)	(6)	(10)
Federal and state income tax return adjustments			(2)	
Depreciation not normalized (b)	(1)	(1)	(6)	(1)
Other	(1)		(3)	(2)
Total increase (decrease)	(2)	(4)	(8)	(6)
Total income taxes	$ 14	$ 15	$ 56	$ 47

(a) In July 2010, the U.S. Tax Court ruled in PPL Electric's favor in a pending dispute with the IRS, concluding that street lighting assets are depreciable for tax purposes over seven years. As a result, PPL Electric recorded a $7 million tax benefit which impacted federal and state income tax reserves and related deferred income taxes in the third quarter of 2010. See "Tax Litigation" below for additional information.

(b) In February 2011, the Pennsylvania Department of Revenue issued interpretive guidance on the treatment of bonus depreciation for Pennsylvania income tax purposes. In accordance with Corporation Tax Bulletin 2011-01, Pennsylvania allows 100% bonus depreciation for qualifying assets in the same year bonus depreciation is allowed for federal income tax purposes. The 100% Pennsylvania bonus depreciation deduction created a current state income tax benefit for the flow-through impact of Pennsylvania regulated state tax depreciation.

(LKE)

	Three Months		Nine Months	
	2011	2010	2011	2010
	Successor	Predecessor	Successor	Predecessor
Reconciliation of Income Tax Expense				
Federal income tax on Income from Continuing Operations Before Income Taxes at statutory tax rate - 35%	$ 50	$ 56	$ 120	$ 108
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	4	6	11	10
Other	(2)	(3)	(6)	(6)
Total increase (decrease)	2	3	5	4
Total income taxes from continuing operations	$ 52	$ 59	$ 125	$ 112

(LG&E)

	Three Months		Nine Months	
	2011	2010	2011	2010
	Successor	Predecessor	Successor	Predecessor
Reconciliation of Income Tax Expense				
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$ 23	$ 33	$ 56	$ 58
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	2	4	5	6
Other	(1)	(2)	(3)	(4)
Total increase (decrease)	1	2	2	2
Total income taxes	$ 24	$ 35	$ 58	$ 60

(KU)

	Three Months		Nine Months	
	2011	2010	2011	2010
	Successor	Predecessor	Successor	Predecessor
Reconciliation of Income Tax Expense				
Federal income tax on Income Before Income Taxes at statutory tax rate - 35%	$ 31	$ 30	$ 79	$ 72
Increase (decrease) due to:				
State income taxes, net of federal income tax benefit	3	3	7	8
Other	(2)	(1)	(4)	(4)
Total increase (decrease)	1	2	3	4
Total income taxes	$ 32	$ 32	$ 82	$ 76

Unrecognized Tax Benefits *(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

Changes to unrecognized tax benefits for the periods ended September 30 were as follows.

	Three Months		Nine Months	
	2011	2010	2011	2010
PPL				
Beginning of period	$ 250	$ 224	$ 251	$ 212
Additions based on tax positions of prior years	1		2	4
Reductions based on tax positions of prior years	(14)	(50)	(14)	(56)
Additions based on tax positions related to the current year	4	13	4	43
Reductions based on tax positions related to the current year	(1)	(1)	(3)	(6)
Settlements		(11)		(12)
Lapse of applicable statutes of limitation	(3)	(2)	(8)	(6)
Effects of foreign currency translation	(2)	5	3	(1)
End of period (a)	$ 235	$ 178	$ 235	$ 178
PPL Energy Supply				
Beginning of period	$ 28	$ 142	$ 183	$ 124
Additions based on tax positions of prior years				2
Reductions based on tax positions of prior years		(43)		(47)
Additions based on tax positions related to the current year		13		43
Reductions based on tax positions related to the current year				(3)
Settlements				(1)
Derecognize unrecognized tax benefits (b)			(155)	
Effects of foreign currency translation		5		(1)
End of period	$ 28	$ 117	$ 28	$ 117

	Three Months		Nine Months	
	2011	2010	2011	2010
PPL Electric				
Beginning of period	$ 56	$ 68	$ 62	$ 74
Additions based on tax positions of prior years				2
Reductions based on tax positions of prior years		(7)		(9)
Reductions based on tax positions related to the current year		(1)	(1)	(3)
Lapse of applicable statutes of limitation	(3)	(2)	(8)	(6)
End of period	$ 53	$ 58	$ 53	$ 58

(a) Unrecognized tax benefits at September 30, 2011 include $146 million of U.K. capital losses related to positions previously recorded on U.K. income tax returns. In October 2011, the U.K. tax authority accepted these capital loss positions. As a result, in the fourth quarter of 2011, PPL expects to reverse this unrecognized tax benefit and expects to record a valuation allowance for this amount against the deferred tax asset that results from an increase in capital loss carry forwards.

(b) Represents unrecognized tax benefits derecognized as a result of PPL Energy Supply's distribution of its membership interest in PPL Global to PPL Energy Supply's parent, PPL Energy Funding. See Note 8 for additional information on the distribution.

LKE's, LG&E's and KU's unrecognized tax benefits and changes in those unrecognized tax benefits are insignificant for the three and nine months ended September 30, 2011 and 2010.

At September 30, 2011, it was reasonably possible that during the next 12 months the total amount of unrecognized tax benefits could increase or decrease by the following amounts. For LKE, LG&E and KU, no significant changes in unrecognized tax benefits are projected over the next 12 months.

	Increase	Decrease
PPL	$ 23	$ 216
PPL Energy Supply		26
PPL Electric	26	41

These potential changes could result from subsequent recognition, derecognition and/or changes in the measurement of uncertain tax positions related to the creditability of foreign taxes, the timing and utilization of foreign tax credits and the related impact on alternative minimum tax and other credits, the timing and/or valuation of certain deductions, intercompany transactions and unitary filing groups. The events that could cause these changes are direct settlements with taxing authorities, litigation, legal or administrative guidance by relevant taxing authorities and the lapse of an applicable statute of limitation.

At September 30, the total unrecognized tax benefits and related indirect effects that, if recognized, would decrease the effective tax rate were as follows. The amounts for LKE, LG&E and KU were insignificant.

	2011	2010
PPL	$ 172	$ 116
PPL Energy Supply	12	102
PPL Electric	9	14

Other *(PPL, PPL Energy Supply and PPL Electric)*

PPL changed its method of accounting for repair expenditures for tax purposes effective for its 2008 tax year for the Pennsylvania generation, transmission and distribution operations. The same change was made for the Montana generation operations for 2009.

In August 2011, the IRS issued Rev. Procs. 2011-42 and 2011-43. Rev. Proc. 2011-42 provides guidance regarding the use and evaluation of statistical samples and sampling estimates. Rev. Proc. 2011-43 provides a safe harbor method of determining whether certain expenditures for electric transmission and distribution property can be currently deducted for tax purposes. No guidance was issued related to generation property.

If PPL adopts the safe harbor method of Rev. Proc. 2011-43, the amount of deductible versus capitalizable expenditures will likely be different from PPL's current method. While PPL has not yet completed its analysis of this guidance, it does not believe any resulting adjustment to unrecognized tax benefits or income tax liabilities will have a significant impact on net income.

Tax Litigation *(PPL and PPL Electric)*

In January 2011, the IRS appealed, to the U.S. Court of Appeals for the Third Circuit, the U.S. Tax Court's decision that the 1997 U.K. Windfall Profits Tax (WPT) is a creditable tax for U.S. Federal income tax purposes. In its decision, the Tax Court ruled on two issues: (1) the 1997 U.K. WPT imposed on all U.K. privatized utilities, including PPL's U.K. subsidiary, was creditable against the Company's U.S. income taxes; and (2) PPL Electric's street lighting assets could be depreciated for tax purposes over seven years as permitted for "property without a class life" instead of the 20-year depreciation recovery period argued by the IRS. The IRS did not appeal the street lighting decision. PPL filed its tax returns for 1997 and all intervening years on the basis that the WPT was creditable and that the appropriate tax depreciable life for its street lighting assets was seven years. Therefore, the cash benefit resulting from these items has already been realized.

6. Utility Rate Regulation

(PPL, PPL Electric, LKE, LG&E and KU)

The following tables provide information about the regulatory assets and liabilities of cost-based rate-regulated utility operations.

	PPL		PPL Electric	
	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010
Current Regulatory Assets:				
Generation supply charge (a)		$ 45		$ 45
Universal service rider	$ 3	10	$ 3	10
Fuel adjustment clause	10	3		
Other	6	27		8
Total current regulatory assets	$ 19	$ 85	$ 3	$ 63
Noncurrent Regulatory Assets:				
Defined benefit plans	$ 586	$ 592	$ 256	$ 262
Taxes recoverable through future rates	270	254	270	254
Storm costs	132	129	6	7
Unamortized loss on debt	113	61	80	27
Interest rate swaps	66	43		
Accumulated cost of removal of utility plant (b)	46	35	46	35
Coal contracts (c)	14	22		
Other	50	44	5	7
Total noncurrent regulatory assets	$ 1,277	$ 1,180	$ 663	$ 592
Current Regulatory Liabilities:				
Coal contracts (c)	$ 12	$ 46		
Generation supply charge (a)	37		$ 37	
ECR	8	12		
PURTA tax	3	10	3	$ 10
DSM	10	10		
Transmission service charge	1	8	1	8
Other	12	23	5	
Total current regulatory liabilities	$ 83	$ 109	$ 46	$ 18
Noncurrent Regulatory Liabilities:				
Accumulated cost of removal of utility plant	$ 646	$ 623		
Coal contracts (c)	188	213		
Power purchase agreement - OVEC (c)	118	124		
Net deferred tax assets	37	40		
Act 129 compliance rider	13	14	$ 13	$ 14
Defined benefit plans	10	10		
Other	8	7		
Total noncurrent regulatory liabilities	$ 1,020	$ 1,031	$ 13	$ 14

	LKE		LG&E		KU	
	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010
Current Regulatory Assets:						
ECR		$ 5		$ 5		
Coal contracts (c)	$ 1	5		1	$ 1	$ 4
Gas supply clause	5	4	$ 5	4		
Fuel adjustment clause	10	3	5	3	5	
Virginia fuel factor		5				5
Total current regulatory assets	$ 16	$ 22	$ 10	$ 13	$ 6	$ 9
Noncurrent Regulatory Assets:						
Defined benefit plans	$ 330	$ 330	$ 213	$ 213	$ 117	$ 117
Storm costs	126	122	67	65	59	57
Unamortized loss on debt	33	34	21	22	12	12
Interest rate swaps	66	43	66	43		
Coal contracts (c)	14	22	6	8	8	14
Other	45	37	17	16	28	21
Total noncurrent regulatory assets	$ 614	$ 588	$ 390	$ 367	$ 224	$ 221
Current Regulatory Liabilities:						
Coal contracts (c)	$ 12	$ 46	$ 8	$ 31	$ 4	$ 15
ECR	8	12	1		7	12
DSM	10	10	6	5	4	5
Other	7	23	5	15	2	8
Total current regulatory liabilities	$ 37	$ 91	$ 20	$ 51	$ 17	$ 40
Noncurrent Regulatory Liabilities:						
Accumulated cost of removal of utility plant	$ 646	$ 623	$ 284	$ 275	$ 362	$ 348
Coal contracts (c)	188	213	80	87	108	126
Power purchase agreement - OVEC (c)	118	124	82	86	36	38
Net deferred tax assets	37	40	32	34	5	6
Defined benefit plans	10	10			10	10
Other	8	7	3	1	5	6
Total noncurrent regulatory liabilities	$ 1,007	$ 1,017	$ 481	$ 483	$ 526	$ 534

(a) PPL Electric's generation supply charge recovery mechanism moved from an undercollected status at December 31, 2010 to an overcollected status at September 30, 2011, reflecting the impacts of changes in customer billing cycles, the timing of rate reconciliation filings, the levels of customers choosing alternative energy suppliers and other factors. Because customer rates are designed to collect the costs of PPL Electric's energy purchases to meet its PLR requirements, there is minimal impact on earnings.

(b) The December 31, 2010 balance of accumulated cost of removal of utility plant was reclassified from "Accumulated depreciation - regulated utility plant" to noncurrent "Regulatory assets" on the Balance Sheets. These costs will continue to be included in future rate proceedings.

(c) These regulatory assets and liabilities were recorded as offsets to certain intangible assets and liabilities that were recorded at fair value upon the acquisition of LKE.

Regulatory Matters

Kentucky Activities *(PPL, LKE, LG&E and KU)*

Environmental Upgrades

In order to achieve compliance with new and pending federal EPA regulations including CSAPR, National Ambient Air Quality Standards and the MACT rule, in June 2011, LG&E and KU filed ECR plans with the KPSC requesting approval to install environmental upgrades for their coal-fired plants and for recovery of the expected $2.5 billion in associated capital costs, as well as operating expenses, as incurred. The ECR plans detail upgrades that will be made to certain of their coal-fired generating stations to continue to be compliant with EPA regulations.

LG&E requested $1.4 billion to modernize the sulfur dioxide scrubbers at the Mill Creek generating station as well as install fabric-filter baghouse systems for increased particulate and mercury control on all units at Mill Creek and for Unit 1 at Trimble County. In its KPSC application, LG&E estimated the impact on rates to LG&E's electric customers to be an increase of 2.3% in 2012, growing to an increase of 19.2% by 2016. KU requested $1.1 billion for upgrades that include fabric-filter baghouse systems for increased particulate and mercury control on units at the E.W. Brown and Ghent generating stations and the conversion of a wet storage facility to a dry landfill at the E.W. Brown generating station. In its KPSC application, KU estimated the impact on rates to KU's electric customers to be an increase of 1.5% in 2012, growing to an increase of 12.2% by 2016.

Certain parties have been granted intervenor status in the ECR proceedings. The KPSC issued a procedural schedule under which data discovery is expected to continue into the fourth quarter. A KPSC order is anticipated to be issued in December 2011. LG&E and KU cannot predict the outcome of these proceedings.

IRP

IRP regulations in Kentucky require major utilities to make triennial IRP filings with the KPSC. In April 2011, LG&E and KU filed their 2011 joint IRP with the KPSC. The IRP provides historical and projected demand, resource and financial data, and other operating performance and system information. In May 2011, the KPSC issued a procedural schedule and data discovery will continue through the fourth quarter. Pursuant to a December 2008 Order, KU filed the 2011 joint IRP with the VSCC in September 2011, with certain supplemental information as required by this Order. The IRP assumes approximately 500 MW of peak demand reductions by 2017 through existing or expanded DSM or energy efficiency programs. Implementation of the major findings of the IRP is subject to further analysis and decision-making and further regulatory approvals.

CPCN Filing

In September 2011, LG&E and KU filed a CPCN with the KPSC requesting approval to build a 640 MW NGCC at the existing Cane Run station site. KU will own a 78% undivided interest, and LG&E will own a 22% undivided interest, in the new NGCC. In addition, LG&E and KU also requested approval to purchase three additional natural gas combustion turbines from Bluegrass Generation Company, L.L.C. that are expected to provide up to 495 MW of peak generation supply (the Bluegrass Plant). In conjunction with these developments, at the end of 2015 LG&E and KU anticipate retiring three coal-fired generating units at LG&E's Cane Run station and also coal-fired generating units at KU's Tyrone and Green River stations. These generating stations represent 797 MW of combined summer capacity.

LG&E and KU anticipate that the NGCC construction and Bluegrass Plant acquisition could require up to $800 million (comprised of up to $300 million for LG&E and up to $500 million for KU) in capital costs including related transmission projects. Formal requests for recovery of the costs associated with the NGCC and Bluegrass Plant acquisition were not included in the CPCN filing with the KPSC, but are expected to be included in a future base rate case filing. The KPSC issued an Order on the procedural schedule in the CPCN filing that has discovery, but no hearing, scheduled through early February 2012. A KPSC order on the CPCN filing is anticipated in the second quarter of 2012.

DSM/Energy Efficiency

In April 2011, LG&E and KU filed a DSM application to expand existing energy efficiency programs and implement new energy efficiency programs. Discovery and evidentiary phases have been completed and a KPSC order is anticipated during the fourth quarter of 2011. Any increase in rates will not be implemented until an order is issued by the KPSC.

PPL's Acquisition of LKE

In September 2010, the KPSC approved a settlement agreement among PPL and all of the intervening parties to PPL's joint application to the KPSC for approval of its acquisition of ownership and control of LKE, LG&E and KU. In the settlement agreement, the parties agreed that LG&E and KU would commit that no base rate increases would take effect before January 1, 2013. Under the terms of the settlement, LG&E and KU retain the right to seek KPSC approval for the deferral of "extraordinary and uncontrollable costs," such as significant storm restoration costs, if incurred. Additionally, interim rate adjustments will continue to be permissible during that period for existing recovery mechanisms such as the ECR and DSM.

Storm Costs (PPL, LKE and LG&E)

In August 2011, a strong storm hit LG&E's service area causing significant damage and widespread outages for approximately 139,000 customers. LG&E filed an application with the KPSC in September 2011, requesting approval of a regulatory asset recorded to defer, for future recovery, $7 million in incremental operation and maintenance expenses related to the storm restoration. The KPSC has issued a procedural schedule for discovery relating to the application during the fourth quarter.

Virginia Activities *(PPL, LKE and KU)*

Rate Case

In April 2011, KU filed an application with the VSCC requesting an annual increase in electric base rates for its Virginia jurisdictional customers of $9 million, or 14%. The proposed increase reflected a rate of return on rate base of 8%, based on a return on equity of 11%, inclusive of expenditures to complete TC2, all new sulfur dioxide scrubbers, recovery over five years of a 2009 storm regulatory asset and various other adjustments to revenue and expenses for the test year ended December 31, 2010. In September 2011, a settlement stipulation was reached between KU and the VSCC Staff and filed with the VSCC for consideration. In October 2011, the VSCC approved the stipulation with two modifications that were accepted by KU. The VSCC issued an Order closing the proceeding in October 2011. The approved annual revenue increase is $7 million with new base rates effective November 1, 2011.

Levelized Fuel Factor

In February 2011, KU filed an application with the VSCC seeking approval of an increase in its fuel cost factor beginning with service rendered in April 2011. In March 2011, a hearing was held on KU's requested fuel factor and an Order was issued approving a revised fuel factor to be in effect beginning with service rendered on and after April 1, 2011, with recovery of the regulatory asset for prior period under-recoveries over a three-year period.

Storm Costs

In December 2009, a major snowstorm hit KU's Virginia service area causing approximately 30,000 customer outages. During the normal 2009 Virginia Annual Information Filing (AIF), KU requested that the VSCC establish a regulatory asset and defer for future recovery $6 million in incremental operation and maintenance expenses related to the storm restoration. In March 2011, the VSCC Staff issued its report on KU's 2009 AIF stating that it considered this storm damage to be extraordinary, non-recurring and material to KU. The Staff Report also recommended establishing a regulatory asset for these costs, with recovery over a five-year period upon approval in the next base rate case. In March 2011, a regulatory asset of $6 million was established for actual costs incurred. In June 2011, the VSCC issued an Order approving the recommendations contained in the Staff Report.

Pennsylvania Activities

(PPL and PPL Electric)

Act 129

Act 129 requires Pennsylvania electric utilities to meet specified goals for reduction in customer electricity usage and peak demand by specified dates. Utilities not meeting the requirements of Act 129 are exposed to significant penalties.

Under Act 129, Electric Distribution Companies (EDCs) must develop and file an energy efficiency and conservation plan (EE&C Plan) with the PUC and contract with conservation service providers to implement all or a portion of the EE&C Plan. Act 129 requires EDCs to cause reduced overall electricity consumption of 1.0% by 2011 and 3.0% by 2013, and reduced peak demand of 4.5% for the 100 hours of highest demand by 2013. To date, PPL Electric has met the 2011 requirement, subject to the PUC's verification. EDCs will be able to recover the costs (capped at 2% of the EDC's 2006 revenue) of implementing their EE&C Plans. In October 2009, the PUC approved PPL Electric's EE&C Plan. The plan includes 14 programs, all of which are voluntary for customers. The plan includes a proposed rate mechanism for recovery of all costs incurred by PPL Electric to implement the plan. In September 2010, PPL Electric filed its Program Year 1 Annual Report and Process Evaluation Report. PPL Electric also filed a petition requesting permission to modify two components of its EE&C Plan. The PUC issued its Final Order in January 2011, approving the changes proposed by PPL Electric and directing PPL Electric to re-file its plan to reflect all changes made since its initial approval. In February 2011, PPL Electric filed the changes to its plan and in May 2011, the PUC approved those changes.

Act 129 also requires installation of smart meters for new construction, upon the request of consumers at their cost, or on a depreciation schedule not exceeding 15 years. Under Act 129, EDCs will be able to recover the costs of providing smart metering technology. In August 2009, PPL Electric filed its proposed smart meter technology procurement and installation plan with the PUC. All of PPL Electric's metered customers currently have smart meters installed at their service locations, and PPL Electric's current advanced metering technology generally satisfies the requirements of Act 129 and does not need to be replaced. In June 2010, the PUC entered its order approving PPL Electric's smart meter plan with several modifications. In compliance with the Order, in the third quarter of 2010, PPL Electric submitted a revised plan with a cost estimate of $38 million to be incurred over a five-year period, beginning in 2009, and filed a rider to recover these costs beginning January 1, 2011. In December 2010, the PUC approved PPL Electric's rate rider to recover the costs of its smart meter program. In August 2011, PPL Electric filed with the PUC an annual report describing the actions it is taking under its smart meter plan in 2011 and will take in 2012. PPL Electric also submitted proposed Smart Meter Rider charges to be effective January 1, 2012.

Act 129 also requires the Default Service Provider (DSP) to provide electric generation supply service to customers pursuant to a PUC-approved competitive procurement plan through auctions, requests for proposal and bilateral contracts at the sole discretion of the DSP. Act 129 requires a mix of spot market purchases, short-term contracts and long-term contracts (4 to 20 years), with long-term contracts limited to up to 25% of the load unless otherwise approved by the PUC). The DSP will be able to recover the costs associated with a competitive procurement plan.

Under Act 129, the DSP competitive procurement plan must ensure adequate and reliable service "at least cost to customers" over time. Act 129 grants the PUC authority to extend long-term power contracts up to 20 years, if necessary, to achieve the "least cost" standard. The PUC has approved PPL Electric's procurement plan for the period January 1, 2011 through May 31, 2013, and PPL Electric has begun purchasing under that plan. In December 2010, the PUC approved PPL Electric's rate rider to recover the costs of providing default service.

PUC Investigation of Retail Market

In April 2011, the PUC opened an investigation of Pennsylvania's retail electricity market which will be conducted in two phases. Phase one will address the status of the current retail market and explore potential changes. Questions promulgated by the PUC for this phase of the investigation focus primarily on default service issues. In June 2011, interested parties filed comments and the PUC held a hearing in this phase of the investigation. In July 2011, the PUC entered an order initiating phase two of the investigation which will study how best to address issues identified by the PUC as being most relevant to improving the current retail electricity market. The PUC issued a tentative order in October 2011 addressing issues associated with the timing and various other details of EDCs' default service procurement plans. Parties will have an opportunity to comment on that tentative order. The PUC also has scheduled a hearing in this phase of the investigation in November 2011. It is likely that investigation will not be completed before the end of the year. PPL Electric cannot predict the outcome of the investigation.

Legislation - Regulatory Procedures and Mechanisms

In June 2011, the Pennsylvania House Consumer Affairs Committee approved legislation that would authorize the PUC to approve regulatory procedures and mechanisms to provide for more timely recovery of a utility's costs. Those procedures and mechanisms include, but are not limited to, the use of a fully projected test year and an automatic adjustment clause to recover certain capital costs and related operating expenses. In October 2011, the legislation was passed by the Pennsylvania House of Representatives. It will now be considered by the Pennsylvania Senate. PPL Electric is working with other stakeholders to support passage of this legislation.

Unamortized Loss on Debt

As further discussed in Note 7, in July 2011 PPL Electric redeemed Senior Secured Bonds for $458 million, plus accrued interest. The redemption premium and the unamortized financing costs of $59 million were recorded as a regulatory asset which will be amortized over the life of the replacement debt.

Storm Recovery

PPL Electric experienced several PUC-reportable storms during the three and nine months ended September 30, 2011 resulting in total restoration costs of $34 million and $59 million, of which $23 million and $39 million were recorded in "Other operation and maintenance" on the Statement of Income. Although PPL Electric has storm insurance with a PPL affiliate, the costs associated with the unusually high number of PUC-reportable storms has exceeded policy limits. Probable insurance recoveries recorded during the three and nine months ended September 30, 2011 were $12 million and $26.5 million, of which $7 million and $16 million were included in "Other operation and maintenance" on the Statement of Income. In November 2011, PPL Electric filed with the PUC a request for permission to defer $15 to $20 million for future recovery of allowable storm-related costs. At the time PPL Electric seeks recovery of any deferred amount, its claim will be based on the actual costs, net of insurance recoveries. A regulatory asset, for the actual costs net of insurance recoveries, will be recorded at such time as an order is received from the PUC approving deferral of these costs.

In late October 2011, PPL Electric experienced significant damage to its transmission and distribution network from a severe snow storm. The costs associated with the restoration efforts are still being determined and are not included in the amounts disclosed above. PPL Electric will evaluate such costs, when quantified, and will likely file with the PUC for permission to defer certain of the costs incurred to repair the distribution network for future recovery. Costs incurred to repair the transmission network are recoverable through the FERC Formula Rate mechanism which is updated annually.

Transmission Service Charge Adjustment (PPL Electric)

During the three and nine months ended September 30, 2011, PPL Electric recorded a $7 million ($4 million after-tax) charge to "Retail electric" revenue on the Statement of Income to reduce a portion of the transmission service charge regulatory asset associated with a 2005 undercollection that was not included in any subsequent rate reconciliations filed with the PUC. PPL Electric plans to seek recovery with the PUC. However, management cannot assert at the present time that it is probable that the previously recorded regulatory asset will be recovered. The regulatory asset will be reinstated should the PUC approve recovery of these costs. The impact of this charge was not material to any previously reported financial statements and is not expected to be material to the financial statements for the full year of 2011.

Federal Matters

FERC Formula Rates (PPL and PPL Electric)

In May 2010, PPL Electric initiated the 2010 Annual Update of its formula rate. In November 2010, a group of municipal customers taking transmission service in PPL Electric's zone filed a preliminary challenge to the update, and in December 2010 they filed a formal challenge. In January 2011, PPL Electric filed a motion to dismiss a number of the challenges and submitted responses to all of the challenges. The group of municipal customers filed answers to PPL Electric's motion to dismiss and its responses to the formal challenge. In August 2011, the FERC issued an order rejecting the formal challenge and accepting PPL Electric's 2010 Annual Update; the group of municipal customers filed a request for rehearing of that order. In October 2011, the group of municipal customers filed a preliminary challenge to PPL Electric's 2011 Annual Update of its formula rate. PPL Electric will attempt to resolve the issues raised in this preliminary challenge. PPL Electric cannot predict the outcome of this proceeding which remains pending before the FERC.

International Activities *(PPL)*

U.K. Overhead Electricity Networks

In 2002, for safety reasons, the U.K. Government issued guidance that low voltage overhead electricity networks within three meters horizontal clearance of a building should either be insulated or relocated. This imposed a retroactive requirement on existing assets that were built with lower clearances. In 2008, the U.K. Government determined that the U.K. electricity network should comply with the issued guidance. WPD estimates that the cost of compliance will be approximately $124 million. The projected expenditures in the current regulatory period, April 1, 2010 through March 31, 2015, have been included in allowed revenues, and it is expected that expenditures beyond this five-year period (including WPD Midlands expenditures) will also be included in allowed revenues. The U.K. Government has determined that WPD (South Wales) and WPD Midlands should comply by 2015 and WPD (South West) by 2018.

To improve network reliability, the U.K. Government amended a regulation relating to safety and continuity of supply by adding an obligation which broadly requires, beginning January 31, 2009, network operators to implement a risk-based program to clear trees away from overhead lines. WPD estimates that the cost of compliance will be approximately $205 million over a 25-year period. The projected expenditures in the current regulatory period have been included in allowed revenues under the current price control review, and it is expected that expenditures beyond this five-year period will also be included in allowed revenues.

In addition to the above, WPD Midlands was not in compliance with earlier regulations pertaining to overhead line clearances as of the acquisition date. WPD Midlands expects to incur costs through 2015 to comply with these requirements that are not included in allowed revenues under the current price control review. In the three months ended September 30, 2011, WPD Midlands recorded a liability of $69 million associated with meeting these requirements as an opening balance sheet adjustment in accordance with accounting guidance for business combinations. See Note 8 for additional information.

New U.K. Pricing Model

The electricity distribution subsidiaries of WPD operate under distribution licenses and price controls granted and set by Ofgem for each of the distribution subsidiaries. The price control formula that governs allowed revenue is designed to provide economic incentives to minimize operating, capital and financing costs. The price control formula is normally determined every five years. Ofgem completed its review in December 2009 that became effective April 1, 2010 and will continue through March 31, 2015.

In October 2010, Ofgem announced a pricing model that will be effective for the U.K. electricity distribution sector beginning April 2015. The model, known as RIIO (Revenues = Incentives + Innovation + Outputs), is intended to encourage investment in regulated infrastructure. Key components of the model are: an extension of the price review period from five to eight years, increased emphasis on outputs and incentives, enhanced stakeholder engagement including network customers, a stronger incentive framework to encourage more efficient investment and innovation, expansion of the current Low Carbon Network Fund to stimulate innovation and continued use of a single weighted average cost of capital. At this time, management does not expect the impact of this pricing model to be significant to WPD's operating results.

7. Financing Activities

Credit Arrangements and Short-term Debt

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Credit facilities are maintained to enhance liquidity and provide credit support, and as a backstop to commercial paper programs, when necessary. The following credit facilities were in place at:

	September 30, 2011					December 31, 2010	
	Expiration Date	Capacity	Borrowed (a)	Letters of Credit Issued	Unused Capacity	Borrowed (a)	Letters of Credit Issued
PPL							
WPD Credit Facilities							
PPL WW Syndicated Credit Facility (b)	Jan. 2013	£ 150	£ 111	n/a	£ 39	£ 115	n/a
WPD (South West) Syndicated Credit Facility	July 2012	210		n/a	210		n/a
WPD (East Midlands) Syndicated Credit Facility (c)	Apr. 2016	300		£ 70	230	n/a	n/a
WPD (West Midlands) Syndicated Credit Facility (c)	Apr. 2016	300		71	229	n/a	n/a
Uncommitted Credit Facilities		81		3	78		£ 3
Total WPD Credit Facilities (d)		£ 1,041	£ 111	£ 144	£ 786	£ 115	£ 3
PPL Energy Supply (e)							
Syndicated Credit Facility (f)(l)	Dec. 2014	$ 3,000	$ 250	$ 132	$ 2,618	$ 350	
Letter of Credit Facility	Mar. 2013	200	n/a	76	124	n/a	$ 24
Structured Credit Facility (g)	Mar. 2011	n/a	n/a	n/a	n/a	n/a	161
Total PPL Energy Supply Credit Facilities		$ 3,200	$ 250	$ 208	$ 2,742	$ 350	$ 185
PPL Electric (e)							
Syndicated Credit Facility (l)	Dec. 2014	$ 200		$ 13	$ 187		$ 13
Asset-backed Credit Facility (h)	July 2012	150		n/a	150		n/a
Total PPL Electric Credit Facilities		$ 350		$ 13	$ 337		$ 13
LG&E (e) (i)							
Syndicated Credit Facility (j)(l)	Dec. 2014	$ 400			$ 400	$ 163	
KU (e) (i)							
Syndicated Credit Facility (j)(l)	Dec. 2014	$ 400			$ 400		$ 198
Letter of Credit Facility (k)	Apr. 2014	198	n/a	$ 198		n/a	n/a
Total KU Credit Facilities		$ 598		$ 198	$ 400		$ 198

(a) Amounts borrowed are recorded as "Short-term debt" on the Balance Sheets.

(b) The borrowing outstanding at September 30, 2011 was a USD-denominated borrowing of $178 million, which equated to £111 million at the time of borrowing and bore interest at approximately 1.05%.

(c) In April 2011, following the completion of the acquisition of WPD Midlands, WPD (East Midlands) and WPD (West Midlands) each entered into a £300 million 5-year syndicated credit facility. Under the facilities, WPD (East Midlands) and WPD (West Midlands) each have the ability to make cash borrowings and to request the lenders to issue up to £80 million of letters of credit in lieu of borrowing. Each company pays customary commitment and utilization fees under its respective facility, and borrowings generally bear interest at LIBOR-based rates plus a spread, depending upon the respective company's senior unsecured long-term debt rating. Each credit facility contains financial covenants that require the respective company to maintain an interest coverage ratio of consolidated earnings before interest, income taxes, depreciation and amortization to interest expense of at least 3.0 to 1 and total net debt not in excess of 85% of its RAV, in each case calculated in accordance with the credit facilities. An aggregate of $7 million in fees were incurred in connection with establishing these facilities.

(d) At September 30, 2011, the unused capacity of the WPD credit facilities was approximately $1.3 billion.

(e) All credit facilities at PPL Energy Supply, PPL Electric, LG&E and KU also apply to PPL on a consolidated basis for financial reporting purposes.

(f) The borrowings outstanding at September 30, 2011 bear interest at a weighted average rate of approximately 2.48%.

(g) In March 2011, PPL Energy Supply's $300 million Structured Credit Facility expired. PPL Energy Supply's obligations under this facility were supported by a $300 million letter of credit issued on PPL Energy Supply's behalf under a separate but related $300 million 5-year credit agreement, which also expired in March 2011.

(h) PPL Electric participates in an asset-backed commercial paper program through which PPL Electric obtains financing by selling and contributing its eligible accounts receivable and unbilled revenue to a special purpose, wholly owned subsidiary on an ongoing basis. The subsidiary has pledged these assets to secure loans from a commercial paper conduit sponsored by a financial institution.

At September 30, 2011 and December 31, 2010, $253 million and $248 million of accounts receivable and $81 million and $134 million of unbilled revenue were pledged by the subsidiary under the credit agreement related to PPL Electric's and the subsidiary's participation in the asset-backed commercial paper program. Based on the accounts receivable and unbilled revenue pledged at September 30, 2011, the amount available for borrowing under the facility was limited to $86 million. PPL Electric's sale to its subsidiary of the accounts receivable and unbilled revenue is an absolute sale of assets, and PPL Electric does not retain an interest in these assets. However, for financial reporting purposes, the subsidiary's financial results are consolidated in PPL Electric's financial statements. PPL Electric performs certain record-keeping and cash collection functions with respect to the assets in return for a servicing fee from the subsidiary.

In July 2011, PPL Electric and the subsidiary extended the expiration date of the credit agreement to July 2012.

(i) All credit facilities at LG&E and KU also apply to LKE on a consolidated basis for financial reporting purposes.

(j) In June 2011, these facilities were amended such that the fees and the spreads to benchmark interest rates for borrowings depend upon the respective company's senior secured long-term debt rating rather than the senior unsecured long-term debt rating.

(k) In April 2011, KU entered into a letter of credit facility that has been used to issue letters of credit to support outstanding tax-exempt bonds. The facility contains a financial covenant requiring KU's debt to total capitalization not to exceed 70%, as calculated in accordance with the credit facility. KU pays customary commitment and letter of credit fees under the new facility. In August 2011, KU amended its letter of credit facility such that the fees depend upon KU's senior secured long-term debt rating rather than its senior unsecured debt rating.

(l) In October 2011, PPL Energy Supply, PPL Electric, LG&E and KU each amended its respective syndicated credit facility. The amendments include extending the expiration dates from December 2014 to October 2016. Under these facilities, PPL Energy Supply, PPL Electric, LG&E and KU each continue to have the ability to make cash borrowings and to request the lenders to issue letters of credit.

(PPL and PPL Energy Supply)

PPL Energy Supply maintains a $500 million Facility Agreement expiring June 2017, whereby PPL Energy Supply has the ability to request up to $500 million of committed letter of credit capacity at fees to be agreed upon at the time of each request, based on certain market conditions. At September 30, 2011, PPL Energy Supply had not requested any capacity for the issuance of letters of credit under this arrangement.

PPL Energy Supply, PPL EnergyPlus, PPL Montour and PPL Brunner Island maintain an $800 million secured energy marketing and trading facility, whereby PPL EnergyPlus will receive credit to be applied to satisfy collateral posting obligations related to its energy marketing and trading activities with counterparties participating in the facility. The credit amount is guaranteed by PPL Energy Supply, PPL Montour and PPL Brunner Island. PPL Montour and PPL Brunner Island have granted liens on their respective generating facilities to secure any amount they may owe under their guarantees. The facility expires in November 2015, but is subject to automatic one-year renewals under certain conditions. There were no secured obligations outstanding under this facility at September 30, 2011.

In October 2011, PPL Energy Supply re-activated its $500 million commercial paper program to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by PPL Energy Supply's Syndicated Credit Facility. At November 4, 2011, PPL Energy Supply had $400 million of commercial paper outstanding at a weighted-average interest rate of approximately 0.51%, which was used to partially fund the repayment of PPL Energy Supply's 6.40% Senior Notes upon maturity discussed below.

(PPL and PPL Electric)

PPL Electric maintains a commercial paper program for up to $200 million to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by PPL Electric's Syndicated Credit Facility. PPL Electric had no commercial paper outstanding at September 30, 2011.

(PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

See Note 11 for discussion of intercompany borrowings.

2011 Bridge Facility *(PPL)*

In March 2011, concurrently and in connection with entering into the agreement to acquire WPD Midlands, PPL entered into a commitment letter with certain lenders pursuant to which the lenders committed to provide PPL with 364-day unsecured bridge financing of up to £3.6 billion solely to (i) fund the acquisition and (ii) pay certain fees and expenses in connection with the acquisition. The bridge financing commitment was subsequently syndicated to a group of banks, including the initial commitment lenders. Upon the syndication of the commitment, in March 2011, PPL Capital Funding and PPL WEM, as borrowers, and PPL, as guarantor, entered into the £3.6 billion 2011 Bridge Facility. During the nine months ended September 30, 2011, PPL incurred $43 million of fees in connection with establishing the 2011 Bridge Facility, which is reflected in "Interest Expense" on the Statement of Income.

On April 1, 2011, concurrent with the closing of the WPD Midlands acquisition, PPL Capital Funding borrowed an aggregate of £1.75 billion and PPL WEM borrowed £1.85 billion under the 2011 Bridge Facility. Borrowings bore interest at approximately 2.62%, determined by one-month LIBOR rates plus a spread based on PPL Capital Funding's senior unsecured debt rating and the length of time from the date of the acquisition closing that borrowings were outstanding. See Note 8 for additional information on the acquisition.

In accordance with the terms of the 2011 Bridge Facility, PPL Capital Funding's borrowings of £1.75 billion were repaid with approximately $2.8 billion of proceeds received from PPL's issuance of common stock and 2011 Equity Units in April 2011, as discussed in "Long-term Debt and Equity Securities" below. In April 2011, PPL WEM repaid £650 million of its 2011 Bridge Facility borrowing. Such repayment was funded primarily with proceeds received from PPL WEM's issuance of senior notes, which is also discussed below. In May 2011, PPL WEM repaid the remaining £1.2 billion of borrowings then-outstanding under the 2011 Bridge Facility, primarily with the proceeds from senior notes issued by WPD (East Midlands) and WPD (West Midlands), as described below.

In anticipation of the repayment of a portion of the borrowings under the 2011 Bridge Facility with U.S. dollar proceeds received from PPL's issuance of common stock and 2011 Equity Units and PPL WEM's issuance of U.S. dollar-denominated senior notes, PPL entered into forward contracts to purchase GBP in order to economically hedge the foreign currency exchange rate risk related to the repayment. See Note 14 for further discussion.

Long-term Debt and Equity Securities

(PPL)

In connection with the closing of the acquisition of WPD Midlands, PPL assumed, through consolidation, £250 million of Senior Notes due 2040 (2040 Notes) previously issued by WPD (East Midlands), and £250 million of Senior Notes due 2025 (2025 Notes) previously issued by WPD (West Midlands), equating to an aggregate principal amount of approximately $800 million at the time of closing. The interest rates on the notes are subject to adjustment into June 2012 in the event of a rating change on the notes. The 2040 Notes currently bear interest at 5.75%, and the 2025 Notes currently bear interest at 6.00%. The maximum rate of interest allowable under the adjustment provisions is 6.50% for the 2040 Notes and 6.25% for the 2025 Notes. The notes may be put by the holders back to the respective issuer for redemption if the long-term credit ratings assigned to the notes by Moody's or S&P are withdrawn by either of the rating agencies or reduced to a non-investment grade rating of Ba1 or BB+ in connection with a restructuring event. A restructuring event includes the loss of, or material adverse change to, the distribution license under which WPD (West Midlands) and WPD (East Midlands) operate.

In April 2011, PPL issued 92 million shares of its common stock at a public offering price of $25.30 per share, for a total of $2.328 billion. Proceeds from the issuance were $2.258 billion, net of the $70 million underwriting discount. PPL also issued 19.55 million 2011 Equity Units at a stated amount per unit of $50.00 for a total of $978 million. Proceeds from the issuance were $948 million, net of the $30 million underwriting discount. PPL used the net proceeds to repay PPL Capital Funding's borrowings under the 2011 Bridge Facility, as discussed above, to pay certain acquisition-related fees and expenses and for general corporate purposes.

Each 2011 Equity Unit consists of a 2011 Purchase Contract and, initially, a 5.0% undivided beneficial ownership interest in $1,000 principal amount of PPL Capital Funding 4.32% Junior Subordinated Notes due 2019 (2019 Notes).

Each 2011 Purchase Contract obligates the holder to purchase, and PPL to sell, for $50.00 a number of shares of PPL common stock to be determined by the average VWAP of PPL's common stock for the 20-trading day period ending on the third trading day prior to May 1, 2014, subject to antidilution adjustments and an early settlement upon a Fundamental Change as follows:

- if the average VWAP equals or exceeds approximately $30.99, then 1.6133 shares (a minimum of 31,540,015 shares);
- if the average VWAP is less than approximately $30.99 but greater than $25.30, a number of shares of common stock having a value, based on the average VWAP, equal to $50.00; and
- if the average VWAP is less than or equal to $25.30, then 1.9763 shares (a maximum of 38,636,665 shares).

If holders elect to settle the 2011 Purchase Contract prior to May 1, 2014, they will receive 1.6133 shares of PPL common stock, subject to antidilution adjustments and an early settlement upon a Fundamental Change.

A holder's ownership interest in the 2019 Notes is pledged to PPL to secure the holder's obligation under the related 2011 Purchase Contract. If a holder of a 2011 Purchase Contract chooses at any time no longer to be a holder of the 2019 Notes, such holder's obligation under the 2011 Purchase Contract must be secured by a U.S. Treasury security.

Each 2011 Purchase Contract also requires PPL to make quarterly contract adjustment payments at a rate of 4.43% per year on the $50.00 stated amount of the 2011 Equity Unit. PPL has the option to defer these contract adjustment payments until the 2011 Purchase Contract settlement date. Deferred contract adjustment payments will accrue additional contract adjustment payments at the rate of 8.75% per year until paid. Until any deferred contract adjustment payments have been paid, PPL may not declare or pay any dividends or distributions on, or redeem, purchase or acquire or make a liquidation payment with respect to, any of its capital stock, subject to certain exceptions.

The 2019 Notes are fully and unconditionally guaranteed by PPL as to payment of principal and interest. The 2019 Notes initially bear interest at 4.32% and are not subject to redemption prior to May 2016. Beginning May 2016, PPL Capital Funding may, at its option, redeem the 2019 Notes, in whole but not in part, at any time, at par plus accrued and unpaid interest. The 2019 Notes are expected to be remarketed in 2014 into two tranches, such that neither tranche will have an aggregate principal amount of less than the lesser of $250 million and 50% of the aggregate principal amount of the 2019 Notes to be remarketed. One tranche will mature on or about the third anniversary of the settlement of the remarketing, and the other tranche will mature on or about the fifth anniversary of such settlement. Upon a successful remarketing, the interest rate on the 2019 Notes may be reset and the maturity of the tranches may be modified as necessary. In connection with a remarketing, PPL Capital Funding may elect with respect to each tranche, to extend or eliminate the early redemption date and/or calculate interest on the notes of a tranche on a fixed or floating rate basis. If the remarketing fails, holders of the 2019 Notes will have the right to put their notes to PPL Capital Funding on May 1, 2014 for an amount equal to the principal amount plus accrued interest.

Prior to May 2016, PPL Capital Funding may elect at one or more times to defer interest payments on the 2019 Notes for one or more consecutive interest periods until the earlier of the third anniversary of the interest payment due date and May 2016. Deferred interest payments will accrue additional interest at a rate equal to the interest rate then applicable to the 2019 Notes. Until any deferred interest payments have been paid, PPL may not, subject to certain exceptions, (i) declare or pay any dividends or distributions on, or redeem, purchase or acquire or make a liquidation payment with respect to, any of its capital stock, (ii) make any payment of principal of, or interest or premium, if any, on, or repay, purchase or redeem any of its debt securities that upon its liquidation ranks equal with, or junior in interest to, the subordinated guarantee of the 2019 Notes by PPL as of the date of issuance and (iii) make any payments regarding any guarantee by PPL of securities of any of its subsidiaries (other than PPL Capital Funding) if the guarantee ranks equal with, or junior in interest to, the 2019 Notes as of the date of their issuance.

In the financial statements, the proceeds from the sale of the 2011 Equity Units were allocated to the 2019 Notes and the 2011 Purchase Contracts, including the obligation to make contract adjustment payments, based on the underlying fair value of each instrument at the time of issuance. As a result, the 2019 Notes were recorded at $978 million, which approximated fair value, as long-term debt. At the time of issuance, the present value of the contract adjustment payments of $123 million was recorded to other liabilities, representing the obligation to make contract adjustment payments, with an offsetting reduction to additional paid-in capital for the issuance of the 2011 Purchase Contracts, which approximated the fair value of each. The liability is being accreted through interest expense over the three-year term of the 2011 Purchase Contracts. The initial valuation of the contract adjustment payments is considered a non-cash transaction that is excluded from the Statement of Cash Flows in 2011. Costs to issue the 2011 Equity Units were primarily allocated on a relative cost basis, resulting in $25 million being recorded to "Additional paid-in capital" and $6 million being recorded to "Other noncurrent assets". See Note 4 for EPS considerations related to the 2011 Purchase Contracts.

Also in April 2011, PPL WEM issued $460 million of 3.90% Senior Notes due 2016 (2016 Notes) and $500 million of 5.375% Senior Notes due 2021 (2021 Notes). The 2016 Notes may be redeemed any time prior to maturity at PPL WEM's option at make-whole redemption prices. The 2021 Notes may be redeemed at PPL WEM's option at make-whole redemption prices until the date three months prior to maturity and at par thereafter. PPL WEM received proceeds of $953 million, net of discounts and underwriting fees, from the combined issuance of the notes. The net proceeds were used to repay a portion of PPL WEM's borrowing under the 2011 Bridge Facility as discussed above. In connection with the issuance of the senior notes, PPL WEM, through PPL, entered into cross currency interest rate swaps for the entire aggregate principal amount of each series of notes in order to hedge PPL WEM's risk of variability in the GBP functional currency equivalent cash flows related to its U.S. dollar interest and principal payments on the notes.

In May 2011, WPD (West Midlands) issued £800 million of 5.75% Senior Notes due 2032 (2032 Notes) and WPD (East Midlands) issued £600 million of 5.25% Senior Notes due 2023 (2023 Notes). WPD (West Midlands) and WPD (East Midlands) collectively received proceeds of £1.4 billion, which equated to $2.2 billion at the time of issuance, net of discounts and underwriting fees, from the combined debt issuances. A portion of the net proceeds were dividended to PPL WEM and used to repay the remaining balance of PPL WEM's borrowing under the 2011 Bridge Facility in May 2011 as discussed above. The balance of the net proceeds have been or will be used to pre-fund certain capital expenditures and for other general corporate purposes.

In June 2011, WPD (East Midlands) issued £100 million of Index-Linked Notes due 2043 (2043 Notes). The principal amount of the 2043 Notes is adjusted based on changes in a specified index, as detailed in the terms of the notes. WPD (East Midlands) received proceeds of £99 million, which equated to $163 million at the time of issuance, net of discounts and underwriting fees, from the issuance of the 2043 Notes. The majority of the net proceeds were used to repay short-term debt.

The 2032 Notes, the 2023 Notes, and the 2043 Notes may be put by the holders back to the respective issuer for redemption if the long-term credit ratings assigned to the notes by Moody's or S&P are withdrawn by either of the rating agencies or reduced to a non-investment grade rating of Ba1 or BB+ in connection with a restructuring event. A restructuring event includes the loss of, or material adverse change to, the distribution license under which WPD (West Midlands) and WPD (East Midlands) operate.

(PPL and PPL Energy Supply)

In July 2011, PPL Energy Supply redeemed at par the entire $250 million aggregate principal amount of its 7.00% Senior Notes due 2046. PPL Energy Supply recorded a loss of $7 million, which is reflected in "Interest Expense" on the Statements of Income for 2011, as a result of accelerating the amortization of deferred financing fees in connection with the redemption.

In November 2011, PPL Energy Supply repaid the entire $500 million principal amount of its 6.40% Senior Notes upon maturity.

(PPL and PPL Electric)

In July 2011, PPL Electric issued $250 million of 5.20% First Mortgage Bonds due 2041. The bonds may be redeemed at PPL Electric's option at make-whole redemption prices until the date six months prior to maturity and at par thereafter. PPL Electric received proceeds of $246 million, net of discounts and underwriting fees. The net proceeds have been or will be used for capital expenditures and other general corporate purposes.

Also in July 2011, PPL Electric redeemed the entire $400 million aggregate principal amount of its 7.125% Senior Secured Bonds due 2013 for $458 million, plus accrued interest. PPL Electric recorded a regulatory asset for the redemption premium and unamortized financing costs associated with this debt. See Note 6 for additional information.

In August 2011, PPL Electric issued $400 million of 3.00% First Mortgage Bonds due 2021. The bonds may be redeemed at PPL Electric's option at make-whole redemption prices until the date three months prior to maturity and at par thereafter. PPL Electric received proceeds of $394 million, net of discounts and underwriting fees. The net proceeds were used to repay $250 million of short-term debt and to replenish cash used to redeem the 7.125% Senior Secured Bonds due 2013 in July 2011, as discussed above.

(PPL and LKE)

In September 2011, LKE issued $250 million of 4.375% Senior Notes due 2021. The notes were issued in a private offering to qualified institutional buyers and other transactions not subject to registration requirements under the Securities Act of 1933. In connection with the issuance, LKE entered into a registration rights agreement with representatives of the initial purchasers of the notes, pursuant to which LKE agreed to file, by late April 2012, a registration statement to exchange such notes for securities containing substantially identical terms (except for certain transfer restrictions), or in certain cases to file, by late April 2012, a registration statement covering resale of the notes. LKE also agreed, under its registration rights agreement, to (i) use its commercially reasonable efforts to cause the registration statement to be declared effective under the Securities Act by late July 2012 and (ii) upon effectiveness of the registration statement, take certain actions to promptly exchange the notes or, in the case of a registration statement covering resale of the notes, keep the registration statement effective until no later than late September 2012. Pursuant to the registration rights agreement, LKE may be required to pay liquidated damages if it does not meet certain requirements under its registration rights agreement. Liquidated damages will generally accrue with respect to the principal amount of the notes at a rate of 0.25% per annum for the first 90 days from and including the date on which a default specified under the registration rights agreement occurs, and increase by an additional 0.25% per annum thereafter, provided that the liquidated damages rate shall not at any time exceed 0.50% per annum.

Liquidated damages will cease to accrue when all registration defaults under the registration rights agreement have been cured, or if earlier, upon the redemption by the issuer or maturity of the notes.

The notes may be redeemed at LKE's option at make-whole redemption prices until the date three months prior to maturity and at par thereafter. LKE received proceeds of $248 million, net of discounts and underwriting fees. The net proceeds have been used to make a return of capital to PPL.

(PPL, LKE, LG&E and KU)

In April 2011, LKE, LG&E and KU each filed 2011 Registration Statements with the SEC, as agreed in registration rights agreements entered into in connection with the issuances of senior notes (in the case of LKE) and first mortgage bonds (in the case of LG&E and KU) in November 2010 in transactions not registered under the Securities Act of 1933. See Note 7 in PPL's 2010 Form 10-K for additional information on the original debt issuances. The 2011 Registration Statements relate to offers by the respective issuers to exchange the senior notes and first mortgage bonds issued in November 2010 with similar but registered securities. The 2011 Registration Statements became effective in June 2011, and the exchanges were completed in July 2011, with substantially all of LKE's senior notes and LG&E's and KU's first mortgage bonds being exchanged.

(PPL, LKE and LG&E)

In January 2011, LG&E remarketed $163 million of variable rate tax-exempt revenue bonds, which were issued on its behalf by Louisville/Jefferson County, Kentucky, to unaffiliated investors in a term rate mode, bearing interest at 1.90% into 2012. At December 31, 2010, such bonds were held by LG&E and reflected as "Short-term investments" on the Balance Sheet. The proceeds from the remarketing were used to repay a $163 million borrowing under LG&E's syndicated credit facility.

Legal Separateness

(PPL, PPL Energy Supply, PPL Electric and LKE)

The subsidiaries of PPL are separate legal entities. PPL's subsidiaries are not liable for the debts of PPL. Accordingly, creditors of PPL may not satisfy their debts from the assets of PPL's subsidiaries absent a specific contractual undertaking by a subsidiary to pay PPL's creditors or as required by applicable law or regulation. Similarly, absent a specific contractual undertaking or as required by applicable law or regulation, PPL is not liable for the debts of its subsidiaries, nor are its subsidiaries liable for the debts of one another. Accordingly, creditors of PPL's subsidiaries may not satisfy their debts from the assets of PPL or its other subsidiaries absent a specific contractual undertaking by PPL or its other subsidiaries to pay the creditors or as required by applicable law or regulation.

Similarly, the subsidiaries of PPL Energy Supply, PPL Electric and LKE are each separate legal entities. These subsidiaries are not liable for the debts of PPL Energy Supply, PPL Electric and LKE. Accordingly, creditors of PPL Energy Supply, PPL Electric and LKE may not satisfy their debts from the assets of their subsidiaries absent a specific contractual undertaking by a subsidiary to pay the creditors or as required by applicable law or regulation. Similarly, absent a specific contractual undertaking or as required by applicable law or regulation, PPL Energy Supply, PPL Electric and LKE are not liable for the debts of their subsidiaries, nor are their subsidiaries liable for the debts of one another. Accordingly, creditors of these subsidiaries may not satisfy their debts from the assets of PPL Energy Supply, PPL Electric and LKE (or their other subsidiaries) absent a specific contractual undertaking by that parent or other subsidiary to pay such creditors or as required by applicable law or regulation.

Distributions and Capital Contributions

(PPL)

In August 2011, PPL declared its quarterly common stock dividend, payable October 1, 2011, at 35.0 cents per share (equivalent to $1.40 per annum). Future dividends, declared at the discretion of the Board of Directors, will be dependent upon future earnings, cash flows, financial and legal requirements and other factors.

(PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

During the nine months ended September 30, 2011 the following distributions and capital contributions occurred:

	PPL Energy Supply	PPL Electric	LKE	LG&E	KU
Dividends/distributions paid to parent/member	$ 209 (a)	$ 76	$ 469	$ 55	$ 88
Capital contributions received from parent/member	361	56			

(a) In addition to the cash distributions paid, in January 2011, PPL Energy Supply distributed its membership interest in PPL Global to its parent company, PPL Energy Funding. See Note 8 for additional information.

8. Acquisitions, Development and Divestitures

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

PPL continuously evaluates potential acquisitions, divestitures and development projects as opportunities arise or are identified. Development projects are continuously reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options. Any resulting transactions may impact future financial results. See below for information on PPL's acquisitions of WPD Midlands and LKE, PPL Energy Supply's distribution of its membership interest in PPL Global to its parent, PPL Energy Funding, that was presented as discontinued operations by PPL Energy Supply and the sales of businesses that were presented as discontinued operations by PPL and PPL Energy Supply.

Acquisitions

Acquisition of WPD Midlands *(PPL)*

On April 1, 2011, PPL, through its indirect, wholly owned subsidiary PPL WEM, completed its acquisition of all of the outstanding ordinary share capital of Central Networks East plc and Central Networks Limited, the sole owner of Central Networks West plc, together with certain other related assets and liabilities (collectively referred to as Central Networks and subsequently renamed WPD Midlands), from subsidiaries of E.ON AG. The consideration for the acquisition consisted of cash of $5.8 billion, including the repayment of $1.7 billion of affiliate indebtedness owed to subsidiaries of E.ON AG, and approximately $800 million of long-term debt assumed through consolidation. WPD Midlands' regulated distribution operations serve five million end users in the Midlands area of England. The acquisition increases the regulated portion of PPL's business and enhances rate-regulated growth opportunities as the regulated businesses make investments to improve infrastructure and customer reliability. Further, the service territories of WPD (South Wales), WPD (South West) and WPD Midlands are contiguous and cost savings, efficiencies and other benefits are expected from the combined operations.

The fair value of the consideration paid for Central Networks was as follows (in billions):

Aggregate enterprise consideration	$ 6.6
Less: fair value of long-term debt outstanding assumed through consolidation	0.8
Total cash consideration paid	5.8
Less: funds made available to Central Networks to repay pre-acquisition affiliate indebtedness	1.7
Cash consideration paid for Central Networks' outstanding ordinary share capital	$ 4.1

The total cash consideration paid was primarily funded by borrowings under the 2011 Bridge Facility on the date of acquisition. Subsequently, PPL repaid the borrowings under the 2011 Bridge Facility using proceeds from the permanent financing, including April 2011 issuances of common stock and 2011 Equity Units, and proceeds from the issuance of debt by PPL WEM, WPD (East Midlands) and WPD (West Midlands) in the second quarter of 2011. See Note 7 for additional information on the 2011 Bridge Facility and permanent financing.

Preliminary Purchase Price Allocation

The following table summarizes (in billions) the preliminary allocation of the purchase price to the fair value of the major classes of assets acquired and liabilities assumed.

Current assets (a)	$	0.2
PP&E		4.9
Intangible assets (b)		0.1
Other noncurrent assets		0.1
Current liabilities (c) (d)		(0.5)
PPL WEM affiliate indebtedness		(1.7)
Long-term debt (current and noncurrent) (c)		(0.8)
Other noncurrent liabilities (c) (d)		(0.6)
Net identifiable assets acquired		1.7
Goodwill		2.4
Net assets acquired	$	4.1

(a) Includes gross contractual amount of the accounts receivable acquired of $119 million, which approximates fair value.
(b) Intangible assets recorded include $88 million of easements, which have an indefinite life, and $11 million of customer contracts, which have a weighted-average amortization period of 10 years.
(c) Represents non-cash activity excluded from the Statement of Cash Flows for the nine months ended September 30, 2011.
(d) In the third quarter of 2011, the preliminary purchase price allocation, as of the acquisition date, was adjusted to record a $77 million liability primarily for costs expected to be paid in order for WPD Midlands to become compliant with regulations pertaining to overhead line clearances. See Note 6 for additional information.

The purchase price allocation is preliminary and could change materially in subsequent periods. The preliminary purchase price allocation was based on PPL's best estimates using information obtained as of the reporting date. Any changes to the purchase price allocation during the measurement period, which can extend up to one year from the date of acquisition, that result in material changes to the consolidated financial results will be adjusted retrospectively. The final purchase price allocation is expected to be completed before the end of 2011. The items pending finalization include, but are not limited to, the valuation of PP&E, intangible assets including goodwill, defined benefit plans, certain liabilities and income tax-related matters.

The preliminary purchase price allocation resulted in goodwill of $2.4 billion that was assigned to the International Regulated segment. This reflects the expected continued growth of a rate-regulated business with a defined service area operating under a constructive regulatory framework, expected cost savings, efficiencies and other benefits resulting from a contiguous service area with WPD (South West) and WPD (South Wales) and the ability to leverage WPD (South West)'s and WPD (South Wales)'s existing management team's high level of performance in capital cost efficiency, system reliability and customer service. The goodwill is not deductible for U.K. income tax purposes.

Separation Benefits - International Regulated Segment

In connection with the acquisition of WPD Midlands, PPL initiated a reorganization designed to transition the WPD Midlands companies to the same operating structure as WPD (South West) and WPD (South Wales). The reorganization, which is expected to be completed in 2012, is intended to transition WPD Midlands from a functional structure to a regional structure that will require a smaller combined support structure, reduce duplication and implement more efficient procedures. Approximately 740 employees of WPD Midlands will receive separation benefits from the companies as a result of the reorganization.

The separation benefits, before income taxes, associated with the reorganization are as follows:

Severance compensation	$	58
Early retirement deficiency costs (ERDC) under applicable pension plans		43
Outplacement services		1
Total separation benefits	$	102

WPD Midlands recorded $84 million of the total expected separation benefits in the three and nine months ended September 30, 2011, of which $41 million relates to severance compensation and $43 million relates to ERDC. WPD Midlands expects to record the remaining portion of severance compensation, based on the expected timing of when employees will separate from the companies, as follows: an estimated $6 million in the fourth quarter of 2011 and an estimated $11 million in 2012. The separation benefits recorded in the three and nine months ended September 30, 2011 are included in "Other operation and maintenance" on the Statement of Income. The accrued severance compensation is reflected in "Other current liabilities" and the ERDC reduced "Other noncurrent assets" on the Balance Sheet at September 30, 2011.

These amounts do not include $9 million recorded in the nine months ended September 30, 2011 for ERDC payable under applicable pension plans and severance compensation for certain employees who separated from the WPD Midlands companies, but were not part of the reorganization. These separation benefits are also included in "Other operation and maintenance" on the Statement of Income.

Pro forma Information

The actual WPD Midlands operating revenues, net income and net income excluding nonrecurring acquisition-related adjustments (which are recorded on a one-month lag) included in PPL's Statement of Income and included in the International Regulated segment, for both periods ended September 30, 2011 were as follows.

	Three Months	Nine Months
Operating revenues	$ 292	$ 499
Net Income	56	63
Net Income - excluding nonrecurring acquisition-related adjustments	118	183

The pro forma operating revenues and net income attributable to PPL for the periods ended September 30, which includes LKE as if the acquisition had occurred January 1, 2009 and WPD Midlands as if the acquisition had occurred January 1, 2010, are as follows.

	Three Months		Nine Months	
	2011	2010	2011	2010
Operating Revenues - PPL consolidated pro forma	$ 3,115	$ 3,149	$ 8,905	$ 9,500
Net Income Attributable to PPL - PPL consolidated pro forma	497	489	1,306	1,062

The pro forma financial information presented above has been derived from the historical consolidated financial statements of PPL and LKE, which was acquired on November 1, 2010, and from the historical combined financial statements of WPD Midlands. Income (loss) from discontinued operations (net of income taxes), which was not significant for the three and nine months ended September 30, 2011 and which was $(53) million and $(40) million for the three and nine months ended September 30, 2010, was excluded from the pro forma amounts above.

The pro forma adjustments include adjustments to depreciation, net periodic pension costs, interest expense, nonrecurring adjustments and the related income tax effects. Nonrecurring adjustments include the following pre-tax credits (expenses):

	Income Statement Line Item	Three Months 2011	Three Months 2010	Nine Months 2011	Nine Months 2010
WPD Midlands acquisition					
2011 Bridge Facility costs	Interest Expense			$ (43)	
Foreign currency loss on 2011 Bridge Facility	Other Income (Expense) - net			(57)	
Net hedge gains	Other Income (Expense) - net			55	
Hedge ineffectiveness	Interest Expense			(12)	
U.K. stamp duty tax	Other Income (Expense) - net			(21)	
Separation benefits	Other operation and maintenance	$ (86)		(92)	
Other acquisition-related costs	(a)	2		(45)	
LKE acquisition					
2010 Bridge Facility costs	Interest Expense		$ (45)		$ (67)
Other acquisition-related costs	Other Income (Expense) - net		(4)		(11)

(a) Primarily includes advisory, accounting and legal fees recorded in "Other Income (Expense) - net."

Acquisition of LKE *(PPL, LKE, LG&E and KU)*

See Notes 1 and 10 in PPL's 2010 Form 10-K and Note 2 in the annual financial statements included in the 2011 Registration Statements (in the case of LKE, LG&E and KU) for information on PPL's November 2010 acquisition of LKE.

Pending Bluegrass Plant Acquisition *(PPL, LKE, LG&E and KU)*

In September 2011, LG&E and KU entered into an Asset Purchase Agreement (APA) with Bluegrass Generation Company, L.L.C. for the purchase of three existing natural gas simple cycle combustion units in LaGrange, Kentucky, aggregating approximately 495 MW, plus limited associated contractual arrangements required for operation of the plant (collectively, the Bluegrass Plant), for a purchase price of $110 million. Pursuant to the APA, LG&E and KU will jointly acquire the Bluegrass Plant as tenants in common, with LG&E as owner of a 69% undivided interest, and KU as owner of a 31% undivided interest, in the purchased assets. The purchase is subject to receipt of approvals from the KPSC, the VSCC, the FERC, certain permit assignments or local approvals, and other conditions. Either party can terminate the APA should a closing of the purchase transaction fail to have occurred by June 30, 2012.

Development

(PPL, LKE, LG&E and KU)

NGCC Construction

In September 2011, LG&E and KU requested KPSC approval to build a 640 MW NGCC at the existing Cane Run site in Kentucky. Once all approvals are received, construction on an NGCC at Cane Run is expected to begin in 2012, with construction expected to be complete by 2016. This project is also subject to regulatory approval from the VSCC. The project has an expected cost of $583 million, which includes costs of building a natural gas supply pipeline. See Note 6 for additional information.

In conjunction with this request, LG&E and KU anticipate retiring three older coal-fired electric generating stations to meet new, stricter federal EPA regulations. These stations include Cane Run, Tyrone and Green River, which have a combined summer rating of 797 MW. The Cane Run and Green River coal units will need to remain operational until the replacement generation and associated transmission projects are completed.

TC2

In January 2011, LKE began dispatching electricity from TC2 to meet customer demand. See Note 10 in this Form 10-Q, Notes 8 and 15 in PPL's 2010 Form 10-K and Note 13 in the annual financial statements included in the 2011 Registration Statements (in the case of LKE, LG&E and KU) for additional information.

(PPL and PPL Energy Supply)

Susquehanna Uprate Project

In 2008, PPL Susquehanna received NRC approval for its request to increase the generation capacity of the Susquehanna nuclear plant. The project was completed in phases over several years. PPL Susquehanna's share of the total expected capacity increase was approximately 195 MW. The final phase of the project, a 50 MW Unit 2 uprate, was completed in the third quarter of 2011.

Bell Bend COLA

The NRC continues to review the COLA submitted by a PPL Energy Supply subsidiary for the proposed Bell Bend nuclear generating unit to be built adjacent to the Susquehanna plant. PPL has made no decision to proceed with construction of Bell Bend and expects that such decision will not be made for several years given the anticipated lengthy NRC license approval process. Additionally, PPL has announced that it does not expect to proceed with construction absent favorable economics, a joint arrangement with other interested parties and a federal loan guarantee or other acceptable financing. PPL and its subsidiaries are currently authorized by PPL's Board of Directors to spend up to $144 million on the COLA and other permitting costs (including land costs) necessary for construction. At September 30, 2011 and December 31, 2010, $124 million and $109 million of costs associated with the licensing application were capitalized and are included on the Balance Sheets in noncurrent "Other intangibles." PPL believes it is probable that these costs are ultimately recoverable following NRC approval of the COLA either through construction of the new nuclear unit, transfer of the COLA rights to a joint venture, or sale of the COLA rights to another party. The PPL Energy Supply subsidiary remains active in the DOE Federal loan guarantee application process. See Note 8 in PPL's 2010 Form 10-K and Note 5 in PPL Energy Supply's Form 8-K dated June 24, 2011 for additional information.

(PPL and PPL Electric)

Susquehanna-Roseland Transmission Line

PPL Electric has experienced delays in obtaining necessary National Park Service approvals for the Susquehanna-Roseland transmission line and anticipates a delay of the line's in-service date to 2015. In the first quarter of 2011, PJM issued an updated assessment of the new line within its 2010 Regional Transmission Expansion Plan, which confirms that the line is needed by 2012 to prevent overloads on other power lines in the region. PJM has developed a strategy to manage potential reliability problems until the line is built. In October 2011, the project was placed on the initial list of projects for the Rapid Response Team for Transmission (RRTT), an initiative of the White House to facilitate coordination among federal agencies to improve the overall quality and timeliness of electric transmission infrastructure permitting, review and consultation. The National Park Service record of decision for the project is scheduled to be issued on October 1, 2012. PPL Electric cannot predict what additional actions, if any, PJM might take in the event of a continued delay to its scheduled in-service date for the new line. See Note 8 in each Registrant's 2010 Form 10-K for additional information.

Discontinued Operations

(PPL and PPL Energy Supply)

Sale of Certain Non-core Generation Facilities

In March 2011, PPL Energy Supply subsidiaries completed the sale of their ownership interests in certain non-core generation facilities, which were included in the Supply segment, for $381 million. The transaction included the natural gas-fired facilities in Wallingford, Connecticut and University Park, Illinois and an equity interest in Safe Harbor Water Power Corporation, which owns a hydroelectric facility in Conestoga, Pennsylvania. In connection with the completion of the sale, PPL Energy Supply recorded insignificant losses in the first and second quarters of 2011.

These non-core generation facilities met the held for sale criteria in the third quarter of 2010. As a result, assets with a carrying amount of $473 million were written down to their estimated fair value (less cost to sell) of $377 million at September 30, 2010, resulting in a pre-tax impairment charge of $96 million ($58 million after tax). In addition, $5 million ($4 million after tax) of allocated goodwill was written off in the third quarter of 2010. These charges are included in "Income (Loss) from Discontinued Operations (net of income taxes)" on the Statement of Income for the three and nine months ended September 30, 2010.

Following are the components of Discontinued Operations in the Statements of Income for the periods ended September 30.

	Three Months		Nine Months	
	2011	2010	2011	2010
Operating revenues		$ 34	$ 19	$ 91
Operating expenses (a)		118	11	147
Operating income (loss)		(84)	8	(56)
Other income (expense) - net		1		2
Interest expense (b)		2	3	5
Income before income taxes		(85)	5	(59)
Income tax expense		(32)	3	(21)
Income (Loss) from Discontinued Operations		$ (53)	$ 2	$ (38)

(a) 2010 includes the impairment to the carrying value of the generation facilities being sold and the write-off of allocated goodwill.
(b) Represents allocated interest expense based upon debt attributable to the generation facilities sold.

Upon completion of the sale, assets primarily consisting of $357 million of PP&E and a $14 million equity method investment, which were classified as held for sale at December 31, 2010, were removed from the Balance Sheet.

Sale of Long Island Generation Business

In February 2010, PPL Energy Supply subsidiaries completed the sale of the Long Island generation business, which was included in the Supply segment. The definitive sales agreement included provisions that reduced the $135 million purchase price monthly, commencing September 1, 2009. After adjusting for these price-reduction provisions, proceeds from the sale approximated $124 million. There was no significant impact on earnings in the nine months ended September 30, 2010 from the operation of this business or as a result of this sale.

Distribution of Membership Interest in PPL Global to Parent *(PPL Energy Supply)*

In January 2011, PPL Energy Supply distributed its 100% membership interest in PPL Global, which represented the entire International Regulated segment, to PPL Energy Supply's parent, PPL Energy Funding. The distribution was made based on the book value of the assets and liabilities of PPL Global with financial effect as of January 1, 2011, and no gains or losses were recognized on the distribution. The purpose of the distribution was to better align PPL's organizational structure with the manner in which it manages these businesses, separating the U.S.-based competitive energy marketing and supply business from the U.K.-based regulated electricity distribution business. Following the distribution, PPL Energy Supply operates in a single business segment, and through its subsidiaries is primarily engaged in the generation and marketing of power, primarily in the northeastern and northwestern U.S.

Following are the components of Discontinued Operations in the Statement of Income for the periods ended September 30, 2010.

	Three Months	Nine Months
Operating revenues	$ 172	$ 563
Operating expenses	84	260
Operating income	88	303
Other income (expense) - net		2
Interest expense (a)	37	101
Income before income taxes	51	204
Income tax expense	(55)	(23)
Income (Loss) from Discontinued Operations	$ 106	$ 227

(a) No interest was allocated, as PPL Global is sufficiently capitalized.

In connection with the distribution, the following assets and liabilities were removed from PPL Energy Supply's Balance Sheet in the first quarter of 2011. Except for "Cash and cash equivalents," which has been reflected as a financing activity, the remaining distribution represents a non-cash transaction excluded from PPL Energy Supply's Statement of Cash Flows for the nine months ended September 30, 2011.

Cash and cash equivalents	$ 325
Accounts receivable	46
Unbilled revenues	70
Other current assets	21
PP&E, net	3,502
Goodwill	679
Other intangibles	80
Other noncurrent assets	77
Total Assets	4,800
Short-term debt	181
Accounts payable	86
Accrued interest	71
Other current liabilities	112
Long-term debt	2,313
Deferred income tax liabilities - noncurrent	399
Accrued pension obligations	320
Other deferred credits and noncurrent liabilities	30
Total Liabilities	3,512
Net assets distributed	$ 1,288

9. Defined Benefits

(PPL, PPL Energy Supply, LKE and LG&E)

Following are the net periodic defined benefit costs (credits) of the plans sponsored by the registrants for the periods ended September 30:

	Pension Benefits							
	Three Months				Nine Months			
	U.S.		U.K.		U.S.		U.K.	
	2011	2010	2011	2010	2011	2010	2011	2010
PPL								
Service cost	$ 24	$ 15	$ 14	$ 4	$ 71	$ 45	$ 31	$ 13
Interest cost	54	37	88	38	163	111	200	113
Expected return on plan assets	(61)	(43)	(103)	(51)	(184)	(131)	(243)	(150)
Amortization of:								
Prior service cost	6	5	1	1	18	15	3	3
Actuarial (gain) loss	7		15	12	21	2	44	36
Net periodic defined benefit costs (credits) prior to termination benefits	30	14	15	4	89	42	35	15
Termination benefits (a)			45				47	
Net periodic defined benefit costs (credits)	$ 30	$ 14	$ 60	$ 4	$ 89	$ 42	$ 82	$ 15
PPL Energy Supply								
Service cost	$ 1	$ 1		$ 4	$ 3	$ 3		$ 13
Interest cost	1	2		38	5	5		113
Expected return on plan assets	(2)	(1)		(51)	(6)	(4)		(150)
Amortization of:								
Prior service cost				1				3
Actuarial (gain) loss	1			12	2	1		36
Net periodic defined benefit costs (credits)	$ 1	$ 2		$ 4	$ 4	$ 5		$ 15

(a) WPD Midlands recorded early retirement deficiency costs payable under applicable pension plans related to employees leaving the WPD Midlands companies. See Note 8 for additional information.

	Pension Benefits			
	Three Months		Nine Months	
	2011	2010	2011	2010
	Successor	Predecessor	Successor	Predecessor
LKE				
Service cost	$ 6	$ 6	$ 18	$ 16
Interest cost	16	16	50	48
Expected return on plan assets	(16)	(15)	(48)	(42)
Amortization of:				
Prior service cost	2	2	4	6
Actuarial (gain) loss	6	5	17	15
Net periodic defined benefit costs (credits)	$ 14	$ 14	$ 41	$ 43
LG&E				
Service cost			$ 1	$ 1
Interest cost	$ 4	$ 4	11	11
Expected return on plan assets	(4)	(4)	(13)	(12)
Amortization of:				
Prior service cost		1	1	2
Actuarial (gain) loss	3	2	9	6
Net periodic defined benefit costs (credits)	$ 3	$ 3	$ 9	$ 8

	Other Postretirement Benefits			
	Three Months		Nine Months	
	2011	2010	2011	2010
PPL				
Service cost	$ 3	$ 2	$ 9	$ 6
Interest cost	9	6	25	20
Expected return on plan assets	(6)	(5)	(17)	(15)
Amortization of:				
Transition obligation		1	1	5
Prior service cost				4
Actuarial cost	1	2	4	4
Net periodic defined benefit costs (credits)	$ 7	$ 6	$ 22	$ 24

	Other Postretirement Benefits			
	Three Months		Nine Months	
	2011	2010	2011	2010
	Successor	Predecessor	Successor	Predecessor
LKE				
Service cost	$ 1	$ 1	$ 3	$ 3
Interest cost	3	3	8	8
Expected return on plan assets	(1)	(1)	(3)	(2)
Amortization of:				
Transition obligation		1	1	1
Prior service cost	1		2	1
Net periodic defined benefit costs (credits)	$ 4	$ 4	$ 11	$ 11

(PPL Energy Supply)

See Note 8 for information on PPL Energy Supply's January 2011 distribution of its membership interest in PPL Global to its parent, PPL Energy Funding, which included associated accrued pension obligations.

(PPL Energy Supply and PPL Electric)

In addition to the specific plans it sponsors, PPL Energy Supply and its subsidiaries are allocated costs of PPL Services-sponsored defined benefit plans, which management believes are reasonable, based on their participation in those plans. PPL Electric does not directly sponsor any defined benefit plans. PPL Electric is allocated costs of PPL Services-sponsored defined benefit plans, which management believes are reasonable, based on its participation in those plans. PPL Services allocated the following net periodic benefit costs to PPL Energy Supply and PPL Electric, including amounts applied to accounts that are further distributed between capital and expense for the periods ended September 30.

	Three Months		Nine Months	
	2011	2010	2011	2010
PPL Energy Supply	$ 8	$ 7	$ 23	$ 25
PPL Electric	6	7	18	21

(LG&E and KU)

In addition to the specific plan it sponsors, LG&E is allocated costs of LKE-sponsored defined benefit plans, which management believes are reasonable, based on its participation in those plans. KU does not directly sponsor any defined benefit plans. KU is allocated costs of LKE-sponsored defined benefit plans, which management believes are reasonable, based on its participation in those plans. LKE allocated the following net periodic benefit costs to LG&E and KU, including amounts applied to accounts that are further distributed between capital and expense for the periods ended September 30.

	Three Months		Nine Months	
	2011	2010	2011	2010
	Successor	Predecessor	Successor	Predecessor
LG&E	$ 6	$ 5	$ 17	$ 16
KU	9	8	27	25

Expected Cash Flows - U.K. Pension Plans

(PPL)

During 2011, WPD updated its expected pension contributions for 2011 to $111 million from the $15 million expected contributions disclosed in PPL's 2010 Form 10-K. The updated contributions reflect $27 million of contributions required to fund the acquired WPD Midlands' plan and $69 million of increased PPL WW contributions to prepay future contribution requirements to fund pension plan deficits. As of September 30, 2011, WPD had contributed $102 million to its plans.

In addition, during 2011 WPD Midlands expects to contribute $43 million to fund the early retirement deficiency costs provided as part of the reorganization of WPD Midlands. See Note 8 for additional information.

Health Care Reform *(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

In March 2010, Health Care Reform was signed into law. Many provisions of Health Care Reform do not take effect for an extended period of time, and most will require the publication of implementing regulations and/or issuance of program guidelines.

Beginning in 2013, provisions within Health Care Reform eliminated the tax deductibility of retiree health care costs to the extent of federal subsidies received by plan sponsors that provide retiree prescription drug benefits equivalent to Medicare Part D Coverage. As a result, in the first quarter of 2010, PPL and its subsidiaries recorded the following adjustments and will continue to monitor the potential impact of any changes to the existing provisions and implementation guidance related to Health Care Reform on their benefit programs.

(PPL, PPL Energy Supply, PPL Electric)

- PPL decreased deferred tax assets by $13 million, increased regulatory assets by $9 million, increased deferred tax liabilities by $4 million and recorded income tax expense of $8 million;
- PPL Energy Supply decreased deferred tax assets by $5 million and recorded income tax expense of $5 million; and
- PPL Electric decreased deferred tax assets by $5 million, increased regulatory assets by $9 million and increased deferred tax liabilities by $4 million.

(LKE, LG&E and KU)

- LKE and KU recorded insignificant amounts as a result of this enactment. LG&E was not impacted.

10. Commitments and Contingencies

Energy Purchase Commitments

(PPL, LKE, LG&E and KU)

LG&E and KU have a power purchase agreement with OVEC, extended in February 2011 to June 2040. FERC approval of the extension was received in May 2011, followed by KPSC and VSCC approvals in August 2011. Pursuant to the OVEC power purchase contract, LG&E and KU are responsible for their pro-rata share of certain obligations of OVEC under defined circumstances. These potential liabilities include unpaid OVEC indebtedness as well as shortfall amounts in certain excess decommissioning costs and other post-employment and post-retirement benefit costs other than pension. LKE's proportionate share of OVEC's outstanding debt was $113 million at September 30, 2011, consisting of LG&E's share of $78 million and KU's share of $35 million. Future obligations for power purchases from OVEC are unconditional demand payments, comprised of annual minimum debt service payments, as well as contractually required reimbursement of plant operating, maintenance and other expenses as follows:

	LG&E	KU	Total
2012	$ 19	$ 9	$ 28
2013	20	9	29
2014	20	9	29
2015	21	9	30
2016	21	9	30
Thereafter	628	279	907
	$ 729	$ 324	$ 1,053

In addition, LG&E and KU had total energy purchases under the OVEC power purchase agreement for the three and nine months ended September 30, as follows:

(PPL, LKE, LG&E and KU)

	2011	
	Successor	
	Three Months	Nine Months
LG&E	$ 6	$ 18
KU	3	8
Total	$ 9	$ 26

(LKE, LG&E and KU)

	2010	
	Predecessor	
	Three Months	Nine Months
LG&E	$ 5	$ 15
KU	2	7
Total	$ 7	$ 22

(PPL and PPL Electric)

In 2009, the PUC approved PPL Electric's procurement plan for the period January 2011 through May 2013. Through October 2011, PPL Electric has conducted nine of its 14 planned competitive solicitations. The solicitations include a mix of long-term and short-term purchases ranging from five months to ten years to fulfill PPL Electric's obligation to provide for customer supply as a PLR. See Note 6 for a discussion of the default service supply procurement provisions of Act 129.

Legal Matters

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

PPL and its subsidiaries are involved in legal proceedings, claims and litigation in the ordinary course of business.

(PPL, LKE, LG&E and KU)

TC2 Construction

In June 2006, LG&E and KU, as well as the Indiana Municipal Power Agency and Illinois Municipal Electric Agency (collectively, TC2 Owners), entered into a construction contract regarding the TC2 project. The contract is generally in the form of a 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. During 2009 and 2010, the TC2 Owners received several contractual notices from the TC2 construction contractor asserting historical force majeure and excusable event claims for a number of adjustments to the contract price, construction schedule, commercial operations date, liquidated damages or other relevant provisions. In September 2010, the TC2 Owners and the construction contractor agreed to a settlement to resolve the force majeure and excusable event claims occurring through July 2010, under the TC2 construction contract, which settlement provided for a limited, negotiated extension of the contractual commercial operations date and/or relief from liquidated damage calculations. With limited exceptions, the TC2 Owners took care, custody and control of TC2 in January 2011. Pursuant to certain amendments to the construction agreement, the contractor will complete modifications to the combustion system prior to certain dates to allow operation of TC2 on all specified fuels categories. The provisions of the construction agreement relating to liquidated damages were also amended. In September 2011, the TC2 Owners and the construction contractor entered into a further amendment to the construction agreement settling, among other matters, certain historical change order, labor rate and prior liquidated damages amounts. The remaining issues are still under discussion with the contractor. PPL, LKE, LG&E and KU cannot currently predict the outcome of this matter or the potential impact on the capital costs of this project.

TC2 Transmission

LG&E's and KU's CPCN and condemnation rights relating to a transmission line associated with the TC2 construction have been challenged by certain property owners in Hardin County, Kentucky. Certain proceedings relating to CPCN challenges and federal historic preservation permit requirements have concluded with outcomes in LG&E's and KU's favor. With respect to the remaining issues in dispute, during 2008 KU obtained various successful rulings at the Hardin County Circuit Court confirming its condemnation rights. In August 2008, several landowners appealed such rulings to the Kentucky Court of Appeals. In May 2010, the Kentucky Court of Appeals issued an Order affirming the Hardin Circuit Court's finding that KU had the right to condemn easements on the properties. In May 2010, the landowners filed a petition for reconsideration with the Kentucky Court of Appeals. In July 2010, the Kentucky Court of Appeals denied that petition. In August 2010, the landowners filed for discretionary review of that denial by the Kentucky Supreme Court. In March 2011, the Kentucky Supreme Court issued an order declining the discretionary review request, thus closing this matter.

Argentina Matters *(LKE, LG&E and KU)*

In connection with an administrative proceeding alleging a violation by a former Argentine subsidiary under that country's 2002-2003 emergency currency exchange laws, claims were brought against the subsidiary's then directors, including two individuals who are executive officers of LKE, in a specialized Argentine financial criminal court. Under applicable Argentine laws, directors of a local company may be liable for monetary penalties for a subject company's violations of the currency laws. In February 2011, the Argentine court issued an order acquitting the former subsidiary and its directors of all claims, which order has become final.

(PPL and PPL Energy Supply)

Spent Nuclear Fuel Litigation

Federal law requires the U.S. government to provide for the permanent disposal of commercial spent nuclear fuel, but there is no definitive date by which a repository will be operational. As a result, it was necessary to expand Susquehanna's on-site spent fuel storage capacity. To support this expansion, PPL Susquehanna contracted for the design and construction of a spent fuel storage facility employing dry cask fuel storage technology. The facility is modular, so that additional storage capacity can be added as needed. The facility began receiving spent nuclear fuel in 1999. PPL Susquehanna estimates that there is sufficient storage capacity in the spent nuclear fuel pools and the on-site dry cask storage facility at Susquehanna to accommodate spent fuel discharged through approximately 2017 under current operating conditions. If necessary, on-site dry cask storage capability can be expanded, assuming appropriate regulatory approvals are obtained, such that, together, the spent fuel pools and the expanded dry fuel storage facilities will accommodate all of the spent fuel expected to be discharged through the current licensed life of each unit, 2042 for Unit 1 and 2044 for Unit 2.

In 1996, the U.S. Court of Appeals for the District of Columbia Circuit (D.C. Circuit Court) ruled that the Nuclear Waste Policy Act imposed on the DOE an unconditional obligation to begin accepting spent nuclear fuel on or before January 31, 1998. In 1997, the D.C. Circuit Court ruled that the contracts between the utilities and the DOE provide a potentially adequate remedy if the DOE failed to begin accepting spent nuclear fuel by January 31, 1998. The DOE did not, in fact, begin to accept spent nuclear fuel by that date. The DOE continues to contest claims that its breach of contract resulted in recoverable damages. In January 2004, PPL Susquehanna filed suit in the U.S. Court of Federal Claims for unspecified damages suffered as a result of the DOE's breach of its contract to accept and dispose of spent nuclear fuel. In May 2011, the parties entered into a settlement agreement which resolved all claims of PPL Susquehanna through December 2013. Under the settlement agreement, PPL Susquehanna received $50 million for its share of claims to recover costs to store spent nuclear fuel at the Susquehanna station through September 30, 2009, and recognized a credit to "Fuel" expense in the second quarter of 2011. PPL Susquehanna also will be eligible to receive payment of annual claims for allowed costs, as set forth in the settlement agreement, that are incurred thereafter through the December 31, 2013 termination date of the settlement agreement. In exchange, PPL Susquehanna has waived any claims against the United States government for costs paid or injuries sustained related to storing spent nuclear fuel at the Susquehanna plant through December 31, 2013.

Montana Hydroelectric Litigation

In November 2004, PPL Montana, Avista Corporation (Avista) and PacifiCorp commenced an action for declaratory judgment in Montana First Judicial District Court seeking a determination that no lease payments or other compensation for their hydroelectric facilities' use and occupancy of certain riverbeds in Montana can be collected by the State of Montana. This lawsuit followed dismissal on jurisdictional grounds of an earlier federal lawsuit seeking such compensation in the U.S. District Court of Montana. The federal lawsuit alleged that the beds of Montana's navigable rivers became state-owned trust property upon Montana's admission to statehood, and that the use of them should, under a 1931 regulatory scheme enacted after all but one of the hydroelectric facilities in question were constructed, trigger lease payments for use of land beneath. In July 2006, the Montana state court approved a stipulation by the State of Montana that it was not seeking compensation for the period prior to PPL Montana's December 1999 acquisition of the hydroelectric facilities.

Following a number of adverse trial court rulings, in 2007 Pacificorp and Avista each entered into settlement agreements with the State of Montana providing, in pertinent part, that each company would make prospective lease payments for use of the State's navigable riverbeds (subject to certain future adjustments), resolving the State's claims for past and future compensation.

Following an October 2007 trial of this matter on damages, in June 2008, the Montana District Court awarded the State retroactive compensation of approximately $35 million for the 2000-2006 period and approximately $6 million for 2007 compensation. Those unpaid amounts continue to accrue interest at 10% per year. The Montana District Court also deferred determination of compensation for 2008 and future years to the Montana State Land Board. In October 2008, PPL Montana appealed the decision to the Montana Supreme Court, requesting a stay of judgment and a stay of the Land Board's authority to assess compensation for 2008 and future periods.

In March 2010, the Montana Supreme Court substantially affirmed the June 2008 Montana District Court decision. As a result, in the first quarter of 2010, PPL Montana recorded a pre-tax charge of $56 million ($34 million after tax or $0.08 per share, basic and diluted, for PPL), representing estimated rental compensation for the first quarter of 2010 and prior years, including interest. Rental compensation was estimated for periods subsequent to 2007, although such estimated amounts may differ from amounts ultimately determined by the Montana State Land Board. The portion of the pre-tax charge that related to prior years totaled $54 million ($32 million after tax). The pre-tax charge recorded on the Statement of Income was $49 million in "Other operation and maintenance" and $7 million in "Interest Expense." PPL Montana continues to accrue interest expense for the prior years and rent expense for the current year. PPL Montana's total loss accrual at September 30, 2011 was $84 million.

In August 2010, PPL Montana filed a petition for a writ of certiorari with the U.S. Supreme Court requesting the Court's review of this matter. In June 2011, the Supreme Court granted PPL Montana's petition. Oral argument is scheduled for December 2011. A decision will be rendered by the Court by June 30, 2012. The stay of the judgment granted during the proceedings before the Montana Supreme Court has been extended by agreement with the State of Montana, to cover the anticipated period of the proceeding before the U.S. Supreme Court. PPL and PPL Energy Supply cannot predict the outcome of this matter, but do not expect to incur material losses beyond the estimated losses recorded.

PJM/MISO Billing Dispute *(PPL, PPL Energy Supply and PPL Electric)*

In 2009, PJM reported that it had discovered a modeling error in the market-to-market power flow calculations between PJM and MISO. The error was a result of incorrect modeling of certain generation resources that have an impact on power flows across the PJM/MISO border. Informal settlement discussions on this issue terminated in March 2010. Also in March 2010, MISO filed two complaints with the FERC concerning the modeling error and related matters with a demand for $130 million of principal plus interest. In April 2010, PJM filed answers to the complaints and filed a related complaint against MISO. In its answers and complaint, PJM denies that any compensation is due to MISO and seeks recovery in excess of $25 million from MISO for alleged violations by MISO regarding market-to-market power flow calculations. PPL participates in markets in both PJM and MISO. In June 2010, the FERC ordered the complaints to be consolidated and set for settlement discussions, followed by hearings if the discussions are unsuccessful. In January 2011, the parties to this dispute filed a settlement with the FERC under which no compensation would be paid to either PJM or MISO and providing for certain improvements in how the calculations are administered going forward. The settlement was contested by several parties and in June 2011 the FERC issued an order approving the contested settlement, which order has become final and is not subject to rehearing and appeal.

Regulatory Issues *(PPL, PPL Electric, LKE, LG&E and KU)*

See Note 6 for information on regulatory matters related to utility rate regulation.

Enactment of Financial Reform Legislation *(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

In July 2010, the Dodd-Frank Act was signed into law. Of particular relevance to PPL and PPL Energy Supply, the Dodd-Frank Act includes provisions that will likely impose derivative transaction reporting requirements and require most over-the-counter derivative transactions to be executed through an exchange or to be centrally cleared. The Dodd-Frank Act, however, provides an exemption from mandatory clearing and exchange trading requirements for over-the-counter derivative transactions used to hedge or mitigate commercial risk. Although the phrase "to hedge or mitigate commercial risk" is not defined in the Dodd-Frank Act, the 2010 rules proposed by the Commodity Futures Trading Commission (CFTC) set forth an inclusive, multi-pronged definition for the phrase. Based on this proposed definition and other requirements in the proposed rule, it is anticipated that transactions utilized by PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU should qualify if they are not entered into for speculative purposes. The Dodd-Frank Act also provides that the CFTC may impose collateral and margin requirements for over-the-counter derivative transactions, including those that are used to hedge commercial risk. However, during drafting of the Dodd-Frank Act, certain members of Congress adopted report language and issued a public letter stating that it was not their intention to impose margin and collateral requirements on counterparties that utilize these transactions to hedge commercial risk. Final rules on major provisions in the Dodd-Frank Act, including imposition of collateral and margin requirements, will be established through rulemakings and the CFTC has postponed implementation until December 31, 2011. PPL and PPL Energy Supply may be required to post additional collateral if they are subject to margin requirements as ultimately adopted in the implementing regulations of the Dodd-Frank Act. PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU will continue to evaluate the provisions of the Dodd-Frank Act and monitor developments related to its implementation. At this time, PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU cannot predict the impact that the new law or its implementing regulations will have on their businesses or operations, or the markets in which they transact business, but currently do not expect to incur material costs related to this matter.

New Jersey Capacity Legislation *(PPL, PPL Energy Supply and PPL Electric)*

In January 2011, New Jersey enacted a law that intervenes in the wholesale capacity market exclusively regulated by the FERC: S. No. 2381, 214th Leg. (N.J. 2011) (the Act). To create incentives for the development of new, in-state electric generation facilities, the Act implements a "long-term capacity agreement pilot program (LCAPP)." The Act requires New Jersey utilities to pay a guaranteed fixed price for wholesale capacity, imposed by the New Jersey Board of Public Utilities (BPU), to certain new generators participating in PJM, with the ultimate costs of that guarantee to be borne by New Jersey ratepayers. PPL believes the intent and effect of the LCAPP is to encourage the construction of new generation in New Jersey even when, under the FERC-approved PJM economic model, such new generation would not be economic. The Act could depress capacity prices in PJM in the short term, impacting PPL Energy Supply's revenues, and harm the long-term ability of the PJM capacity market to incent necessary generation investment throughout PJM. In February 2011, the PJM Power Providers Group (P3), an organization in which PPL is a member, filed a complaint before the FERC seeking changes in PJM's capacity market rules designed to ensure that subsidized generation, such as may result from the implementation of the LCAPP, will not be able to set capacity prices artificially low as a result of their exercise of buyer market power. In April 2011, the FERC issued an order granting in part and denying in part P3's complaint and ordering changes in PJM's capacity rules consistent with a significant portion of P3's requested changes. PPL, PPL Energy Supply and PPL Electric cannot predict the outcome of this proceeding or the economic impact on their businesses or operations, or the markets in which they transact business.

In addition, in February 2011, PPL, with several other generating companies and utilities, filed a complaint in Federal Court in New Jersey challenging the Act on the grounds that it violates well-established principles under the Supremacy Clause and the Commerce Clause of the U.S. Constitution. In this action, the Plaintiffs request declaratory and injunctive relief barring implementation of the Act by the Commissioners of the BPU. PPL, PPL Energy Supply and PPL Electric cannot predict the outcome of this proceeding or the economic impact on their businesses or operations, or the markets in which they transact business.

California ISO and Western U.S. Markets *(PPL and PPL Energy Supply)*

Through its subsidiaries, PPL Energy Supply made $18 million of sales to the California ISO during the period October 2000 through June 2001, $17 million of which has not been paid to PPL Energy Supply subsidiaries. This entire receivable has been fully reserved by PPL Energy Supply. Also, there has been further litigation about additional claims of refunds for periods prior to October 2000. In January 2011, PPL Energy Supply and the "California Parties" (collectively, three California utility companies, the California Public Utility Commission and certain California state authorities) filed a settlement under which PPL Energy Supply would receive approximately $1 million of its $17 million claim, plus interest of $1 million. In June 2011, the FERC approved the settlement. Consequently, PPL Energy Supply released its reserve and wrote-off the related receivable. Settlement proceeds were received in July.

In June 2003, the FERC took several actions as a result of several related investigations beyond the California ISO litigation. The FERC terminated proceedings to consider whether to order refunds for spot market bilateral sales made in the Pacific Northwest, including sales made by PPL Montana, during the period December 2000 through June 2001. In August 2007, the U.S. Court of Appeals for the Ninth Circuit reversed the FERC's decision and ordered the FERC to consider additional evidence. The FERC also commenced additional investigations relating to "gaming" and bidding practices during 2000 and 2001, but neither PPL EnergyPlus nor PPL Montana believes it is a subject of these investigations.

Although PPL and its subsidiaries believe that they have not engaged in any improper trading or marketing practices affecting the western markets, PPL and PPL Energy Supply cannot predict the outcome of the above-described investigations, lawsuits and proceedings or whether any subsidiaries will be the subject of any additional governmental investigations or named in other lawsuits or refund proceedings. Consequently, PPL and PPL Energy Supply cannot estimate a range of reasonably possible losses, if any, related to these matters.

PJM RPM Litigation *(PPL, PPL Energy Supply and PPL Electric)*

In May 2008, a group of state public utility commissions, state consumer advocates, municipal entities and electric cooperatives, industrial end-use customers and a single electric distribution company (collectively, the RPM Buyers) filed a complaint before the FERC objecting to the prices for capacity under the PJM Reliability Pricing Model (RPM) that were set in the 2008-09, 2009-10 and 2010-11 RPM base residual auctions. The RPM Buyers requested that the FERC reset the rates paid to generators for capacity in those periods to a significantly lower level. Thus, the complaint requests that generators be paid less for those periods through refunds and/or prospective changes in rates. The relief requested in the complaint, if granted, could have a material effect on PPL, PPL Energy Supply and PPL Electric. PJM, PPL and numerous other parties responded to the complaint, strongly opposing the relief sought by the RPM Buyers. In September 2008, the FERC entered an order denying the complaint. In August 2009, the RPM Buyers appealed the FERC's decision to the U.S. Court of Appeals for the Fourth Circuit, and the appeal was subsequently transferred to the U.S. Court of Appeals for the District of Columbia Circuit. In February 2011, the U.S. Court of Appeals for the District of Columbia Circuit issued an order denying the appeal. No party sought review of the order denying the appeal. FERC's September 2008 denial of the complaint is therefore final.

In December 2008, PJM submitted amendments to certain provisions governing its RPM capacity market. The amendments were intended to permit the compensation available to suppliers that provide capacity, including PPL Energy Supply, to increase. PJM sought approval of the amendments in time for them to be implemented for the May 2009 capacity auction (for service in June 2012 through May 2013). Numerous parties, including PPL, protested PJM's filing. Certain of the protesting parties, other than PPL, proposed changes to the capacity market auction that would result in a reduction in compensation to capacity suppliers. The changes proposed by PJM and by other parties in response to PJM proposals could significantly affect the compensation available to suppliers of capacity participating in future RPM auctions. In March 2009, the FERC entered an order approving in part and disapproving in part the changes proposed by PJM. In August 2009, the FERC issued an order granting rehearing in part, denying rehearing in part and clarifying its March 2009 order. No request for rehearing or appeal of the August 2009 order was timely filed. In October 2010, the August 2009 Order became final and will not have a material impact on PPL, PPL Energy Supply or PPL Electric.

FERC Market-Based Rate Authority *(PPL, PPL Energy Supply, LKE, LG&E and KU)*

In December 1998, the FERC authorized PPL EnergyPlus to make wholesale sales of electric power and related products at market-based rates. In that order, the FERC directed PPL EnergyPlus to file an updated market analysis within three years after the order, and every three years thereafter. Since then, periodic market-based rate filings with the FERC have been made by PPL EnergyPlus, PPL Electric, PPL Montana and most of PPL Generation's subsidiaries. These filings consisted of a Northwest market-based rate filing for PPL Montana and a Northeast market-based rate filing for most of the other PPL subsidiaries in PJM's region. In December 2010, PPL filed its market-based rate update for the Eastern region. In January 2011, PPL filed the market-based rate update for the Western region. In June 2011, PPL filed its market-based rate update for the Southeast region, including LG&E and KU in addition to PPL EnergyPlus. In June 2011, the FERC issued an order approving LG&E's and KU's request for a determination that they no longer be deemed to have market power in the Big Rivers Electric Corporation balancing area and removing restrictions on their market-based rate authority in such region.

Currently, a seller granted market-based rate authority by the FERC may enter into power contracts during an authorized time period. If the FERC determines that the market is not workably competitive or that the seller possesses market power or is not charging "just and reasonable" rates, it may institute prospective action, but any contracts entered into pursuant to the FERC's market-based rate authority remain in effect and are generally subject to a high standard of review before the FERC can order changes. Recent court decisions by the U.S. Court of Appeals for the Ninth Circuit have raised issues that may make it more difficult for the FERC to continue its program of promoting wholesale electricity competition through market-based rate authority. These court decisions permit retroactive refunds and a lower standard of review by the FERC for changing power contracts, and could have the effect of requiring the FERC in advance to review most, if not all, power contracts. In June 2008, the U.S. Supreme Court reversed one of the decisions of the U.S. Court of Appeals for the Ninth Circuit, thereby upholding the higher standard of review for modifying contracts. At this time, PPL, PPL Energy Supply, LKE, LG&E and KU cannot predict the impact of these court decisions on the FERC's future market-based rate authority program or on their businesses.

Energy Policy Act of 2005 - Reliability Standards *(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

The NERC is responsible for establishing and enforcing mandatory reliability standards (Reliability Standards) regarding the bulk power system. The FERC oversees this process and independently enforces the Reliability Standards.

The Reliability Standards have the force and effect of law and apply to certain users of the bulk power electricity system, including electric utility companies, generators and marketers. The FERC has indicated it intends to vigorously enforce the Reliability Standards using, among other means, civil penalty authority. Under the Federal Power Act, the FERC may assess civil penalties of up to $1 million per day, per violation, for certain violations. The first group of Reliability Standards approved by the FERC became effective in June 2007.

LG&E, KU, PPL Electric and certain subsidiaries of PPL Energy Supply monitor their compliance with the Reliability Standards and continue to self-report potential violations of certain applicable reliability requirements and submit accompanying mitigation plans. The resolution of a number of potential violations is pending. Any regional reliability entity determination concerning the resolution of violations of the Reliability Standards remains subject to the approval of the NERC and the FERC. PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any, other than the amounts currently recorded.

In the course of implementing its program to ensure compliance with the Reliability Standards by those PPL affiliates subject to the standards, certain other instances of potential non-compliance may be identified from time to time.

Environmental Matters - Domestic

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Due to the environmental issues discussed below or other environmental matters, PPL subsidiaries may be required to modify, curtail, replace or cease operating certain facilities or operations to comply with statutes, regulations and other requirements of regulatory bodies or courts.

(PPL, PPL Energy Supply, LKE, LG&E and KU)

Air

The Clean Air Act addresses, among other things, emissions causing acid deposition, installation of best available control technologies for new or substantially modified sources, attainment of national ambient air quality standards, toxic air emissions and visibility standards in the U.S. Amendments to the Clean Air Act requiring additional emission reductions have been proposed but are unlikely to be introduced or passed in this Congress. The Clean Air Act allows states to develop more stringent regulations and in some instances, as discussed below, Kentucky, Pennsylvania and Montana have done so.

To comply with air related requirements and other environmental requirements as described below, PPL's forecast for capital expenditures reflects a best estimate projection of expenditures that may be required within the next five years. Such projections are a combined $3.1 billion for LG&E and KU (which includes $100 million for LG&E and $500 million for KU associated with currently approved ECR plans during 2011 through 2013 to achieve emissions reductions and manage coal combustions residuals and $1.4 billion for LG&E and $1.1 billion for KU associated with the recently requested 2011 ECR Plans for additional expenditures to comply with new clean air rules and manage coal combustion residuals) and $400 million for PPL Energy Supply. Actual costs may be significantly lower or higher depending on the final requirements. Certain environmental compliance costs incurred by LG&E and KU in serving KPSC jurisdictional customers are subject to recovery through the ECR. See Note 6 for additional information on the ECR plan.

CSAPR (formerly Clean Air Transport Rule)

In July 2011, the EPA signed the CSAPR which finalizes and renames the Clean Air Transport Rule (Transport Rule) proposed in August 2010. The CSAPR replaces the EPA's previous Clean Air Interstate Rule (CAIR) which was struck down by the U.S. Court of Appeals for the District of Columbia Circuit (the Court) in July 2008. CAIR subsequently was effectively reinstated by the Court in December 2008, pending finalization of the Transport Rule. Like CAIR and the proposed Transport Rule, the CSAPR only applies to PPL's generation facilities located in Kentucky and Pennsylvania.

The CSAPR is meant to facilitate attainment of ambient air quality standards for ozone and fine particulates by requiring reductions in sulfur dioxide and nitrogen oxides. The CSAPR establishes a new sulfur dioxide emission allowance cap and trade program that is completely independent of, and more stringent than, the current Acid Rain Program. The CSAPR also establishes new nitrogen oxide emission allowance cap and trade programs to replace the current programs. All trading is more restrictive than previously under CAIR. The CSAPR will be implemented in two phases. The first phase of the sulfur dioxide and nitrogen oxide emissions caps becomes effective in 2012. The second phase, lowering both of these caps, becomes effective in 2014. In October 2011, the EPA proposed technical adjustments to the CSAPR to account for updated data submitted to the agency. Several states and a number of companies have filed petitions for review with the Court challenging various provisions of the CSAPR.

With respect to PPL's competitive generation in Pennsylvania, greater reductions in sulfur dioxide emissions will be required beginning in 2012 under the CSAPR than were required under CAIR. For the initial phase of the rule beginning in 2012, PPL Energy Supply's sulfur dioxide allowance allocations are expected to be greater than the forecasted emissions based on present operations of existing sulfur dioxide scrubbers and coal supply. For the second phase beginning in 2014, the further reduction in allocations will most likely be met with increased operations of the existing sulfur dioxide scrubbers. With respect to nitrogen oxide, the CSAPR provides a slightly higher amount of allowances than under CAIR for PPL Energy Supply's Pennsylvania plants, but still less than PPL Energy Supply's current forecasted emissions. With uncertainty surrounding the trading program, other compliance options are being analyzed for the Pennsylvania fleet, such as the installation of new technology or modifications of plant operations.

With respect to LG&E and KU, greater reductions in sulfur dioxide emissions will also be required under the CSAPR beginning in 2012 than were required under CAIR. For the initial phase of the rule beginning in 2012, sulfur dioxide allowance allocations are expected to meet the forecasted emissions based on present operations of existing sulfur dioxide scrubbers and coal supply. However, by the second phase beginning in 2014, LG&E and KU will likely have to adopt additional measures with respect to the operation and dispatch of their generation fleet, including upgrades or installation of new sulfur dioxide scrubbers for certain generating units and retirement of the coal-fired generating units at the Cane Run, Green River, and Tyrone plants and replacement of those units with new generation. With respect to nitrogen oxide, the CSAPR allocates a slightly higher amount of allowances compared to those allocated under CAIR. With uncertainty surrounding the trading program, other compliance options are being analyzed for the Kentucky fleet. LG&E and KU are seeking recovery of their expected costs to comply with the CSAPR and certain other EPA requirements through the ECR plan filed with the KPSC in June 2011. See Note 6 for additional information.

National Ambient Air Quality Standards

In addition to the reductions in sulfur dioxide and nitrogen oxide emissions required under the CSAPR for the Pennsylvania and Kentucky plants, PPL's plants, including those in Montana, may face further reductions in sulfur dioxide and nitrogen oxide emissions as a result of more stringent national ambient air quality standards for ozone, nitrogen oxide, sulfur dioxide and/or fine particulates. The EPA has recently finalized a new one-hour standard for sulfur dioxide, and states are required to identify areas that meet those standards and areas that are in non-attainment. For non-attainment areas, states are required to develop plans by 2014 to achieve attainment by 2017. For areas in attainment or unclassifiable, states are required to develop maintenance plans by mid-2013 that demonstrate continued attainment. PPL, PPL Energy Supply, LKE, LG&E and KU anticipate that some of the measures required for compliance with the CSAPR such as upgraded or new sulfur dioxide scrubbers at some of their plants or, in the case of LG&E and KU, retirement of the Cane Run, Green River, and Tyrone plants, may also be necessary to achieve compliance with new sulfur dioxide standards. If additional reductions were to be required, the economic impact to each could be significant.

Mercury and other Hazardous Air Pollutants

Citing its authority under the Clean Air Act, in 2005, the EPA issued the Clean Air Mercury Rule (CAMR) affecting coal-fired power plants. Since the CAMR was overturned in a 2008 U.S. Circuit Court decision, the EPA is now proceeding to develop standards imposing MACT for mercury emissions and other hazardous air pollutants from electric generating units. Under a recently approved settlement, the EPA was required to issue final MACT standards in 2011. In order to develop these standards, the EPA has collected information from coal- and oil-fired electric utility steam generating units. In May 2011, the EPA published a proposed MACT regulation providing for stringent reductions of mercury and other hazardous air pollutants. The proposed rule also provides for a three-year compliance deadline, with the potential for a one-year extension as provided under the statute. Based on their assessment of the need to install pollution control equipment to meet this rule, LG&E and KU have filed requests with the KPSC for environmental cost recovery to facilitate moving forward with plans to install environmental controls including sorbent injection and fabric-filter baghouses to remove certain hazardous air pollutants. The cost for these controls is reflected in the costs of $1.4 billion for LG&E and $1.1 billion for KU noted under "Air" above. LG&E and KU have also announced the future retirement of coal-fired generating units at the Cane Run, Green River, and Tyrone plants and have filed requests with the KPSC for replacement of those units with natural gas-fired generating units to be constructed or purchased. The potential economic impact on PPL Energy Supply plants, including plant closures or other actions, cannot be estimated at this time, however, such impact could be significant. PPL Energy Supply, LG&E and KU are continuing to conduct in-depth reviews of the proposed rule.

Regional Haze and Visibility

The Clean Air Visibility Rule was issued by the EPA in June 2005 to address regional haze or regionally-impaired visibility caused by multiple sources over a wide area. The rule requires Best Available Retrofit Technology (BART) for certain electric generating units. Under the BART rule, PPL submitted to the PADEP its analyses of the visibility impacts of particulate matter emissions from Martins Creek Units 3 and 4, Brunner Island Units 2 and 3 and Montour Units 1 and 2. No analysis was submitted for sulfur dioxide or nitrogen oxides, because the EPA determined that meeting the requirements for the CAIR also satisfies the BART requirements for those pollutants. Although the EPA has not yet expressly stated that a similar approach will be taken under the CSAPR, the EPA has not requested any further studies. PPL's analyses have shown that, because PPL had already upgraded its particulate emissions controls at Montour Units 1 and 2 and Brunner Island

Units 2 and 3, further controls are not justified as there would be little corresponding visibility improvement. PPL has not received comments from the PADEP on these submissions.

In Montana, the EPA Region 8 is developing the regional haze plan as the Montana Department of Environmental Quality declined to develop a BART state implementation plan at this time. PPL submitted to the EPA its analyses of the visibility impacts of sulfur dioxide, nitrogen oxides and particulate matter emissions for Colstrip Units 1 and 2 and Corette. PPL's analyses concluded that further reductions are not warranted. The EPA responded to PPL's reports for Colstrip and Corette and requested further information and analysis. PPL completed further analysis and submitted addendums to its initial reports for Colstrip and Corette. In February 2009, PPL received an information request for data related to the non-BART-affected emission sources of Colstrip Units 3 and 4. PPL responded to this request in March 2009.

In November 2010, PPL Montana received a request from the EPA Region 8, under the EPA's Reasonable Further Progress goals of the Regional Haze Rules, to provide further analysis with respect to Colstrip Units 3 and 4. PPL completed a high-level analysis of various control options to reduce emissions of sulfur dioxide and particulate matter for these units, and submitted that analysis to the EPA in January 2011. The analysis shows that any incremental reductions would not be cost effective and that further analysis is not warranted. PPL also concluded that further analysis for nitrogen oxides was not justifiable as these units installed controls under a Consent Decree in which the EPA had previously agreed that, when implemented, would satisfy the requirements for installing the BART for nitrogen oxides. The EPA has indicated that it does not agree with all of PPL's conclusions and has requested additional information to which PPL is responding. Additionally, the EPA recently informally indicated to PPL Montana that substantially more reductions in both nitrogen oxide and sulfur dioxide emissions may be required at Colstrip. Discussions with the EPA are ongoing with respect to this issue.

PPL and PPL Energy Supply cannot predict whether any additional reductions in emissions will be required in Pennsylvania or Montana. If additional reductions are required, the economic impact could be significant depending on what is required.

LG&E and KU also submitted analyses of the visibility impacts of their Kentucky BART-eligible sources to the Kentucky Division for Air Quality (KDAQ). Only LG&E's Mill Creek plant was determined to have a significant regional haze impact. The KDAQ has submitted a regional haze state implementation plan (SIP) to the EPA which requires the Mill Creek plant to reduce its sulfuric acid mist emissions from Units 3 and 4. After approval of the Kentucky SIP by the EPA and revision of the Mill Creek plant's Title V air permit, LG&E intends to install sorbent injection controls at the plant to reduce sulfuric acid mist emissions. In the event that the EPA determines that compliance with the CSAPR would be insufficient to meet the BART requirements, it would be necessary for LG&E and KU to reassess their planned compliance measures.

New Source Review (NSR)

The NSR regulations require major new or modified sources of regulated pollutants to receive pre-construction and operating permits with limits that prevent the significant deterioration of air quality in areas that are in attainment of the ambient air quality standards for certain pollutants.

The EPA has resumed its NSR enforcement efforts targeting coal-fired power plants. The EPA has asserted that modification of these plants has increased their emissions and, consequently, that they are subject to stringent NSR requirements under the Clean Air Act. In April 2009, PPL received EPA information requests for its Montour and Brunner Island plants. The requests are similar to those that PPL received several years ago for its Colstrip, Corette and Martins Creek plants. PPL and the EPA have exchanged certain information regarding this matter. In January 2009, PPL and other companies that own or operate the Keystone plant in Pennsylvania received a notice of violation from the EPA alleging that certain projects were undertaken without proper NSR compliance. PPL and PPL Energy Supply cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any.

In addition, in August 2007, LG&E and KU received information requests for their Mill Creek, Trimble County, and Ghent plants, but have received no further communications from the EPA since providing their responses. PPL, LKE, LG&E and KU cannot predict the outcome of these matters, and cannot estimate a range of reasonably possible losses, if any.

In March 2009, KU received a notice of violation alleging that KU violated certain provisions of the Clean Air Act's rules governing NSR and prevention of significant deterioration by installing sulfur dioxide scrubbers and SCR controls at its Ghent generating station without assessing potential increased sulfuric acid mist emissions. KU contends that the work in question, as pollution control projects, was exempt from the requirements cited by the EPA. In December 2009, the EPA issued an information request on this matter. KU has exchanged settlement proposals and other information with the EPA regarding imposition of additional permit limits and emission controls and anticipates continued settlement negotiations. In addition, any settlement or future litigation could potentially encompass a September 2007 notice of violation alleging opacity violations at the plant. Depending on the provisions of a final settlement or the results of litigation, if any, resolution of this matter could involve significant increased operating and capital expenditures. PPL, LKE and KU are currently unable to predict the final outcome of this matter, and cannot estimate a range of reasonably possible losses, if any.

If PPL subsidiaries are found to have violated NSR regulations, PPL would, among other things, be required to meet permit limits reflecting Best Available Control Technology (BACT) for the emissions of any pollutant found to have significantly increased due to a major plant modification. The costs to meet such limits, including installation of technology at certain units, could be significant.

States and environmental groups also have initiated enforcement actions and litigation alleging violations of the NSR regulations by coal-fired plants, and PPL is unable to predict whether such actions will be brought against any of PPL's plants.

TC2 Air Permit (PPL, LKE, LG&E and KU)

The Sierra Club and other environmental groups petitioned the Kentucky Environmental and Public Protection Cabinet to overturn the air permit issued for the TC2 baseload generating unit, but the agency upheld the permit in an Order issued in September 2007. In response to subsequent petitions by environmental groups, the EPA ordered certain non-material changes to the permit which were incorporated into a final revised permit issued by the KDAQ in January 2010. In March 2010, the environmental groups petitioned the EPA to object to the revised state permit. Until the EPA issues a final ruling on the pending petition and all available appeals are exhausted, PPL, LKE, LG&E and KU cannot currently predict the outcome of this matter or the potential impact on the capital costs of this project, if any.

(PPL, PPL Energy Supply, LKE, LG&E and KU)

Global Climate Change

There is concern nationally and internationally about global climate change and the possible contribution of GHG emissions including, most significantly, carbon dioxide, from the combustion of fossil fuels. This has resulted in increased demands for carbon dioxide emission reductions from investors, environmental organizations, government agencies and the international community. These demands and concerns have led to federal legislative proposals, actions at regional, state and local levels, litigation relating to GHG emissions and the EPA regulations on GHGs.

Greenhouse Gas Legislation

While climate change legislation was considered during the 111th Congress, the outcome of the 2010 elections has halted the debate on such legislation in the current 112th Congress. The timing and elements of any future legislation addressing GHG emission reductions are uncertain at this time. In the current Congress, legislation barring the EPA from regulating GHG emissions under the existing authority of the Clean Air Act has been passed by the U.S. House of Representatives. Various bills providing for barring or delaying the EPA from regulating GHG emissions have been introduced in the U.S. Senate, but the prospects for passage of such legislation remain uncertain. At the state level, the 2010 elections in Pennsylvania have also reduced the likelihood of GHG legislation in the near term, and there are currently no prospects for such legislation in Kentucky or Montana.

Greenhouse Gas Regulations and Tort Litigation

As a result of the April 2007 U.S. Supreme Court decision that the EPA has the authority to regulate GHG emissions from new motor vehicles under the Clean Air Act, in April 2010, the EPA and the U.S. Department of Transportation issued new light-duty vehicle emissions standards that will apply beginning with 2012 model year vehicles. The EPA has also clarified that this standard triggers regulation of GHG emissions from stationary sources under the NSR and Title V operating permit provisions of the Clean Air Act starting in 2011. This means that any new sources or major modifications to existing sources causing a net significant emissions increase requires BACT permit limits for GHGs. The EPA recently proposed guidance for conducting a BACT analysis for projects that trigger such a review. In addition, New Source Performance Standards for new and existing power plants were expected to be proposed in September 2011 and finalized in May 2012, but this has been delayed. The EPA is expected to announce a new schedule for this rulemaking by the end of 2011.

At the regional level, ten northeastern states signed a Memorandum of Understanding (MOU) agreeing to establish a GHG emission cap-and-trade program, called the Regional Greenhouse Gas Initiative (RGGI). The program commenced in January 2009 and calls for stabilizing carbon dioxide emissions, at base levels established in 2005, from electric power plants with capacity greater than 25 MW. The MOU also provides for a 10% reduction in carbon dioxide emissions from base levels by 2019.

Pennsylvania has not stated an intention to join the RGGI, but has enacted the Pennsylvania Climate Change Act of 2008 (PCCA). The PCCA established a Climate Change Advisory Committee to advise the PADEP on the development of a Climate Change Action Plan. In December 2009, the Advisory Committee finalized its Climate Change Action Report which identifies specific actions that could result in reducing GHG emissions by 30% by 2020. Some of the proposed actions, such as a mandatory 5% efficiency improvement at power plants, could be technically unachievable. To date, there have been no regulatory or legislative actions taken to implement the recommendations of the report. In addition, legislation has been introduced that would, if enacted, accelerate the solar supply requirements and restrict eligible solar projects to those located in Pennsylvania. PPL cannot predict at this time whether this legislation will be enacted.

Eleven Western states, including Montana and certain Canadian provinces, are members of the Western Climate Initiative (WCI). The WCI has established a goal of reducing carbon dioxide emissions 15% below 2005 levels by 2020 and is currently developing GHG emission allocations, offsets, and reporting recommendations.

In November 2008, the Governor of Kentucky issued a comprehensive energy plan including non-binding targets aimed at promoting improved energy efficiency, development of alternative energy, development of carbon capture and sequestration projects, and other actions to reduce GHG emissions. In December 2009, the Kentucky Climate Action Plan Council was established to develop an action plan addressing potential GHG reductions and related measures. A final plan is expected in 2011. The impact of any such plan is not now determinable, but the costs to comply with the plan could be significant.

A number of lawsuits have been filed asserting common law claims including nuisance, trespass and negligence against various companies with GHG emitting facilities, and the law remains unsettled on these claims. In September 2009, the U.S. Court of Appeals for the Second Circuit in the case of AEP v. Connecticut reversed a federal district court's decision and ruled that several states and public interest groups, as well as the City of New York, could sue five electric utility companies under federal common law for allegedly causing a public nuisance as a result of their emissions of GHGs. In June 2011, the U.S. Supreme Court overturned the lower court and held that such federal common law claims were displaced by the Clean Air Act and regulatory actions of the EPA. In Comer v. Murphy Oil, the U.S. Court of Appeals for the Fifth Circuit declined to overturn a district court ruling that plaintiffs did not have standing to pursue state common law claims against companies that emit GHGs. The complaint in the Comer case named the previous indirect parent of LKE as a defendant based upon emissions from the Kentucky plants. In January 2011, the Supreme Court denied a pending petition to reverse the Court of Appeals' ruling. In May 2011, the plaintiffs in the Comer case filed a substantially similar complaint in federal district court in Mississippi against 87 companies, including KU and three other indirect subsidiaries of LKE, under a Mississippi statute that allows the re-filing of an action in certain circumstances. Additional litigation in federal and state courts over these issues is continuing. PPL, LKE and KU cannot predict the outcome of this litigation or estimate a range of reasonably possible losses, if any.

PPL continues to evaluate options for reducing, avoiding, off-setting or sequestering its carbon dioxide emissions. In 2010, PPL's power plants, including PPL's share of jointly owned assets, emitted approximately 37 million tons of carbon dioxide (including 6 million tons of emissions from the LKE plants after their acquisition on November 1, 2010) compared to 29 million tons in 2009 without LG&E and KU emissions. LG&E's and KU's generating fleets, including their share of jointly owned assets, emitted approximately 19 million tons and approximately 18 million tons of carbon dioxide in 2010, compared to approximately 17 million tons and approximately 16 million tons in 2009. All tons are U.S. short tons (2,000 lbs/ton).

Renewable Energy Legislation (PPL and PPL Energy Supply)

There has been interest in renewable energy legislation at both the state and federal levels. At the federal level, House and Senate bills proposed in the 111th Congress would have imposed mandatory renewable energy supply and energy efficiency requirements in the 15% to 20% range by approximately 2020. Earlier in the year, there were discussions regarding a Clean Energy Standard (CES) that addressed not only renewables but also encouraged clean energy requirements (as yet to be defined). At this time, neither the renewable energy debate nor the CES discussion is expected to gain momentum at the federal or state levels (beyond what is otherwise already required in Pennsylvania and Montana) in the near term.

PPL believes there are financial, regulatory and logistical uncertainties related to GHG reductions and the implementation of renewable energy mandates. These will need to be resolved before the impact of such requirements on PPL can be meaningfully estimated. Such uncertainties, among others, include the need to provide back-up supply to augment intermittent renewable generation, potential generation oversupply that could result from such renewable generation and back-up, impacts to PJM's capacity market and the need for substantial changes to transmission and distribution systems to accommodate renewable energy. These uncertainties are not directly addressed by proposed legislation. PPL and PPL Energy Supply cannot predict at this time the effect on their future competitive position, results of operation, cash flows and financial position, of any GHG emissions, renewable energy mandate or other global climate change requirements that may be adopted, although the costs to implement and comply with any such requirements could be significant.

Water/Waste

Coal Combustion Residuals (CCRs) (PPL, PPL Energy Supply, LKE, LG&E and KU)

In June 2010, the EPA proposed two approaches to regulating the disposal and management of CCRs under the Resource Conservation and Recovery Act (RCRA). CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes. The first approach would regulate CCRs as a hazardous waste under Subtitle C of the RCRA. This approach would have very significant impacts on any coal-fired plant, and would require plants to retrofit their operations to comply with full hazardous waste requirements for the generation of CCRs and associated waste waters through transportation and disposal. This would also have a negative impact on the beneficial use of CCRs and could eliminate existing markets for CCRs. The second approach would regulate CCRs as a solid waste under Subtitle D of the RCRA. This approach would mainly affect disposal and most significantly affect any wet disposal operations. Under this approach, many of the current markets for beneficial uses would not be affected. Currently, PPL expects that several of its plants in Kentucky and Montana could be significantly impacted by the requirements of Subtitle D of the RCRA, as these plants are using surface impoundments for management and disposal of CCRs.

The EPA has issued information requests on CCR management practices at numerous plants throughout the power industry as it considers whether or not to regulate CCRs as hazardous waste. PPL has provided information on CCR management practices at most of its plants in response to the EPA's requests. In addition, the EPA has conducted follow-up inspections to evaluate the structural stability of CCR management facilities at several PPL plants and PPL has implemented certain actions in response to recommendations from these inspections.

The EPA is continuing to evaluate the unprecedented number of comments it received on its June 2010 proposed regulations. In October 2011, the EPA issued a Notice of Data Availability (NODA) that requests comments on selected documents that the EPA received during the comment period for the proposed regulations. Comments are due on the NODA by November 2011. In addition, the U.S. House of Representatives in October 2011 approved a bill to modify Subtitle D of the RCRA to provide for the proper management and disposal of CCRs and that would preclude the EPA from regulating CCRs under Subtitle C of the RCRA. The bill has been introduced in the Senate and the prospect for passage of this legislation is uncertain.

In June 2009, the EPA's Office of Enforcement and Compliance Assurance issued a much broader information request to Colstrip and 18 other non-affiliated plants, seeking information under the RCRA, the Clean Water Act and the Emergency Planning and Community Right-to-Know Act. PPL responded to the EPA's broader information request. Although the EPA's enforcement office issued the request, the EPA has not necessarily concluded that the plants are in violation of any EPA requirements. The EPA conducted a multi-media inspection at Colstrip in August 2009 and issued a report in December 2010 stating that the EPA did not identify any violations of the applicable compliance standards for the Colstrip facility.

PPL, PPL Energy Supply, LKE, LG&E and KU cannot predict at this time the final requirements of the EPA's CCR regulations or potential changes to the RCRA and what impact they would have on their facilities, but the economic impact could be significant.

Martins Creek Fly Ash Release (PPL and PPL Energy Supply)

In 2005, there was a release of approximately 100 million gallons of water containing fly ash from a disposal basin at the Martins Creek plant used in connection with the operation of the plant's two 150 MW coal-fired generating units. This resulted in ash being deposited onto adjacent roadways and fields, and into a nearby creek and the Delaware River. PPL determined that the release was caused by a failure in the disposal basin's discharge structure. PPL conducted extensive clean-up and completed studies, in conjunction with a group of natural resource trustees and the Delaware River Basin Commission, evaluating the effects of the release on the river's sediment, water quality and ecosystem.

The PADEP filed a complaint in Pennsylvania Commonwealth Court against PPL Martins Creek and PPL Generation, alleging violations of various state laws and regulations and seeking penalties and injunctive relief. PPL and the PADEP have settled this matter. The settlement also required PPL to submit a report on the completed studies of possible natural resource damages. PPL subsequently submitted the assessment report to the Pennsylvania and New Jersey regulatory agencies and has continued discussing potential natural resource damages and mitigation options with the agencies. Subsequently, in August 2011 the DEP submitted its National Resource Damage Assessment report to the court and to the intervenors. The settlement agreement for the Natural Resources Damage Claim has not yet been submitted to the court and for public comments.

Through September 30, 2011, PPL Energy Supply has spent $28 million for remediation and related costs and an insignificant remediation liability remains on the balance sheet. PPL and PPL Energy Supply cannot be certain of the outcome of the natural resource damage assessment or the associated costs, the outcome of any lawsuit that may be brought by citizens or businesses or the exact nature of any other regulatory or other legal actions that may be initiated against PPL, PPL Energy Supply or their subsidiaries as a result of the disposal basin release. However, PPL and PPL Energy Supply currently do not expect such outcomes to result in material losses above the amounts currently recorded.

Seepages and Groundwater Infiltration - Pennsylvania, Montana and Kentucky

(PPL, PPL Energy Supply, LKE, LG&E and KU)

Seepages or groundwater infiltration have been detected at active and retired wastewater basins and landfills at various PPL plants. PPL has completed or is completing assessments of seepages or groundwater infiltration at various facilities and is working with agencies to implement abatement measures, where required. A range of reasonably possible losses cannot currently be estimated.

(PPL and PPL Energy Supply)

In 2007, six plaintiffs filed a lawsuit in the Montana Sixteenth Judicial District Court against the Colstrip plant owners asserting property damage claims from seepage from wastewater ponds at Colstrip. A settlement agreement was reached in July 2010, but certain of the plaintiffs later argued that the settlement was not final. The Colstrip plant owners filed a motion to enforce the settlement and in October 2011 the court granted the motion and ordered the settlement to be completed in 60 days. It is not known if the plaintiffs will appeal the October order. The settlement is not yet final, and may not be honored by the plaintiffs, but PPL Montana's share is not expected to be significant.

Conemaugh River Discharges (PPL and PPL Energy Supply)

In April 2007, PennEnvironment and the Sierra Club brought a Clean Water Act citizen suit in the U.S. District Court for the Western District of Pennsylvania (the Western District Court) against GenOn Northeast Management Company (then known as Reliant Energy Northeast Management Company) (GenOn), as operator of Conemaugh Generating Station (CGS), seeking civil penalties and injunctive relief for alleged violations of CGS's NPDES water discharge permit. A PPL Energy Supply subsidiary holds a 16.25% undivided, tenant-in-common ownership interest in CGS.

Throughout the relevant time period, the operators of CGS have worked closely with the PADEP to ensure that the facility is operated in a manner that does not cause any adverse environmental impacts to the Conemaugh River, a waterway already significantly impacted by discharges from abandoned coal mines and other historical industrial activity with respect to which neither PPL nor CGS had any involvement. Pursuant to a Consent Order and Agreement between the PADEP and GenOn (the CGS COA), a variety of studies have been conducted, a water treatment facility for cooling tower blowdown has been designed and built, and a second treatment facility for sulfur dioxide scrubber waste water has been designed (and is awaiting final PADEP approval for construction), all in order to comply with the stringent limits set out in CGS's NPDES permit.

In March 2011, the Western District Court entered a partial summary judgment in the plaintiffs' favor, declaring that discharges from CGS violated the NPDES permit. Subsequently, the parties agreed to settle the dispute and in August 2011 the court entered a Consent Decree and Order resolving the mater. PPL Energy Supply's share of the settlement is not significant.

Other Issues (PPL, PPL Energy Supply, LKE, LG&E and KU)

In 2006, the EPA significantly decreased to 10 parts per billion (ppb) the drinking water standards related to arsenic. In Pennsylvania, Montana and Kentucky, this arsenic standard has been incorporated into the states' water quality standards and could result in more stringent limits in NPDES permits for PPL's Pennsylvania, Montana and Kentucky plants. Subsequently, the EPA developed a draft risk assessment for arsenic that increases the cancer risk exposure by more than 20 times, which would lower the current standard from 10 ppb to 0.1 ppb. If the lower standard becomes effective, costly treatment would be required to attempt to meet the standard and, at this time, there is no assurance that it could be achieved. PPL, PPL Energy Supply, LKE, LG&E and KU cannot predict the outcome of the draft risk assessment and what impact, if any, it would have on their facilities, but the costs could be significant.

The EPA is reassessing its polychlorinated biphenyls (PCB) regulations under the Toxics Substance Control Act, which currently allow certain PCB articles to remain in use. In April 2010, the EPA issued an Advanced Notice of Proposed Rulemaking for changes to these regulations. This rulemaking could lead to a phase-out of all PCB-containing equipment. PPL, PPL Energy Supply, LKE, LG&E and KU cannot predict at this time the outcome of these proposed EPA regulations and what impact, if any, they would have on their facilities, but the costs could be significant.

The EPA finalized requirements in 2004 for new or modified cooling water intake structures. These requirements affect where generating facilities are built, establish intake design standards and could lead to requirements for cooling towers at new and modified power plants. Another rule, finalized in 2004, that addressed existing structures was withdrawn following a 2007 decision by the U.S. Court of Appeals for the Second Circuit. In 2009, however, the U.S. Supreme Court ruled that the EPA has discretion to use cost-benefit analysis in determining the best technology available for minimizing adverse environmental impact to aquatic organisms. The EPA published the proposed rule in April 2011. The comment period ended in August 2011. The EPA is evaluating comments and meeting with industry groups to discuss options. The final rule is to be issued by July 2012. The industry and PPL reviewed the proposed rule and submitted comments. The proposed rule contains two requirements to reduce impact to aquatic organisms. The first requires all existing facilities to meet standards for the reduction of mortality of aquatic organisms that become trapped against water intake screens regardless of the levels of mortality actually occurring or the cost of achieving the requirements. The second requirement is to determine and install best technology available to reduce mortality of aquatic organisms that are pulled through the plant's cooling water system. A form of cost-benefit analysis is allowed for this second requirement. This process involves a site-specific evaluation based on nine factors including impacts to energy delivery reliability and remaining useful life of the plant. Since the rule is written to allow for certain site-specific determinations of the best technology available, state implementation of the rule could impose requirements that could result in significant costs to PPL plants ranging from installation of fine mesh screens on cooling water intakes to construction of cooling towers. PPL, PPL Energy Supply, LKE, LG&E and KU will be unable to determine the exact impact until a final rule is issued and the required studies have been completed.

In October 2009, the EPA released its Final Detailed Study of the Steam Electric Power Generating effluent limitations guidelines and standards. Final regulations are expected to be effective in January 2014. PPL expects the revised guidelines and standards to be more stringent than the current standards especially for sulfur dioxide scrubber wastewater and ash basin discharges, which could result in more stringent discharge permit limits. In the interim, PPL is unable to predict whether the EPA and the states may impose more stringent limits on a case-by-case best professional judgment basis under existing authority as permits are renewed.

PPL has signed a Consent Order and Agreement (the Brunner COA) with the PADEP under which it agreed, under certain conditions, to take further actions to minimize the possibility of fish kills at its Brunner Island plant. Fish are attracted to warm water in the power plant discharge channel, especially during cold weather. Debris at intake pumps can result in a unit trip or reduction in load, causing a sudden change in water temperature. PPL has committed to construct a barrier to prevent debris from entering the river water intake area, pending receipt of regulatory permits, at a cost of approximately $4 million.

PPL has also investigated alternatives to exclude fish from the discharge channel and submitted three alternatives to the PADEP. According to the Brunner COA, once the cooling towers at Brunner Island became operational, PPL must implement one of these fish exclusion alternatives if a fish kill occurs in the discharge channel due to thermal impacts from the plant. Following start-up of the cooling towers in April 2010, several hundred dead fish were found in the cooling tower intake basket although there were no sudden changes in water temperature. In the third quarter of 2010, PPL discussed this matter with the PADEP and both parties agreed that this condition was not one anticipated by the Brunner COA, thereby concluding it did not trigger a need to implement a fish exclusion project. At this time, no fish exclusion project is planned.

In May 2010, the Kentucky Waterways Alliance and other environmental groups filed a petition with the Kentucky Energy and Environment Cabinet challenging the Kentucky Pollutant Discharge Elimination System permit issued in April 2010, which covers water discharges from the Trimble County station. In November 2010, the Cabinet issued a final order upholding the permit. In December 2010, the environmental groups appealed the order to Trimble Circuit Court. PPL, LKE, LG&E, and KU are unable to predict the outcome of this matter or estimate a range of reasonably possible losses, if any.

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Superfund and Other Remediation

PPL Electric is a potentially responsible party at several sites listed by the EPA under the federal Superfund program, including the Columbia Gas Plant site, the Metal Bank site and the Ward Transformer site. Clean-up actions have been or are being undertaken at all of these sites, the costs of which have not been significant to PPL Electric. However, should the EPA require different or additional measures in the future, or should PPL Electric's share of costs at multi-party sites increase significantly more than currently expected, the costs could be significant.

PPL Electric, LG&E and KU are remediating or have completed the remediation of several sites that were not addressed under a regulatory program such as Superfund, but for which PPL Electric, LG&E and KU may be liable for remediation. These include a number of former coal gas manufacturing facilities in Pennsylvania and Kentucky previously owned or operated or currently owned by predecessors or affiliates of PPL Electric, LG&E and KU. There are additional sites, formerly owned or operated by PPL Electric, LG&E and KU predecessors or affiliates, for which PPL Electric, LG&E and

KU lack information on current site conditions and are therefore unable to predict what, if any, potential liability they may have.

In June 2011, Lepore-Moyers Partnership (LMP) filed a complaint in federal district court against PPL Electric, UGI Corporation and a neighboring property owner relating to contamination allegedly emanating from the former Mount Joy Manufactured Gas Plant (MGP) site located in Lancaster County, Pennsylvania. LMP owns property adjacent to the Mount Joy MGP site and claims that environmental testing done on its property indicates the presence of volatile organic compounds in the soil and/or groundwater. LMP claims that defendants are responsible for, among other things, the reimbursement of costs, future response costs, investigation and remediation of the contamination, and damages caused by the contamination. PPL Electric cannot estimate a range of reasonably possible losses, if any, or predict the outcome of this matter.

Depending on the outcome of investigations at sites where investigations have not begun or been completed or developments at sites for which PPL currently lacks information, the costs of remediation and other liabilities could be substantial. PPL and its subsidiaries also could incur other non-remediation costs at sites included in current consent orders or other contaminated sites which could be significant. PPL is unable to estimate a range of reasonably possible losses, if any, related to these matters.

The EPA is evaluating the risks associated with polycyclic aromatic hydrocarbons and naphthalene, chemical by-products of coal gas manufacturing. As a result of the EPA's evaluation, individual states may establish stricter standards for water quality and soil cleanup. This could require several PPL subsidiaries to take more extensive assessment and remedial actions at former coal gas manufacturing facilities. PPL cannot estimate a range of reasonably possible losses, if any, related to these matters.

Under the Pennsylvania Clean Streams Law, subsidiaries of PPL Generation are obligated to remediate acid mine drainage at former mine sites and may be required to take additional steps to prevent potential acid mine drainage at previously capped refuse piles. One PPL Generation subsidiary is pumping mine water at two mine sites and treating water at one of these sites. Another PPL Generation subsidiary has installed a passive wetlands treatment system at a third site. At September 30, 2011, PPL Energy Supply had accrued a discounted liability of $26 million to cover the costs of pumping and treating groundwater at the two mine sites for 50 years and for operating and maintaining passive wetlands treatment at the third site. PPL Energy Supply discounted this liability based on risk-free rates at the time of the mine closures. The weighted-average rate used was 8.16%. Expected undiscounted payments are estimated at $2 million for 2011, $1 million for each of the years from 2012 through 2014, $2 million for 2015, and $137 million for work after 2015.

From time to time, PPL undertakes remedial action in response to spills or other releases at various on-site and off-site locations, negotiates with the EPA and state and local agencies regarding actions necessary for compliance with applicable requirements, negotiates with property owners and other third parties alleging impacts from PPL's operations, and undertakes similar actions necessary to resolve environmental matters which arise in the course of normal operations. Based on analyses to date, resolution of these general environmental matters is not expected to have a material adverse impact on PPL's operations.

Future cleanup or remediation work at sites currently under review, or at sites not currently identified, may result in material additional costs for PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU.

Electric and Magnetic Fields

Concerns have been expressed by some members of the public regarding potential health effects of power frequency EMFs, which are emitted by all devices carrying electricity, including electric transmission and distribution lines and substation equipment. Government officials in the U.S. and the U.K. have reviewed this issue. The U.S. National Institute of Environmental Health Sciences concluded in 2002 that, for most health outcomes, there is no evidence that EMFs cause adverse effects. The agency further noted that there is some epidemiological evidence of an association with childhood leukemia, but that the evidence is difficult to interpret without supporting laboratory evidence. The U.K. National Radiological Protection Board (part of the U.K. Health Protection Agency) concluded in 2004 that, while the research on EMFs does not provide a basis to find that EMFs cause any illness, there is a basis to consider precautionary measures beyond existing exposure guidelines. The Stakeholder Group on Extremely Low Frequency EMF, set up by the U.K. Government, has issued two reports, one in April 2007 and one in June 2010, describing options for reducing public exposure to EMF. The U.K. Government responded to the first report in 2009, agreeing to some of the proposals, including a proposed voluntary code to optimally phase 132 kilovolt overhead lines to reduce public exposure to EMF where it is cost effective to do so. The U.K. Government is currently considering the second report which concentrates on EMF exposure from distribution systems. PPL and its subsidiaries believe the current efforts to determine whether EMFs cause adverse health effects should continue and are taking steps to reduce EMFs, where practical, in the design of new transmission and distribution facilities. PPL and its subsidiaries are unable to predict what effect, if any, the EMF issue might have on their operations and facilities either in the U.S. or the U.K., and the associated cost, or what, if any, liabilities they might incur related to the EMF issue.

Environmental Matters - WPD *(PPL)*

WPD's distribution businesses are subject to environmental regulatory and statutory requirements. PPL believes that WPD has taken and continues to take measures to comply with the applicable laws and governmental regulations for the protection of the environment.

The U.K. Government has requested that utilities undertake projects to alleviate the impact of flooding on the U.K. utility infrastructure, including major electricity substations. WPD has agreed with the Ofgem to spend $46 million on flood prevention, which will be recovered through rates during the five-year period commencing April 2010. WPD is currently liaising on site-specific proposals with local offices of a U.K. Government agency.

The U.K. Government recently passed legislation that imposes a duty on certain companies, including WPD, to report on climate change adaptation. The first information request was received by WPD in March 2010 and submissions for all four distribution network operators were made in June 2011. Responses to these reports from the U.K. Government are expected by the end of 2011. WPD has worked with other U.K. electricity network operators to undertake research with the internationally recognized U.K. Met Office (the national weather service) and to report using common agreed methodology.

There are no other material legal or administrative proceedings pending against or related to WPD with respect to environmental matters. See "Electric and Magnetic Fields" above for a discussion of EMFs.

Other

Nuclear Insurance *(PPL and PPL Energy Supply)*

PPL Susquehanna is a member of certain insurance programs that provide coverage for property damage to members' nuclear generating plants. Facilities at the Susquehanna plant are insured against property damage losses up to $2.75 billion under these programs. PPL Susquehanna is also a member of an insurance program that provides insurance coverage for the cost of replacement power during prolonged outages of nuclear units caused by certain specified conditions.

Under the property and replacement power insurance programs, PPL Susquehanna could be assessed retroactive premiums in the event of the insurers' adverse loss experience. At September 30, 2011, this maximum assessment was $44 million.

In the event of a nuclear incident at the Susquehanna plant, PPL Susquehanna's public liability for claims resulting from such incident would be limited to $12.6 billion under provisions of The Price-Anderson Act Amendments under the Energy Policy Act of 2005. PPL Susquehanna is protected against this liability by a combination of commercial insurance and an industry assessment program.

In the event of a nuclear incident at any of the reactors covered by The Price-Anderson Act Amendments under the Energy Policy Act of 2005, PPL Susquehanna could be assessed up to $235 million per incident, payable at $35 million per year.

At September 30, 2011, the property, replacement power and nuclear incident insurers maintained an A.M. Best financial strength rating of A ("Excellent").

Employee Relations *(PPL, LKE and KU)*

In July 2011, KU and its employees represented by the United Steelworkers of America agreed to a six-month extension of their current collective bargaining agreement, previously scheduled to expire in August 2011, which extension includes a 3% wage increase through the new expiration date. In July 2011, KU and its employees represented by IBEW Local 2100 completed annual reopener negotiations and agreed to a 3% wage increase.

Guarantees and Other Assurances

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

In the normal course of business, PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU enter into agreements that provide financial performance assurance to third parties on behalf of certain subsidiaries. Such agreements include, for example, guarantees, stand-by letters of credit issued by financial institutions and surety bonds issued by insurance companies. These agreements are entered into primarily to support or enhance the creditworthiness attributed to a subsidiary on a stand-alone basis or to facilitate the commercial activities in which these subsidiaries enter.

(PPL)

PPL fully and unconditionally guarantees all of the debt securities of PPL Capital Funding.

(PPL, PPL Energy Supply, LKE, LG&E and KU)

The table below details guarantees provided as of September 30, 2011. The total recorded liability at September 30, 2011 and December 31, 2010, was $16 million and $14 million for PPL and $11 million for both periods for LKE. Other than as noted in the descriptions for "WPD guarantee of pension and other obligations of unconsolidated entities," the probability of expected payment/performance under each of these guarantees is remote.

	Exposure at September 30, 2011 (a)	Expiration Date
PPL		
Indemnifications for sale of PPL Gas Utilities	$ 300 (b)	
Indemnifications related to the WPD Midlands acquisition	(c)	
WPD indemnifications for entities in liquidation and sales of assets	287 (d)	2013 - 2018
WPD guarantee of pension and other obligations of unconsolidated entities	66 (e)	2015
Tax indemnification related to unconsolidated WPD affiliates	8 (f)	2012
PPL Energy Supply (g)		
Letters of credit issued on behalf of affiliates	20 (h)	2011 - 2014
Retrospective premiums under nuclear insurance programs	44 (i)	
Nuclear claims assessment under The Price-Anderson Act Amendments under The Energy Policy Act of 2005	235 (j)	
Indemnifications for sales of assets	338 (k)	2012 - 2025
Indemnification to operators of jointly owned facilities	6 (l)	
Guarantee of a portion of a divested unconsolidated entity's debt	22 (m)	2018
LKE (n)		
Indemnification of lease termination and other divestitures	301 (o)	2021 - 2023
LG&E and KU (p)		
LG&E and KU guarantee of shortfall related to OVEC	(q)	2040

(a) Represents the estimated maximum potential amount of future payments that could be required to be made under the guarantee.

(b) PPL has provided indemnification to the purchaser of PPL Gas Utilities and Penn Fuel Propane, LLC for damages arising out of any breach of the representations, warranties and covenants under the related transaction agreement and for damages arising out of certain other matters, including certain pre-closing unknown environmental liabilities relating to former manufactured gas plant properties or off-site disposal sites, if any, outside of Pennsylvania. The indemnification provisions for most representations and warranties, including tax and environmental matters, are capped at $45 million, in the aggregate, and are triggered (i) only if the individual claim exceeds $50,000, and (ii) only if, and only to the extent that, in the aggregate, total claims exceed $4.5 million. The indemnification provisions for most representations and warranties expired on September 30, 2009 without any claims having been made. Certain representations and warranties, including those having to do with transaction authorization and title, survive indefinitely, are capped at the purchase price and are not subject to the above threshold or deductible. The indemnification provision for the tax matters representations survives for the duration of the applicable statute of limitations, and the indemnification provision for the environmental matters representations survives for a period of three years after the transaction closing. The indemnification provision for the environmental matters representations expired on September 30, 2011 without any claims having been made. The indemnification for covenants survives until the applicable covenant is performed and is not subject to any cap.

(c) WPD Midlands Holdings Limited (formerly Central Networks Limited) had agreed prior to the acquisition to indemnify certain former directors of a Turkish entity in which WPD Midlands Holdings Limited previously owned an interest for any liabilities that may arise as a result of an investigation by Turkish tax authorities, and PPL WEM has received a cross-indemnity from E.ON AG with respect to these indemnification obligations. Additionally, PPL subsidiaries agreed to provide indemnifications to subsidiaries of E.ON AG for certain liabilities relating to properties and assets owned by affiliates of E.ON AG that were or are to be transferred to WPD Midlands in connection with the acquisition. The maximum exposure and expiration of these indemnifications cannot be estimated because the maximum potential liability is not capped by and there is no expiration date in the transaction documents.

(d) In connection with the liquidation of wholly owned subsidiaries that have been deconsolidated upon turning the entities over to the liquidators, certain affiliates of PPL Global have agreed to indemnify the liquidators, directors and/or the entities themselves for any liabilities or expenses arising during the liquidation process, including liabilities and expenses of the entities placed into liquidation. In some cases, the indemnifications are limited to a maximum amount that is based on distributions made from the subsidiary to its parent either prior or subsequent to being placed into liquidation. In other cases, the maximum amount of the indemnifications is not explicitly stated in the agreements. The indemnifications generally expire two to seven years subsequent to the date of dissolution of the entities. The exposure noted only includes those cases in which the agreements provide for a specific limit on the amount of the indemnification, and the expiration date was based on an estimate of the dissolution date of the entities.

In connection with their sales of various businesses, WPD and its affiliates have provided the purchasers with indemnifications that are standard for such transactions, including indemnifications for certain pre-existing liabilities and environmental and tax matters. In addition, in connection with certain of these sales, WPD and its affiliates have agreed to continue their obligations under existing third-party guarantees, either for a set period of time following the transactions or upon the condition that the purchasers make reasonable efforts to terminate the guarantees. Finally, WPD and its affiliates remain secondarily responsible for lease payments under certain leases that they have assigned to third parties.

(e) As a result of the privatization of the utility industry in the U.K., certain electric associations' roles and responsibilities were discontinued or modified. As a result, certain obligations, primarily pension-related, associated with these organizations have been guaranteed by the participating members. Costs are allocated to the members based on predetermined percentages as outlined in specific agreements. However, if a member becomes insolvent, costs can be reallocated to and are guaranteed by the remaining members. At September 30, 2011, WPD has recorded an estimated discounted liability based on its current allocated percentage of the total expected costs for which the expected payment/performance is probable. Neither the expiration date nor the maximum amount of potential payments for certain obligations is explicitly stated in the related agreements. Therefore, they have been estimated based on the types of obligations.

(f) Two WPD unconsolidated affiliates were refinanced during 2005. Under the terms of the refinancing, WPD has indemnified the lender against certain tax and other liabilities.

(g) Other than the letters of credit, all guarantees of PPL Energy Supply, on a consolidated basis, also apply to PPL on a consolidated basis for financial reporting purposes.

(h) Standby letter of credit arrangements under PPL Energy Supply's credit facilities for the purposes of protecting various third parties against nonperformance by PPL. This is not a guarantee by PPL on a consolidated basis.

(i) PPL Susquehanna is contingently obligated to pay this amount related to potential retrospective premiums that could be assessed under its nuclear insurance programs. See "Nuclear Insurance" above for additional information.

(j) This is the maximum amount PPL Susquehanna could be assessed for each incident at any of the nuclear reactors covered by this Act. See "Nuclear Insurance" above for additional information.

(k) PPL Energy Supply's maximum exposure with respect to certain indemnifications and the expiration of the indemnifications cannot be estimated because, in the case of certain indemnification provisions, the maximum potential liability is not capped by the transaction documents and the expiration date is based on the applicable statute of limitations. The exposure and expiration dates noted are only for those cases in which the agreements provide for specific limits.

A subsidiary of PPL Energy Supply has agreed to provide indemnification to the purchaser of the Long Island generation business for damages arising out of any breach of the representations, warranties and covenants under the related transaction agreement and for damages arising out of certain other matters, including liabilities relating to certain renewable energy facilities which were previously owned by one of the PPL subsidiaries sold in the transaction but which were unrelated to the Long Island generation business. The indemnification provisions are subject to certain customary limitations, including thresholds for allowable claims, caps on aggregate liability, and time limitations for claims arising out of breaches of most representations and warranties. The indemnification provisions for most representations and warranties expired in the third quarter of 2011.

A subsidiary of PPL Energy Supply has agreed to provide indemnification to the purchasers of the Maine hydroelectric facilities for damages arising out of any breach of the representations, warranties and covenants under the respective transaction agreements and for damages arising out of certain other matters, including liabilities of the PPL Energy Supply subsidiary relating to the pre-closing ownership or operation of those hydroelectric facilities. The indemnification obligations are subject to certain customary limitations, including thresholds for allowable claims, caps on aggregate liability, and time limitations for claims arising out of breaches of representations and warranties. The indemnification provisions for certain representations and warranties expired in the second quarter of 2011.

Subsidiaries of PPL Energy Supply have agreed to provide indemnification to the purchasers of certain non-core generation facilities sold in March 2011 (see Note 8 for additional information) for damages arising out of any breach of the representations, warranties and covenants under the related transaction agreements and for damages arising out of certain other matters relating to the facilities that were the subject of the transaction, including certain reduced capacity payments (if any) at one of the facilities in the event specified PJM rule changes are proposed and become effective. The indemnification provisions are subject to certain customary limitations, including thresholds for allowable claims, caps on aggregate liability, and time limitations for claims arising out of breaches of most representations and warranties.

(l) In December 2007, a subsidiary of PPL Energy Supply executed revised owners agreements for two jointly owned facilities, the Keystone and Conemaugh generating stations. The agreements require that in the event of any default by an owner, the other owners fund contributions for the operation of the generating stations, based upon their ownership percentages. The maximum obligation among all owners, for each station, is currently $20 million. The non-defaulting owners, who make up the defaulting owner's obligations, are entitled to the generation entitlement of the defaulting owner, based upon their ownership percentage. The agreements do not have an expiration date.

(m) A PPL Energy Supply subsidiary owned a one-third equity interest in Safe Harbor Water Power Corporation (Safe Harbor) that was sold in March 2011. Beginning in 2008, PPL Energy Supply guaranteed one-third of any amounts payable with respect to certain senior notes issued by Safe Harbor. Under the terms of the sale agreement, PPL Energy Supply continues to guarantee the portion of Safe Harbor's debt, but received a cross-indemnity from the purchaser in the event PPL Energy Supply is required to make a payment under the guarantee. Exposure noted reflects principal only. See Note 8 for additional information on the sale of this interest.

(n) All guarantees of LKE, on a consolidated basis, also apply to PPL on a consolidated basis for financial reporting purposes.

(o) LKE provides certain indemnifications, the most significant of which relate to the termination of the WKE lease in July 2009. These guarantees cover the due and punctual payment, performance and discharge by each party of its respective present and future obligations. The most comprehensive of these guarantees is the LKE guarantee covering operational, regulatory and environmental commitments and indemnifications made by WKE under the WKE Transaction Termination Agreement. This guarantee has a term of 12 years ending July 2021, and a cumulative maximum exposure of $200 million. Certain items such as non-excluded government fines and penalties fall outside the cumulative cap. Another guarantee with a maximum exposure of $100 million covering other indemnifications expires in 2023. Certain matters are currently under discussion among the parties, including one matter currently in arbitration and a further matter for which LKE is contesting the applicability of the indemnification requirement. The matter in arbitration may be ruled upon during early 2012, which ruling may result in increases or decreases to the liability estimate LKE has currently recorded. The ultimate outcome of both matters cannot be predicted at this time. Additionally, LKE has indemnified various third parties related to historical obligations for other divested subsidiaries and affiliates. The indemnifications vary by entity and the maximum amount limits range from being capped at the sale price to no specified maximum; however, LKE is not aware of formal claims under such indemnities made by any party at this time. LKE could be required to perform on these indemnifications in the event of covered losses or liabilities being claimed by an indemnified party. No additional material loss is anticipated by reason of such indemnification.

(p) All guarantees of LG&E and KU also apply to LKE on a consolidated basis for financial reporting purposes.

(q) As described in the "Energy Purchase Commitments" section of this footnote, pursuant to a power purchase agreement with OVEC, LG&E and KU are obligated to pay a demand charge which includes, among other charges, decommissioning costs, postretirement and post employment benefits. The demand charge is expected to cover the full cost of these items over the term of the contract. However, in the event there is a shortfall in covering these costs, LG&E and KU are obligated to pay their share of the excess.

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU and their subsidiaries provide other miscellaneous guarantees through contracts entered into in the normal course of business. These guarantees are primarily in the form of indemnification or warranties related to services or equipment and vary in duration. The amounts of these guarantees often are not explicitly stated, and the overall maximum amount of the obligation under such guarantees cannot be reasonably estimated. Historically, PPL and its subsidiaries have not made any significant payments with respect to these types of guarantees and the probability of payment/performance under these guarantees is remote.

PPL, on behalf of itself and certain of its subsidiaries, maintains insurance that covers liability assumed under contract for bodily injury and property damage. The coverage requires a maximum $4 million deductible per occurrence and provides maximum aggregate coverage of $200 million. This insurance may be applicable to obligations under certain of these contractual arrangements.

11. Related Party Transactions

PLR Contracts/Purchase of Accounts Receivable *(PPL Energy Supply and PPL Electric)*

PPL Electric holds competitive solicitations for PLR generation supply. See Note 10 for additional information on the solicitations. PPL EnergyPlus has been awarded a portion of the supply. PPL Electric's purchases from PPL EnergyPlus totaled $5 million and $15 million for the three and nine months ended September 30, 2011 and $71 million and $250 million during the same periods in 2010, and are included in the Statements of Income as "Wholesale energy marketing to affiliate" by PPL Energy Supply and as "Energy purchases from affiliate" by PPL Electric.

Under the standard Supply Master Agreement for the bid solicitation process, PPL Electric requires all suppliers to post collateral once credit exposures exceed defined credit limits. In no instance is PPL Electric required to post collateral to suppliers under these supply contracts. PPL EnergyPlus is required to post collateral with PPL Electric: (a) when the market price of electricity to be delivered by PPL EnergyPlus exceeds the contract price for the forecasted quantity of electricity to be delivered and (b) this market price exposure exceeds a contractual credit limit. Based on the current credit rating of PPL Energy Supply, as guarantor, this credit limit is $35 million at September 30, 2011.

PPL Electric's customers may elect to procure generation supply from an alternative supplier. See Note 2 for additional information regarding PPL Electric's purchases of accounts receivable from alternative suppliers, including PPL EnergyPlus.

At September 30, 2011, PPL Energy Supply had a net credit exposure of $16 million to PPL Electric from its commitment as a PLR supplier and from the sale of its accounts receivable to PPL Electric.

Wholesale Sales and Purchases *(LG&E and KU)*

LG&E and KU jointly dispatch their generation units with the lowest cost generation used to serve their retail native load. When LG&E has excess generation capacity after serving its own retail native load and its generation cost is lower than that of KU, KU purchases electricity from LG&E. When KU has excess generation capacity after serving its own retail native load and its generation cost is lower than that of LG&E, LG&E purchases electricity from KU. These transactions are recorded by each company as intercompany wholesale sales and purchases in the Statements of Income as "Electric revenue from affiliate" and "Energy purchases from affiliate" and are recorded by each company at a price equal to the seller's variable cost. Savings realized from such intercompany electricity purchasing, instead of generating from their own higher cost units or purchasing from the market, are shared equally between the two companies. The volume of energy each company has to sell to the other is dependent on its native load needs and its available generation.

Intercompany electric revenues and energy purchases for the periods ended September 30 were as follows.

	Three Months		Nine Months	
	2011	2010	2011	2010
	Successor	Predecessor	Successor	Predecessor
LG&E sales and KU purchases	$ 17	$ 23	$ 61	$ 71
LG&E purchases and KU sales	7	3	25	13

Allocations of PPL Services Costs *(PPL Energy Supply, PPL Electric and LKE)*

PPL Services provides corporate functions such as financial, legal, human resources and information technology services. PPL Services charges the respective PPL subsidiaries for the cost of certain services when they can be specifically identified. The cost of services that is not directly charged to PPL subsidiaries is allocated to applicable subsidiaries based on an average of the subsidiaries' relative invested capital, operation and maintenance expenses and number of employees. PPL Services allocated the following amounts, which PPL management believes are reasonable, including amounts applied to accounts that are further distributed between capital and expense for the periods ended September 30.

	Three Months		Nine Months	
	2011	2010	2011	2010
PPL Energy Supply	$ 44	$ 55	$ 138	$ 170
PPL Electric	34	36	108	101
LKE	3	n/a	12	n/a

Intercompany Billings *(LG&E and KU)*

LG&E and KU Services Company provides LG&E and KU with a variety of centralized administrative, management and support services. Associated charges include payroll taxes paid by LG&E and KU Services Company on behalf of LG&E and KU, labor and burdens of LG&E and KU Services Company employees performing services for LG&E and KU, coal purchases and other vouchers paid by LG&E and KU Services Company on behalf of LG&E and KU. The cost of these services is directly charged to the company, 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/or other statistical information. These costs are charged on an actual cost basis.

In addition, LG&E and KU provide services to each other and to LG&E and KU Services Company. Billings between LG&E and KU relate to labor and overheads associated with union and hourly employees performing work for the other company, charges related to jointly-owned generating units and other miscellaneous charges. Tax settlements between LKE and LG&E and KU are reimbursed through LG&E and KU Services Company.

LG&E and KU Services Company allocated these amounts, which LKE management believes are reasonable, including amounts that are further distributed between capital and expense for the periods ended September 30. Intercompany billings for the periods ended September 30 were as follows.

	Three Months		Nine Months	
	2011	2010	2011	2010
	Successor	Predecessor	Successor	Predecessor
LG&E and KU Services Company billing to LG&E	$ 51	$ 42	$ 134	$ 153
LG&E and KU Services Company billing to KU	44	53	148	170
LG&E billings to KU	26	28	82	47
KU billings to LG&E				1

Intercompany Borrowings

(PPL Energy Supply)

A PPL Energy Supply subsidiary holds revolving lines of credit from certain affiliates. There were no balances outstanding at September 30, 2011 and December 31, 2010. Interest earned on the borrowings was not significant for the three months ended September 30, 2011 and for the three and nine months ended September 30, 2010. For the nine months ended September 30, 2011, interest earned on the borrowings was $6 million, substantially all of which was attributable to borrowings by PPL Energy Funding that had an average interest rate of 3.73% for the nine months ended September 30, 2011.

(LKE)

After PPL's acquisition of LKE in November 2010, LKE held a note receivable from a PPL affiliate. At September 30, 2011, $53 million was outstanding compared with $61 million at December 31, 2010. The interest rate on the outstanding borrowing at September 30, 2011, was 2.22%. During the three and nine months ended September 30, 2011, interest income on this note was not significant.

LKE maintains a $300 million revolving line of credit with a PPL Energy Supply subsidiary whereby LKE can borrow funds on a short-term basis at market-based rates. The interest rates on borrowings are equal to one-month LIBOR plus a spread. There was no balance outstanding at September 30, 2011 or December 31, 2010.

Interest expense incurred on the revolving line of credit with the PPL Energy Supply subsidiary was not significant for the three and nine months ended September 30, 2011.

Prior to PPL's acquisition of LKE in November 2010, LKE had revolving credit facilities and several short-term and long-term loans with its former E.ON AG affiliates. During the three and nine months ended September 30, 2010, LKE incurred interest expense on these debt arrangements of $39 million and $118 million which is included in the Statements of Income as "Interest Expense with Affiliate." The consolidated debt had a weighted-average interest rate of 2.06% at September 30, 2010. Any such borrowings were repaid in 2010 prior to or at the time of the acquisition by PPL.

(LG&E)

LG&E participates in an intercompany money pool agreement whereby LKE and/or KU make available to LG&E funds up to $400 million at market-based rates (based on highly-rated commercial paper issues). At September 30, 2011, there was no balance outstanding. At December 31, 2010, $12 million was outstanding. The interest rate for the period ended December 31, 2010 was 0.25%.

Interest expense incurred on the money pool agreement with LKE and/or KU was not significant for the three and nine months ended September 30, 2011 and 2010.

Prior to PPL's acquisition of LKE in November 2010, LG&E had long-term loans from its former E.ON AG affiliates. During the three and nine months ended September 30, 2010, LG&E incurred interest expense related to these debt arrangements of $6 million and $20 million. The long-term loans had a weighted-average interest rate of 5.49% at September 30, 2010. Any such borrowings were repaid in 2010 prior to or at the time of the acquisition by PPL.

(KU)

KU participates in an intercompany money pool agreement whereby LKE and/or LG&E make available to KU funds up to $400 million at market-based rates (based on highly rated commercial paper issues). At September 30, 2011, there was no balance outstanding. At December 31, 2010, $10 million was outstanding. The interest rate for the period ended December 31, 2010 was 0.25%.

Interest expense incurred on the money pool agreement with LKE and/or LG&E was not significant for the three and nine months ended September 30, 2011 and 2010.

Prior to PPL's acquisition of LKE in November 2010, KU had long-term loans from its former E.ON AG affiliates. During the three and nine months ended September 30, 2010, KU incurred interest expense on these debt arrangements of $18 million and $55 million. The long-term loans had a weighted-average interest rate of 5.50% at September 30, 2010. Any such borrowings were repaid in 2010 prior to or at the time of the acquisition by PPL.

(PPL Energy Supply)

Trademark Royalties

A PPL subsidiary owns PPL trademarks and bills certain affiliates for their use. PPL Energy Supply was allocated $10 million and $30 million of this license fee for the three and nine months ended September 30, 2011 and 2010. These allocations are primarily included in "Other operation and maintenance" on the Statements of Income.

Distribution of Interest in PPL Global to Parent

In January 2011, PPL Energy Supply distributed its membership interest in PPL Global to its parent, PPL Energy Funding. See Note 8 for additional information.

Intercompany Insurance *(PPL Electric)*

PPL Power Insurance Ltd. (PPL Power Insurance) is a subsidiary of PPL that provides insurance coverage to PPL and its subsidiaries for property damage, general/public liability and workers' compensation.

Due to damages resulting from several PUC-reportable storms that occurred during the three and nine months ended September 30, 2011, PPL Electric has exceeded its deductible for the 2011 policy year. Probable recoveries on insurance claims with PPL Power Insurance of $12 million and $26.5 million were recorded during the three and nine months ended September 30, 2011, of which $7 million and $16 million were included in "Other operation and maintenance" on the Statement of Income. The remainder was recorded in PP&E on the Balance Sheet.

12. Other Income (Expense) - net

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

The breakdown of "Other Income (Expense) - net" for the periods ended September 30 was:

	Three Months		Nine Months	
	2011	2010	2011	2010
PPL				
Other Income				
Earnings on securities in NDT funds	$ 2	$ 4	$ 20	$ 15
Interest income	1	3	5	4
AFUDC	2	1	5	3
Net hedge gains associated with the 2011 Bridge Facility (a)			55	
Gain on redemption of debt (b)	22		22	
Miscellaneous - Domestic	3	1	10	5
Miscellaneous - International			1	1
Total Other Income	30	9	118	28
Other Expense				
Economic foreign currency exchange contracts	(11)	1	(11)	(1)
Charitable contributions	2		7	2
Cash flow hedges (c)		29		29
LKE other acquisition-related costs		4		11
WPD Midlands other acquisition-related costs			36	
Foreign currency loss on 2011 Bridge Facility (d)			57	
U.K. stamp duty tax			21	
Miscellaneous - Domestic	2	1	7	4
Miscellaneous - International			3	1
Total Other Expense	(7)	35	120	46
Other Income (Expense) - net	$ 37	$ (26)	$ (2)	$ (18)
PPL Energy Supply				
Other Income				
Earnings on securities in NDT funds	$ 2	$ 4	$ 20	$ 15
Miscellaneous	1	3	6	6
Total Other Income	3	7	26	21
Other Expense				
Miscellaneous	1	1	6	4
Total Other Expense	1	1	6	4
Other Income (Expense) - net	$ 2	$ 6	$ 20	$ 17

	Three Months		Nine Months	
	2011	2010	2011	2010
	Successor	Predecessor	Successor	Predecessor
LKE				
Other Income				
Net derivative gains (losses)		$ 29		$ 19
Equity in earnings of unconsolidated affiliate	$ 1	2	$ 1	3
Miscellaneous		3	3	4
Total Other Income	1	34	4	26
Other Expense				
Charitable contributions	1		3	3
Miscellaneous		3	2	6
Total Other Expense	1	3	5	9
Other Income (Expense) - net	$	$ 31	$ (1)	$ 17

	Three Months		Nine Months	
	2011	2010	2011	2010
	Successor	Predecessor	Successor	Predecessor
LG&E				
Other Income				
Net derivative gains (losses)		$ 29		$ 19
Miscellaneous			$ 2	1
Total Other Income		29	2	20
Other Expense				
Charitable contributions			2	1
Miscellaneous				2
Total Other Expense			2	3
Other Income (Expense) - net		$ 29	$	$ 17

(a) Represents a gain on foreign currency forward contracts that hedged the repayment of the 2011 Bridge Facility borrowing.

(b) In July 2011, as a result of PPL Electric's redemption of 7.125% Senior Secured Bonds due 2013, PPL recorded a gain on the accelerated amortization of the fair value adjustment to the debt recorded in connection with previously settled fair value hedges.

(c) As a result of the net proceeds from the sale of certain non-core generation facilities, coupled with the monetization of full-requirement sales contracts, debt that had been planned to be issued by PPL Energy Supply was no longer needed. As a result, hedge accounting associated with interest rate swaps entered into by PPL in anticipation of a debt issuance by PPL Energy Supply was discontinued. Associated net losses were reclassified from AOCI into earnings.

(d) Represents a foreign currency loss related to the repayment of the 2011 Bridge Facility borrowing.

"Other Income (Expense) - net" for the three and nine months ended September 30, 2011 and 2010 for PPL Electric is primarily AFUDC. KU amounts are not significant.

13. Fair Value Measurements and Credit Concentration

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). PPL and its subsidiaries use, as appropriate, a market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models), and/or a cost approach (generally, replacement cost) to measure the fair value of an asset or liability. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk.

Recurring Fair Value Measurements

The assets and liabilities measured at fair value were:

	September 30, 2011				December 31, 2010			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL								
Assets								
Cash and cash equivalents	$ 1,511	$ 1,511			$ 925	$ 925		
Short-term investments - municipal debt securities					163	163		
Restricted cash and cash equivalents (a)	117	117			66	66		
Price risk management assets:								
Energy commodities	2,042	1	$ 1,990	$ 51	2,503		$ 2,452	$ 51
Interest rate swaps	5		5		15		15	
Foreign currency exchange contracts	21		21		11		11	
Cross-currency swaps	51		37	14	44		44	
Total price risk management assets	2,119	1	2,053	65	2,573		2,522	51

	September 30, 2011				December 31, 2010			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
NDT funds:								
Cash and cash equivalents	13	13			10	10		
Equity securities								
U.S. large-cap	260	180	80		303	207	96	
U.S. mid/small-cap	104	77	27		119	89	30	
Debt securities								
U.S. Treasury	82	82			75	75		
U.S. government sponsored agency	11		11		7		7	
Municipality	82		82		69		69	
Investment-grade corporate	37		37		33		33	
Other	3		3		1		1	
Receivables (payables), net	2		2		1	(1)	2	
Total NDT funds	594	352	242		618	380	238	
Auction rate securities (b)	24			24	25			25
Total assets	$ 4,365	$ 1,981	$ 2,295	$ 89	$ 4,370	$ 1,534	$ 2,760	$ 76
Liabilities								
Price risk management liabilities:								
Energy commodities	$ 1,191	$ 1	$ 1,165	$ 25	$ 1,552		$ 1,498	$ 54
Interest rate swaps	120		120		53		53	
Cross-currency swaps	2		2		9		9	
Total price risk management liabilities	$ 1,313	$ 1	$ 1,287	$ 25	$ 1,614		$ 1,560	$ 54
PPL Energy Supply								
Assets								
Cash and cash equivalents	$ 375	$ 375			$ 661	$ 661		
Restricted cash and cash equivalents (a)	53	53			26	26		
Price risk management assets:								
Energy commodities	2,041	1	$ 1,989	$ 51	2,503		$ 2,452	$ 51
Foreign currency exchange contracts					11		11	
Cross-currency swaps					44		44	
Total price risk management assets	2,041	1	1,989	51	2,558		2,507	51
NDT funds:								
Cash and cash equivalents	13	13			10	10		
Equity securities								
U.S. large-cap	260	180	80		303	207	96	
U.S. mid/small-cap	104	77	27		119	89	30	
Debt securities								
U.S. Treasury	82	82			75	75		
U.S. government sponsored agency	11		11		7		7	
Municipality	82		82		69		69	
Investment-grade corporate	37		37		33		33	
Other	3		3		1		1	
Receivables (payables), net	2		2		1	(1)	2	
Total NDT funds	594	352	242		618	380	238	
Auction rate securities (b)	19			19	20			20
Total assets	$ 3,082	$ 781	$ 2,231	$ 70	$ 3,883	$ 1,067	$ 2,745	$ 71
Liabilities								
Price risk management liabilities:								
Energy commodities	$ 1,190	$ 1	$ 1,164	$ 25	$ 1,541		$ 1,487	$ 54
Cross-currency swaps					9		9	
Total price risk management liabilities	$ 1,190	$ 1	$ 1,164	$ 25	$ 1,550		$ 1,496	$ 54
PPL Electric								
Assets								
Cash and cash equivalents	$ 261	$ 261			$ 204	$ 204		
Restricted cash and cash equivalents (c)	13	13			14	14		
Total assets	$ 274	$ 274			$ 218	$ 218		
LKE								
Assets								
Cash and cash equivalents	$ 170	$ 170			$ 11	$ 11		
Short-term investments - municipal debt securities					163	163		
Restricted cash and cash equivalents (c)	31	31			23	23		
Price risk management assets - energy commodities (d)	1		$ 1					
Total assets	$ 202	$ 201	$ 1		$ 197	$ 197		

	September 30, 2011				December 31, 2010			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Liabilities								
Price risk management liabilities:								
Energy commodities (e)	$ 1		$ 1		$ 2		$ 2	
Interest rate swaps (f)	57		57		34		34	
Total liabilities	$ 58		$ 58		$ 36		$ 36	
LG&E								
Assets								
Cash and cash equivalents	$ 75	$ 75			$ 2	$ 2		
Short-term investments - municipal debt securities					163	163		
Restricted cash and cash equivalents (c)	31	31			22	22		
Price risk management assets - energy commodities (d)	1		$ 1					
Total assets	$ 107	$ 106	$ 1		$ 187	$ 187		
Liabilities								
Price risk management liabilities:								
Energy commodities (e)	$ 1		$ 1		$ 2		$ 2	
Interest rate swaps (f)	57		57		34		34	
Total liabilities	$ 58		$ 58		$ 36		$ 36	
KU								
Assets								
Cash and cash equivalents	$ 94	$ 94			$ 3	$ 3		
Restricted cash and cash equivalents (c)					1	1		
Total assets	$ 94	$ 94			$ 4	$ 4		

(a) Current portion is included in "Restricted cash and cash equivalents" and long-term portion is included in "Other noncurrent assets" on the Balance Sheets.
(b) Included in "Other investments" on the Balance Sheets.
(c) Current portion is included in "Other current assets" on the Balance Sheets. Such amounts were insignificant at September 30, 2011 and December 31, 2010. The long-term portion is included in "Other noncurrent assets" on the Balance Sheets.
(d) Included in "Other current assets" on the Balance Sheets.
(e) Included in "Other current liabilities" on the Balance Sheets.
(f) Current portion is included in "Other current liabilities" on the Balance Sheets. The long-term portion is included in "Price risk management liabilities" on the Balance Sheets.

At September 30, 2011 and December 31, 2010, KU's price risk management assets and liabilities arising from energy commodities accounted for at fair value on a recurring basis were not significant.

A reconciliation of net assets and liabilities classified as Level 3 for the periods ended September 30, 2011 is as follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)							
	Three Months				Nine Months			
	Energy Commodities, net	Auction Rate Securities	Cross-Currency Swaps	Total	Energy Commodities, net	Auction Rate Securities	Cross-Currency Swaps	Total
PPL								
Balance at beginning of period	$ 26	$ 25		$ 51	$ (3)	$ 25		$ 22
Total realized/unrealized gains (losses)								
Included in earnings	6			6	2			2
Included in OCI (a)	2	(1)		1	6	(1)		5
Purchases					2			2
Sales					(4)			(4)
Settlements	(2)			(2)	23			23
Transfers into Level 3	(1)		$ 14	13	(1)		$ 14	13
Transfers out of Level 3	(5)			(5)	1			1
Balance at end of period	$ 26	$ 24	$ 14	$ 64	$ 26	$ 24	$ 14	$ 64

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)							
	Three Months				Nine Months			
	Energy Commodities, net	Auction Rate Securities	Cross-Currency Swaps	Total	Energy Commodities, net	Auction Rate Securities	Cross-Currency Swaps	Total
PPL Energy Supply								
Balance at beginning of period	$ 26	$ 20		$ 46	$ (3)	$ 20		$ 17
Total realized/unrealized gains (losses)								
Included in earnings	6			6	2			2
Included in OCI (a)	2	(1)		1	6	(1)		5
Purchases					2			2
Sales					(4)			(4)
Settlements	(2)			(2)	23			23
Transfers into Level 3	(1)			(1)	(1)			(1)
Transfers out of Level 3	(5)			(5)	1			1
Balance at end of period	$ 26	$ 19		$ 45	$ 26	$ 19		$ 45

(a) "Energy Commodities" are included in "Qualifying derivatives" and "Auction Rate Securities" are included in "Available-for-sale securities" on the Statements of Comprehensive Income.

A reconciliation of net assets and liabilities classified as Level 3 for the periods ended September 30, 2010 is as follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)					
	Three Months			Nine Months		
	Energy Commodities, net	Auction Rate Securities	Total	Energy Commodities, net	Auction Rate Securities	Total
PPL						
Balance at beginning of period	$ 48	$ 25	$ 73	$ 107	$ 25	$ 132
Total realized/unrealized gains (losses)						
Included in earnings	(58)		(58)	(126)		(126)
Included in OCI (a)	4		4	12		12
Net purchases, sales, issuances and settlements (b)	(13)		(13)	(12)		(12)
Transfers into Level 3	(13)		(13)	(15)		(15)
Transfers out of Level 3	46		46	48		48
Balance at end of period	$ 14	$ 25	$ 39	$ 14	$ 25	$ 39
PPL Energy Supply						
Balance at beginning of period	$ 48	$ 20	$ 68	$ 107	$ 20	$ 127
Total realized/unrealized gains (losses)						
Included in earnings	(58)		(58)	(126)		(126)
Included in OCI (a)	4		4	12		12
Net purchases, sales, issuances and settlements (b)	(13)		(13)	(12)		(12)
Transfers into Level 3	(13)		(13)	(15)		(15)
Transfers out of Level 3	46		46	48		48
Balance at end of period	$ 14	$ 20	$ 34	$ 14	$ 20	$ 34

(a) Included in "Qualifying derivatives" on the Statements of Comprehensive Income.
(b) Accounting guidance effective January 1, 2011 requires purchase, sale, issuance and settlement transactions within Level 3 to be presented on a gross basis. The transactions in 2010 are reported on a combined basis.

A reconciliation of net assets and liabilities classified as Level 3 for the periods ended September 30 is as follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
	Energy Commodities, net			
	Three Months		Nine Months	
	2011	2010	2011	2010
	Successor	Predecessor	Successor	Predecessor
LKE				
Balance at beginning of period		$ 45		$ 75
Total realized/unrealized gains (losses)				
Included in discontinued operations		(1)		3
Settlements		(14)		(48)
Balance at end of period		$ 30		$ 30

Net gains and losses on assets and liabilities classified as Level 3 and included in earnings for the periods ended September 30 are reported in the Statements of Income as follows:

	Three Months							
	Energy Commodities, net							
	Unregulated Retail Electric and Gas		Wholesale Energy Marketing		Net Energy Trading Margins		Energy Purchases	
	2011	2010	2011	2010	2011	2010	2011	2010
PPL and PPL Energy Supply								
Total gains (losses) included in earnings	$ 6	$ 10	$ (1)	$ 3	$ 1	$ 1		$ (72)
Change in unrealized gains (losses) relating to positions still held at the reporting date	3	8		4	1		$ 1	(3)

	Nine Months							
	Energy Commodities, net							
	Unregulated Retail Electric and Gas		Wholesale Energy Marketing		Net Energy Trading Margins		Energy Purchases	
	2011	2010	2011	2010	2011	2010	2011	2010
PPL and PPL Energy Supply								
Total gains (losses) included in earnings	$ 11	$ 22	$ (5)	$ 16	$ (2)	$ (1)	$ (2)	$ (163)
Change in unrealized gains (losses) relating to positions still held at the reporting date	6	18	(6)	8	1		20	(5)

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

PPL and its subsidiaries recognize transfers between levels at end-of-reporting-period values.

Price Risk Management Assets/Liabilities - Energy Commodities

Energy commodity contracts are generally valued using the income approach, except for exchange-traded derivative gas, oil and emission allowance contracts, which are valued using the market approach and are classified as Level 1. When observable inputs are used to measure all or most of the value of a contract, the contract is classified as Level 2. Over-the-counter (OTC) contracts are valued using quotes obtained from an exchange, binding and non-binding broker quotes, prices posted by ISOs or published tariff rates. Furthermore, PPL and its subsidiaries obtain independent quotes from the market to validate the forward price curves. OTC contracts include forwards, swaps, options and structured deals for electricity, gas, oil and/or emission allowances and may be offset with similar positions in exchange-traded markets. To the extent possible, fair value measurements utilize various inputs that include quoted prices for similar contracts or market-corroborated inputs. In certain instances, these instruments may be valued using models, including standard option valuation models and standard industry models. For example, the fair value of a structured deal that delivers power to an illiquid delivery point may be measured by valuing the nearest liquid trading point plus the value of the basis between the two points. The basis input may be from market quotes, FTR prices or historical prices.

When unobservable inputs are significant to the fair value measurement, a contract is classified as Level 3. Additionally, Level 2 and Level 3 fair value measurements include adjustments for credit risk based on PPL's own creditworthiness (for net liabilities) and its counterparties' creditworthiness (for net assets). PPL's credit department assesses all reasonably available market information and probabilities of default used to calculate the credit adjustment. PPL assumes that observable market prices include sufficient adjustments for liquidity and modeling risks, but for Level 3 fair value measurements, PPL also assesses the need for additional adjustments for liquidity or modeling risks. The contracts classified as Level 3 represent contracts for which delivery is at a location where pricing is unobservable, the delivery dates are beyond the dates for which independent prices are available or for certain power basis positions, which PPL generally values using historical settlement prices to project forward prices.

In certain instances, energy commodity contracts are transferred between Level 2 and Level 3. The primary reasons for the transfers during 2011 and 2010 were changes in the availability of market information and changes in the significance of the unobservable portion of the contract. As the delivery period of a contract becomes closer, market information may become available. When this occurs, the model's unobservable inputs are replaced with observable market information.

Price Risk Management Assets/Liabilities - Interest Rate Swaps/Foreign Currency Exchange Contracts/Cross-Currency Swaps

To manage their interest rate risk, PPL and its subsidiaries generally use interest rate contracts such as forward-starting swaps, floating-to-fixed swaps and fixed-to-floating swaps. To manage their foreign currency exchange risk, PPL and its subsidiaries generally use foreign currency exchange contracts such as forwards and options and cross-currency swaps that contain characteristics of both interest rate and foreign currency exchange contracts. PPL and its subsidiaries use an income approach to measure the fair value of these contracts, utilizing readily observable inputs, such as forward interest rates (e.g., LIBOR and government security rates) and forward foreign currency exchange rates (e.g., GBP and Euro), as well as inputs that may not be observable, such as credit valuation adjustments. In certain cases, PPL and its subsidiaries cannot practicably obtain market information to value credit risk and therefore rely on their own models. These models use projected probabilities of default based on historical observances. When the credit valuation adjustment is significant to the overall valuation, the contracts are classified as Level 3. Certain cross-currency contracts were transferred to Level 3 due to the significance of the credit adjustment required at September 30, 2011, resulting from the longer average terms of these contracts.

NDT Funds *(PPL and PPL Energy Supply)*

PPL and PPL Energy Supply generally use the market approach to measure the fair value of equity securities held in the NDT funds.

- The fair value measurements of equity securities classified as Level 1 are based on quoted prices in active markets and are comprised of securities that are representative of the Wilshire 5000 index, which is invested in approximately 70% large-cap stocks and 30% mid/small-cap stocks.

- Investments in commingled equity funds are classified as Level 2 and represent securities that track the S&P 500 index and the Wilshire 4500 index. These fair value measurements are based on firm quotes of net asset values per share, which are not obtained from a quoted price in an active market.

Debt securities are generally measured using a market approach, including the use of matrix pricing. Common inputs include reported trades, broker/dealer bid/ask prices, benchmark securities and credit valuation adjustments. When necessary, the fair value of debt securities is measured using the income approach, which incorporates similar observable inputs as well as benchmark yields, credit valuation adjustments, reference data from market research publications, monthly payment data, collateral performance and new issue data.

The debt securities held by the NDT funds at September 30, 2011 have a weighted-average coupon of 4.53% and a weighted-average duration of five years.

Auction Rate Securities *(PPL and PPL Energy Supply)*

PPL's and PPL Energy Supply's auction rate securities include Federal Family Education Loan Program guaranteed student loan revenue bonds, as well as various municipal bond issues. At September 30, 2011, contractual maturities for these auction rate securities were a weighted average of approximately 24 years. PPL and PPL Energy Supply do not have significant exposure to realize losses on these securities; however, auction rate securities are classified as Level 3 because failed auctions limit the amount of observable market data that is available for measuring the fair value of these securities.

The fair value of auction rate securities is estimated using an income approach with inputs for the underlying structure and credit quality of each security; the present value of future interest payments, estimated based on forward rates of the SIFMA Index, and principal payments discounted using interest rates for bonds with a credit rating and remaining term to maturity similar to the stated maturity of the auction rate securities; and the impact of auction failures or redemption at par.

Nonrecurring Fair Value Measurements

(PPL and PPL Energy Supply)

The following nonrecurring fair value measurements occurred during the reporting periods, resulting in asset impairments:

	Carrying Amount (a)	Fair Value Measurements Using Level 2	Fair Value Measurements Using Level 3	Loss (b)
Sulfur dioxide emission allowances (c):				
September 30, 2011	$ 1			$ 1
March 31, 2011	1			1
September 30, 2010	6		$ 2	4
June 30, 2010	11		3	8
March 31, 2010	13		10	3
RECs (c):				
September 30, 2011	1			1
June 30, 2011	2	$ 1		1
March 31, 2011	3			3
Certain non-core generation facilities:				
September 30, 2010	473	381		96

(a) Represents carrying value before fair value measurement.
(b) Losses on sulfur dioxide emission allowances and RECs were recorded in the Supply segment and included in "Other operation and maintenance" on the Statements of Income. Losses on certain non-core generation facilities were recorded in the Supply segment and included in "Income (Loss) from Discontinued Operations (net of income taxes)" on the Statements of Income.
(c) Current and long-term sulfur dioxide emission allowances and RECs are included in "Other intangibles" in their respective areas on the Balance Sheets.

Sulfur Dioxide Emission Allowances

Due to declines in market prices, PPL Energy Supply assessed the recoverability of sulfur dioxide emission allowances not expected to be consumed. When available, observable market prices were used to value the sulfur dioxide emission allowances. When observable market prices were not available, fair value was modeled using prices from observable transactions and appropriate discount rates. The modeled values were significant to the overall fair value measurement, resulting in the Level 3 classification.

RECs

Due to declines in forecasted full-requirement obligations in certain markets as well as declines in market prices, PPL Energy Supply assessed the recoverability of certain RECs not expected to be used. Observable market prices (Level 2) were used to value the RECs.

Certain Non-Core Generation Facilities

Certain non-core generation facilities met the held for sale criteria at September 30, 2010. As a result, net assets held for sale were written down to their estimated fair value less cost to sell. The fair value in the table above excludes estimated costs to sell and was based on the negotiated sales price (achieved through an active auction process). See Note 8 for additional information on the completed sale.

Financial Instruments Not Recorded at Fair Value *(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)*

The carrying amounts of contract adjustment payments related to the 2010 Purchase Contract component of the 2010 Equity Units, the 2011 Purchase Contract component of the 2011 Equity Units, and long-term debt on the Balance Sheets and their estimated fair value are set forth below. The fair value of these instruments was estimated using an income approach by discounting future cash flows at estimated current cost of funding rates. The effect of third-party credit enhancements is not included in the fair value measurement.

	September 30, 2011 Carrying Amount	September 30, 2011 Fair Value	December 31, 2010 Carrying Amount	December 31, 2010 Fair Value
PPL				
Contract adjustment payments (a)	$ 220	$ 220	$ 146	$ 148
Long-term debt	18,177	19,369	12,663	12,868
PPL Energy Supply				
Long-term debt	3,025	3,416	5,589	5,919
PPL Electric				
Long-term debt	1,718	2,044	1,472	1,578
LKE				
Long-term debt	4,075	4,332	3,825	3,607
LG&E				
Long-term debt	1,112	1,166	1,112	1,069
KU				
Long-term debt	1,841	2,011	1,841	1,728

(a) Included in "Other current liabilities" and "Other deferred credits and noncurrent liabilities" on the Balance Sheets.

The carrying value of short-term debt (including notes between affiliates), when outstanding, represents or approximates fair value due to the variable interest rates associated with the financial instruments. The carrying value of held-to-maturity, short-term investments approximates fair value due to the liquid nature and short-term duration of these instruments.

Credit Concentration Associated with Financial Instruments

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

PPL and its subsidiaries enter into contracts with many entities for the purchase and sale of energy. Many of these contracts qualify for NPNS and as such, the fair value of these contracts is not reflected in the financial statements. However, the fair value of these contracts is considered when committing to new business from a credit perspective. See Note 14 for information on credit policies used by PPL and its subsidiaries to manage credit risk, including master netting arrangements and collateral requirements.

(PPL)

At September 30, 2011, PPL had credit exposure of $2.1 billion from energy trading partners, excluding the effects of netting arrangements and collateral. As a result of netting arrangements and collateral, PPL's credit exposure was reduced to $766 million. One of the counterparties accounted for 15% of the exposure, and the next highest counterparty accounted for 12% of the exposure. Ten counterparties accounted for $519 million, or 68%, of the net exposure. As of September 30, 2011, all of these counterparties had investment grade credit ratings from S&P or Moody's; however, subsequent to September 30, 2011, the largest counterparty, with a long-term contract, filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. At September 30, 2011, accounts receivable from this counterparty, net of collateral, was not significant.

(PPL Energy Supply)

At September 30, 2011, PPL Energy Supply had credit exposure of $2.1 billion from energy trading partners, excluding exposure from related parties and the effects of netting arrangements and collateral. As a result of netting arrangements and collateral, this credit exposure was reduced to $763 million. One of these counterparties accounted for 16% of the exposure, and the next highest counterparty accounted for 12% of the exposure. Ten counterparties accounted for $519 million, or 68%, of the net exposure. As of September 30, 2011, all of these counterparties had investment grade credit ratings from S&P or Moody's; however, subsequent to September 30, 2011, the largest counterparty, with a long-term contract, filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. At September 30, 2011, accounts receivable from this counterparty, net of collateral, was not significant.

(PPL Electric)

At September 30, 2011, PPL Electric had no credit exposure under energy supply contracts (including its supply contracts with PPL EnergyPlus).

(LKE, LG&E and KU)

At September 30, 2011, LKE's, LG&E's and KU's credit exposure was not significant.

14. Derivative Instruments and Hedging Activities

Risk Management Objectives

(PPL Energy Supply)

As described in Notes 1 and 8, in January 2011, PPL Energy Supply distributed its membership interest in PPL Global to PPL Energy Supply's parent, PPL Energy Funding. Therefore, effective January 2011, PPL Energy Supply is no longer subject to interest rate and foreign currency exchange risk associated with investments in U.K. affiliates.

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

PPL has a risk management policy approved by the Board of Directors to manage market risk and counterparty credit risk. The RMC, comprised of senior management and chaired by the Chief Risk Officer, oversees the risk management function. Key risk control activities designed to ensure compliance with the risk policy and detailed programs include, but are not limited to, credit review and approval, validation of transactions and market prices, verification of risk and transaction limits, VaR analyses, portfolio stress tests, gross margin at risk analyses, sensitivity analyses and daily portfolio reporting, including open positions, determinations of fair value and other risk management metrics. PPL completed its acquisitions of LKE in November 2010 and WPD Midlands in April 2011. During the second quarter of 2011, the RMC formally approved the inclusion of LKE's risk programs under the risk management policy. WPD Midlands adhered to the applicable risk management programs, including interest rate and foreign currency exchange programs, from the date of acquisition.

Market risk is the potential loss PPL and its subsidiaries may incur as a result of price changes associated with a particular financial or commodity instrument. PPL and its subsidiaries utilize forward contracts, futures contracts, options, swaps and structured deals such as tolling agreements as part of risk management strategies to minimize unanticipated fluctuations in earnings caused by changes in commodity prices, volumes of full-requirement sales contracts, basis prices, interest rates and/or foreign currency exchange rates. All derivatives are recognized on the Balance Sheets at their fair value, unless they qualify for NPNS.

PPL is exposed to market risk from foreign currency exchange risk associated with its investments in U.K. affiliates, as well as additional market risk from certain subsidiaries, as discussed below.

PPL and PPL Energy Supply are exposed to market risk from:

- commodity price, basis and volumetric risks for energy and energy-related products associated with the sale of electricity from its generating assets and other electricity marketing activities (including full-requirement sales contracts) and the purchase of fuel and fuel-related commodities for generating assets, as well as for proprietary trading activities;
- interest rate and price risk associated with debt used to finance operations, as well as debt and equity securities in NDT funds and defined benefit plans; and
- foreign currency exchange rate risk associated with purchases of equipment in currencies other than U.S. dollars.

PPL and PPL Electric are exposed to market and volumetric risks from PPL Electric's obligation as PLR. The PUC has approved a cost recovery mechanism that allows PPL Electric to pass through to customers the cost associated with fulfilling its PLR obligation. This cost recovery mechanism substantially eliminates PPL Electric's exposure to market risk. PPL Electric also mitigates its exposure to volumetric risk by entering into full-requirement supply agreements for its customers. These supply agreements transfer the volumetric risk associated with the PLR obligation to the energy suppliers.

By definition, the regulatory environments for PPL's other regulated entities, LKE (through its subsidiaries LG&E and KU) and WPD, significantly mitigates market risk. LG&E's and KU's rates are set to permit the recovery of prudently incurred costs, including certain mechanisms for fuel, gas supply and environmental expenses. These mechanisms provide for timely recovery of market price and volumetric fluctuations associated with these expenses. LG&E and KU primarily utilize forward financial transactions to manage price risk associated with expected economic generation capacity in excess of expected load requirements. WPD does not have supply risks as it is only in the distribution business.

LG&E also utilizes over-the-counter interest rate swaps to limit exposure to market fluctuations on interest expense. WPD utilizes over-the-counter cross currency swaps to limit exposure to market fluctuations on interest and principal payments from foreign currency exchange rates.

Credit risk is the potential loss PPL and its subsidiaries may incur due to a counterparty's non-performance, including defaults on payments and energy commodity deliveries.

PPL is exposed to credit risk from interest rate and foreign currency derivatives with financial institutions, as well as additional credit risk through certain of its subsidiaries, as discussed below.

PPL and PPL Energy Supply are exposed to credit risk from commodity derivatives with their energy trading partners, which include other energy companies, fuel suppliers and financial institutions.

PPL and PPL Electric are exposed to credit risk from PPL Electric's supply agreements for its PLR obligation.

LKE and LG&E are exposed to credit risk from interest rate derivatives with financial institutions.

The majority of PPL's and its subsidiaries' credit risk stems from PPL subsidiaries' commodity derivatives for multi-year contracts for energy sales and purchases. If PPL Energy Supply's counterparties fail to perform their obligations under such contracts and PPL Energy Supply could not replace the sales or purchases at the same prices as those under the defaulted contracts, PPL Energy Supply would incur financial losses. Those losses would be recognized immediately or through lower revenues or higher costs in future years, depending on the accounting treatment for the defaulted contracts. In the event a supplier of LKE (through its subsidiaries LG&E and KU) or PPL Electric defaults on its obligation, those entities would be required to seek replacement power or replacement fuel in the market. In general, incremental costs incurred by these entities would be recoverable from customers in future rates.

PPL and its subsidiaries have credit policies to manage their credit risk, including the use of an established credit approval process, daily monitoring of counterparty positions and the use of master netting agreements. These agreements generally include credit mitigation provisions, such as margin, prepayment or collateral requirements. PPL and its subsidiaries may request the additional credit assurance, in certain circumstances, in the event that the counterparties' credit ratings fall below investment grade or their exposures exceed an established credit limit. See Note 13 for credit concentration associated with financial instruments.

Master Netting Arrangements

PPL and its subsidiaries have elected not to offset net derivative positions in the Financial Statements. Accordingly, PPL and its subsidiaries do not offset such derivative positions against the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) under master netting arrangements.

PPL's and PPL Energy Supply's obligation to return counterparty cash collateral under master netting arrangements was $64 million and $338 million at September 30, 2011 and December 31, 2010.

PPL Electric, LKE, LG&E and KU had no obligation to return cash collateral under master netting arrangements at September 30, 2011 and December 31, 2010.

PPL Energy Supply, PPL Electric and KU had not posted any cash collateral under master netting arrangements at September 30, 2011 and December 31, 2010.

PPL, LKE and LG&E had posted cash collateral under master netting arrangements of $30 million at September 30, 2011 and $19 million at December 31, 2010.

Commodity Price Risk (Non-trading)

(PPL and PPL Energy Supply)

Commodity price and basis risks are among PPL's and PPL Energy Supply's most significant risks due to the level of investment that PPL and PPL Energy Supply maintain in their competitive generation assets, as well as the extent of their marketing and proprietary trading activities. Several factors influence price levels and volatilities. These factors include, but are not limited to, seasonal changes in demand, weather conditions, available generating assets within regions, transportation/transmission availability and reliability within and between regions, market liquidity, and the nature and extent of current and potential federal and state regulations.

PPL and PPL Energy Supply enter into financial and physical derivative contracts, including forwards, futures, swaps and options, to hedge the price risk associated with electricity, gas, oil and other commodities. Certain contracts qualify for NPNS or are non-derivatives and are therefore not reflected in the financial statements until delivery. PPL and PPL Energy Supply segregate their remaining non-trading activities into two categories: cash flow hedge activity and economic activity. In addition, the monetization of certain full-requirements sales contracts in 2010 impacted both the cash flow hedge and economic activity, as discussed below.

Monetization of Certain Full-Requirement Sales Contracts

In early July 2010, in order to raise additional cash for the LKE acquisition, PPL Energy Supply monetized certain full-requirement sales contracts that resulted in cash proceeds of $156 million.

The decision in late June 2010 to monetize these contracts triggered certain accounting for the second quarter of 2010:

- A portion of these sales contracts had previously been accounted for as NPNS and received accrual accounting treatment. The related purchases to supply these sales contracts were accounted for as cash flow hedges, with the effective portion of the change in fair value being recorded in AOCI and the ineffective portion recorded in "Energy purchases - Unrealized economic activity."

- The rest of the sales contracts, along with their related hedges, had previously been accounted for as economic activity by PPL Energy Supply and the change in fair value of the sales contracts was recorded in "Wholesale energy marketing - Unrealized economic activity" and the change in fair value of the purchase contracts was recorded in "Energy purchases - Unrealized economic activity" on the Statement of Income.

- At June 30, 2010, PPL Energy Supply could no longer assert that it was probable that any contracts with these counterparties would result in physical delivery. Therefore, the fair value of the NPNS contracts of $66 million was recorded on the Balance Sheet in "Price risk management assets," with a corresponding gain to "Wholesale energy marketing - Unrealized economic activity." Of this amount, $16 million was related to full-requirement sales contracts that had not been monetized. The corresponding cash flow hedges were dedesignated and all amounts previously recorded in AOCI were reclassified to earnings. This resulted in a pre-tax reclassification of $(87) million of gains (losses) from AOCI into "Energy purchases - Unrealized economic activity" on the Statement of Income. An additional charge of $(23) million was also recorded at June 30, 2010 in "Wholesale energy marketing - Unrealized economic activity" to reflect the fair value of the sales contracts previously accounted for as economic activity.

- The net result of these transactions, excluding the full-requirement sales contracts that have not been monetized, was a gain (loss) of $(60) million, or $(36) million after tax, for the second quarter of 2010.

In late July 2010, PPL Energy Supply again monetized certain full-requirement sales contracts that resulted in additional cash proceeds of $93 million. The monetization in late July triggered certain accounting that impacted the third quarter of 2010.

- These sales contracts had previously been accounted for as NPNS and received accrual accounting treatment. The related purchases to supply these sales contracts were accounted for as cash flow hedges, with the effective portion of the change in fair value being recorded in AOCI and the ineffective portion recorded in "Energy purchases - Unrealized economic activity" on the Statement of Income.

- The $93 million received from the monetization of the NPNS contracts was recorded as a gain to "Wholesale energy marketing - Realized" on the Statement of Income. The corresponding cash flow hedges were dedesignated and all amounts previously recorded in AOCI were reclassified to earnings. This resulted in a pre-tax reclassification of $(61) million of gains (losses) from AOCI into "Energy purchases - Unrealized economic activity" on the Statement of Income.

- The net result of these transactions was a gain of $32 million, or $19 million after tax, for the three months ended September 30, 2010.

The proceeds of $249 million from these monetizations are reflected in the Statement of Cash Flows as a component of "Net cash provided by operating activities."

Cash Flow Hedges

Many derivative contracts have qualified for hedge accounting so that the effective portion of a derivative's gain or loss is deferred in AOCI and reclassified into earnings when the forecasted transaction occurs. The cash flow hedges that existed at September 30, 2011 range in maturity through 2016. At September 30, 2011, the accumulated net unrecognized after-tax gains (losses) that are expected to be reclassified into earnings during the next 12 months were $309 million for PPL and PPL Energy Supply. Cash flow hedges are discontinued if it is no longer probable that the original forecasted transaction will occur by the end of the originally specified time periods and any amounts previously recorded in AOCI are reclassified into earnings once it is determined that the hedge transaction is probable of not occurring. For the three and nine months ended September 30, 2011, such reclassifications were insignificant. For the three and nine months ended September 30, 2010, such reclassifications were after tax (losses) of $(36) million and $(89) million. The after-tax (losses) recorded in both periods in 2010 were primarily due to the monetization of certain full-requirement sales contracts, for which the associated hedges were no longer required, as discussed above.

For the three and nine months ended September 30, 2011, hedge ineffectiveness associated with energy derivatives was, after-tax, a gain (loss) of $(3) million and $(17) million. For the three and nine months ended September 30, 2010, hedge ineffectiveness associated with energy derivatives was, after-tax, a gain (loss) of $8 million and $(16) million.

In addition, when cash flow hedge positions fail hedge effectiveness testing, hedge accounting is not permitted in the quarter in which this occurs and, accordingly, the entire change in fair value for the periods that failed is recorded to the Statement of Income. Certain power and gas cash flow hedge positions failed effectiveness testing during 2008 and early 2009 which resulted in significant gains recorded to the Statement of Income. However, these positions were not dedesignated as hedges, as prospective regression analysis demonstrated that these hedges were expected to be highly effective over their term.

During the first quarter of 2010, after-tax gains (losses) of $(82) million were recognized in earnings as a result of the reversals. Effective April 1, 2010, clarifying accounting guidance was issued that precludes the reversal of previously recognized gains/losses resulting from hedge failures. By the end of the first quarter of 2010, all previously recorded hedge ineffectiveness gains resulting from hedge failures had reversed; therefore, the clarifying accounting guidance did not have a significant impact on the results of operation for PPL or PPL Energy Supply.

Economic Activity

Certain derivative contracts economically hedge the price and volumetric risk associated with electricity, gas, oil and other commodities but do not receive hedge accounting treatment. These derivatives hedge a portion of the economic value of PPL's and PPL Energy Supply's competitive generation assets and unregulated full-requirement and retail contracts, which are subject to changes in fair value due to market price volatility and volume expectations. Additionally, economic activity includes the ineffective portion of qualifying cash flow hedges (see "Cash Flow Hedges" above). The derivative contracts in this category that existed at September 30, 2011 range in maturity through 2017.

Examples of economic activity include certain purchase contracts used to supply full-requirement sales contracts; FTRs or basis swaps used to hedge basis risk associated with the sale of competitive generation or supplying unregulated full-requirement sales contracts; spark spreads (sale of electricity with the simultaneous purchase of fuel); retail electric and gas activities; and fuel oil swaps used to hedge price escalation clauses in coal transportation and other fuel-related contracts. PPL Energy Supply also uses options, which include the sale of call options and the purchase of put options tied to a particular generating unit. Since the physical generating capacity is owned, the price exposure is limited to the cost of the particular generating unit and does not expose PPL Energy Supply to uncovered market price risk.

Activity associated with monetizing certain full-requirement sales contracts is also included in economic activity during the second quarter of 2010. All transactions that previously had been considered cash flow hedges related to these full-requirement sales contracts, but no longer qualified as cash flow hedges, were classified as economic activity at September 30, 2010.

The net fair value of economic positions at September 30, 2011 and December 31, 2010 was a net liability of $218 million and $389 million for PPL Energy Supply. The unrealized gains (losses) for economic activity for the periods ended September 30 are as follows.

	Three Months		Nine Months	
	2011	2010	2011	2010
Operating Revenues				
Unregulated retail electric and gas	$ 4	$ 8	$ 9	$ 16
Wholesale energy marketing	216	52	229	(190)
Operating Expenses				
Fuel	(28)	16	(16)	13
Energy purchases (a)	(176)	(300)	(49)	(418)

(a) During the second quarter of 2010, PPL Energy Supply corrected an error relating to the fair value of a capacity contract (classified as economic activity) due to the use of an incorrect forward capacity curve. PPL Energy Supply's energy purchases were understated for the year ended December 31, 2009 and the first quarter of 2010 by an unrealized amount of $35 million ($20 million after tax or $0.05 per share, basic and diluted, for PPL) and $5 million ($3 million after tax or $0.01 per share, basic and diluted, for PPL). Management concluded that the impacts were not material to first quarter 2010 financial statements of PPL and PPL Energy Supply, and were not material to the financial statements for the full year 2010.

The net gains (losses) recorded in "Wholesale energy marketing" resulted primarily from certain full-requirement sales contracts for which PPL Energy Supply did not elect NPNS, from hedge ineffectiveness, including hedges that failed effectiveness testing, as discussed in "Cash Flow Hedges" above, and from the monetization of certain full-requirement sales contracts. The net gains (losses) recorded in "Energy purchases" resulted primarily from certain purchase contracts to supply the full-requirement sales contracts noted above for which PPL Energy Supply did not elect hedge treatment, from hedge ineffectiveness, including hedges that failed effectiveness testing, and from purchase contracts that no longer hedge the full-requirement sales contracts that were monetized as discussed above in "Monetization of Certain Full-Requirement Sales Contracts."

(PPL, LKE, LG&E and KU)

LG&E and KU primarily utilize forward financial transactions to manage price risk associated with expected economic generation capacity in excess of expected load requirements. Hedge accounting treatment has not been elected for these transactions; therefore, realized and unrealized gains and losses are recorded in the Statements of Income. The derivative contracts in this category that existed at September 30, 2011, range in maturity through 2012.

The net fair value of economic positions for LKE, LG&E and KU at September 30, 2011 and December 31, 2010 was not significant. Unrealized gains (losses) for economic activity for LKE, LG&E and KU for the three and nine months ended September 30, 2011 and 2010 were not significant.

Commodity Price Risk (Trading) *(PPL and PPL Energy Supply)*

PPL Energy Supply also executes energy contracts to take advantage of market opportunities. As a result, PPL Energy Supply may at times create a net open position in its portfolio that could result in significant losses if prices do not move in the manner or direction anticipated. PPL Energy Supply's trading activity is shown in "Net energy trading margins" on the Statements of Income.

Commodity Volumetric Activity

(PPL and PPL Energy Supply)

PPL Energy Supply currently employs four primary strategies to maximize the value of its wholesale energy portfolio. As further discussed below, these strategies include the sales of baseload generation, optimization of intermediate and peaking generation, marketing activities, and proprietary trading activities. The tables within this section present the volumes of PPL Energy Supply's derivative activity, excluding those that qualify for NPNS, unless otherwise noted.

Sales of Baseload Generation

PPL Energy Supply has a formal hedging program for its competitive baseload generation fleet, which includes 7,357 MW of nuclear, coal and hydroelectric generating capacity. The objective of this program is to provide a reasonable level of near-term cash flow and earnings certainty while preserving upside potential of power price increases over the medium term. PPL Energy Supply sells its expected generation output on a forward basis using both derivative and non-derivative instruments. Both are included in the following tables.

The following table presents the expected sales, in GWh, from baseload generation and tolling arrangements that are included in the baseload portfolio based on current forecasted assumptions for 2011-2013. These expected sales could be impacted by several factors, including plant availability.

2011 (a)	2012	2013
13,575	54,675	54,364

(a) Represents expected sales for the balance of the current year.

The following table presents the percentage of expected baseload generation sales shown above that has been sold forward under fixed price contracts and the related percentage of fuel that has been purchased or committed at September 30, 2011.

Year	Derivative Sales (a)	Total Power Sales (b)	Fuel Purchases (c) Coal	Fuel Purchases (c) Nuclear
2011 (d)	90%	100%	100%	100%
2012	92%	91%	96%	100%
2013 (e)	63%	72%	89%	100%

(a) Excludes non-derivative contracts and contracts that qualify for NPNS. Volumes for option contracts factor in the probability of an option being exercised and may be less than the notional amount of the option.
(b) Amount represents derivative and non-derivative contracts. Volumes for option contracts factor in the probability of an option being exercised and may be less than the notional amount of the option. Percentages are based on fixed-price contracts only.
(c) Coal and nuclear contracts receive accrual accounting treatment, as they are not derivative contracts. Percentages are based on both fixed- and variable-priced contracts.
(d) Represents the balance of the current year.
(e) Volumes for derivative sales contracts that deliver in future periods total 3,050 GWh.

In addition to the fuel purchases above, PPL Energy Supply attempts to economically hedge the fuel price risk that is within its fuel-related and coal transportation contracts, which are tied to changes in crude oil or diesel prices. PPL Energy Supply has also entered into contracts to financially hedge the physical sale of oil. The following table presents the net volumes (in thousands of barrels) of derivative (sales)/purchase contracts used in support of these strategies at September 30, 2011.

	2011 (a)	2012	2013 (b)
Oil Swaps	(21)	651	540

(a) Represents the balance of the current year.
(b) Volumes (in thousands of barrels) for derivative contracts used in support of this strategy that deliver in future periods total 120.

Optimization of Intermediate and Peaking Generation

In addition to its competitive baseload generation activities, PPL Energy Supply attempts to optimize the overall value of its competitive intermediate and peaking fleet, which includes 3,395 MW of gas and oil-fired generation. The following table presents the net volumes of derivative (sales)/purchase contracts used in support of this strategy at September 30, 2011.

	Units	2011 (a)	2012	2013 (b)
Power Sales (c)	GWh	(1,127)	(2,006)	(1,224)
Fuel Purchases (c)	Bcf	12.0	13.5	8.2

(a) Represents the balance of the current year.
(b) Volumes for derivative contracts used in support of these strategies that deliver in future periods total (1,632) GWh and 11.0 Bcf.
(c) Included in these volumes are non-options and exercised option contracts that converted to non-option derivative contracts. Volumes associated with option contracts are not significant.

Marketing Activities

PPL Energy Supply's marketing portfolio is comprised of full-requirement sales contracts and their related supply contracts, retail gas and electricity sales contracts and other marketing activities. The full-requirement sales contracts and their related supply contracts make up a significant component of the marketing portfolio. The obligations under the full-requirement sales contracts include supplying a bundled product of energy, capacity, RECs, and other ancillary products. The full-requirement sales contracts PPL Energy Supply is awarded do not provide for specific levels of load, and actual load could vary significantly from forecasted amounts. PPL Energy Supply uses a variety of strategies to hedge its full-requirement sales contracts, including purchasing energy at a liquid trading hub or directly at the load delivery zone, purchasing capacity and RECs in the market and supplying the energy, capacity and RECs with its generation. PPL Energy Supply does not consider RECs to be derivatives; therefore, they are excluded from the table below. The following table presents the volume of (sales)/purchase contracts, excluding FTRs, basis and capacity contracts, used in support of these activities at September 30, 2011.

	Units	2011 (a)	2012	2013
Energy sales contracts (b)	GWh	(4,319)	(13,074)	(5,325)
Related energy supply contracts (b)				
Energy purchases	GWh	2,923	7,425	645
Volumetric hedges (c)	GWh	90	312	43
Generation supply	GWh	1,265	5,457	4,478
Retail gas sales contracts	Bcf	(2.6)	(9.1)	(0.5)
Retail gas purchase contracts	Bcf	2.5	9.1	0.5

(a) Represents the balance of the current year.
(b) Includes NPNS and contracts that are not derivatives, which receive accrual accounting.
(c) PPL Energy Supply uses power and gas options, swaps and futures to hedge the volumetric risk associated with full-requirement sales contracts since the demand for power varies hourly. Volumes for option contracts factor in the probability of an option being exercised and may be less than the notional amount of the option.

Proprietary Trading Activity

At September 30, 2011, PPL Energy Supply's proprietary trading positions, excluding FTR, basis and capacity contract activity that is included in the tables below, were not significant.

Other Energy-Related Positions

FTRs and Other Basis Positions

PPL Energy Supply buys and sells FTRs and other basis positions to mitigate the basis risk between delivery points related to the sales of its generation, the supply of its full-requirement sales contracts and retail contracts, as well as for proprietary trading purposes. The net volume of derivative FTR and basis (sales)/purchase contracts at September 30, 2011 were:

	Units	2011 (a)	2012	2013 (b)
FTRs	GWh	9,720	15,008	
Power Basis Positions	GWh	(4,022)	(10,828)	(987)
Gas Basis Positions	Bcf	7.7	12.9	(1.0)

(a) Represents the balance of the current year.
(b) Volumes that deliver in future periods are 364 GWh and (2.0) Bcf.

Capacity Positions

PPL Energy Supply buys and sells capacity related to the sales of its generation and the supply of its full-requirement sales contracts. These contracts qualify for NPNS and receive accrual accounting. PPL Energy Supply also sells and purchases capacity for proprietary trading purposes. These contracts are marked to fair value through earnings. The following table presents the net volumes of derivative capacity (sales)/purchase contracts at September 30, 2011.

	Units	2011 (a)	2012	2013 (b)
Capacity	MW-months	(2,944)	(6,422)	(1,384)

(a) Represents the balance of the current year
(b) Volumes that deliver in future periods are (253) MW-months.

Sales of Excess Regulated Generation (PPL, LKE, LG&E and KU)

LKE and its subsidiaries manage the price risk of expected economic generation capacity in excess of expected load requirements using market-traded forward contracts. At September 30, 2011, the net volume of electricity based financial derivatives outstanding to hedge excess regulated generation was insignificant for LKE, LG&E and KU.

Interest Rate Risk

Cash Flow Hedges *(PPL and PPL Energy Supply)*

Interest rate risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financings. PPL enters into financial interest rate swap contracts to hedge these exposures. These interest rate swap contracts mature through 2022 and had a notional value of $550 million at September 30, 2011.

Through PPL, PPL WEM holds a notional position in cross-currency interest rate swaps totaling $960 million that mature through 2021 to hedge the interest payments and principal of the U.S. dollar-denominated senior notes issued by PPL WEM in April 2011. Additionally, PPL WW holds a notional position in cross-currency interest rate swaps totaling $302 million that mature through December 2028 to hedge the interest payments and principal of its U.S. dollar-denominated senior notes. In 2010, these PPL WW swaps were part of PPL Energy Supply's business. As a result of the distribution of PPL Energy Supply's membership interest in PPL Global to PPL Energy Funding effective January 2011, these swaps are no longer part of PPL Energy Supply's business.

For the three and nine months ended September 30, 2011, hedge ineffectiveness associated with interest rate derivatives was insignificant and a gain (loss) of $(13) million for PPL, of which a gain (loss) of $(5) million was attributable to certain interest rate swaps that failed hedge effectiveness testing during the second quarter of 2011. For the three and nine months ended September 30, 2010, hedge ineffectiveness associated with interest rate derivatives was insignificant for both PPL and PPL Energy Supply.

Cash flow hedges are discontinued if it is no longer probable that the original forecasted transaction will occur by the end of the originally specified time periods and any amounts previously recorded in AOCI are reclassified into earnings once it is determined that the hedged transaction is probable of not occurring. PPL and PPL Energy Supply had no such reclassifications for the three and nine months ended September 30, 2011. As a result of the expected net proceeds from the then anticipated sale of certain non-core generation facilities, coupled with the monetization of certain full-requirement sales contracts, debt that had been planned to be issued by PPL Energy Supply in 2010 was no longer needed. As a result, hedge accounting associated with interest rate swaps entered into by PPL in anticipation of a debt issuance by PPL Energy Supply was discontinued. Net gains (losses) of $(29) million, or $(19) million after tax, were reclassified for the three and nine months ended September 30, 2010. PPL Energy Supply had no such reclassifications for the three and nine months ended September 30, 2010.

At September 30, 2011, the accumulated net unrecognized after-tax gains (losses) on qualifying derivatives that are expected to be reclassified into earnings during the next 12 months were $(11) million for PPL. Amounts are reclassified as the hedged interest payments are made.

Fair Value Hedges *(PPL and PPL Energy Supply)*

PPL and PPL Energy Supply are exposed to changes in the fair value of their debt portfolios. To manage this risk, PPL and PPL Energy Supply may enter into financial contracts to hedge fluctuations in the fair value of existing debt issuances due to changes in benchmark interest rates. At September 30, 2011, PPL held contracts that range in maturity through 2047 and had a notional value of $99 million. PPL Energy Supply did not hold any such contracts at September 30, 2011. PPL and PPL Energy Supply did not recognize gains or losses resulting from the ineffective portion of fair value hedges or from a portion of the hedging instrument being excluded from the assessment of hedge effectiveness for the three and nine months ended September 30, 2011 and 2010.

PPL Electric redeemed $400 million of 7.125% Senior Secured Bonds due 2013. As a result of this redemption, PPL recorded a gain (loss) of $22 million, or $14 million after tax, for the three and nine months ended September 30, 2011 in "Other Income (Expense) - net" on the Statement of Income as a result of accelerated amortization of the fair value adjustments to the debt in connection with previously settled fair value hedges. PPL had no such gains or losses for the three and nine months ended September 30, 2010. PPL Energy Supply had no such gains or losses for the three and nine months ended September 30, 2011 and 2010.

Economic Activity

(PPL, LKE and LG&E)

LG&E enters into interest rate swap contracts that economically hedge interest payments on variable rate debt. Beginning in the third quarter of 2010, as a result of a rate case order, realized gains and losses from the swaps are recoverable through regulated rates. Therefore, any subsequent change in fair value of these derivatives is included in regulatory assets and liabilities. Realized gains and losses are recognized in "Interest Expense" on the Statements of Income when the hedged transaction occurs. Prior to the third quarter of 2010, LG&E reclassified amounts previously recorded in AOCI to earnings in the same period during which the forecasted transaction affected earnings. The amounts recorded to regulatory assets for the three and nine months ended September 30, 2011 were $22 million and $23 million. At September 30, 2011, LG&E held contracts with a notional amount of $179 million that range in maturity through 2033. The fair value of these contracts was a liability of $57 million and $34 million at September 30, 2011 and December 31, 2010.

(LKE and LG&E)

The amounts recorded to regulatory assets for the three and nine months ended September 30, 2010 were $59 million.

Foreign Currency Risk

(PPL)

Cash Flow Hedges

At September 30, 2011, there were no existing foreign currency cash flow hedges associated with foreign currency-denominated debt or firm commitments (including those for the purchase of equipment) denominated in foreign currencies. Amounts previously settled and recorded in AOCI are reclassified as the hedged interest payments are made and as the related equipment is depreciated. Insignificant gains are expected to be reclassified into earnings during the next 12 months.

During the three and nine months ended September 30, 2011 and 2010, no cash flow hedges were discontinued because it was probable that the original forecasted transaction would not occur by the end of the originally specified time periods.

Fair Value Hedges

PPL enters into foreign currency forward contracts to hedge the exchange rates associated with firm commitments denominated in foreign currencies; however, at September 30, 2011, there were no existing contracts of this nature and no gains or losses recorded during the three and nine months ended September 30, 2011 and 2010 related to hedge ineffectiveness, or from a portion of the hedging instrument being excluded from the assessment of hedge ineffectiveness, or from hedges of firm commitments that no longer qualified as fair value hedges.

Net Investment Hedges *(PPL and PPL Energy Supply)*

PPL enters into foreign currency contracts on behalf of a subsidiary to protect the value of a portion of its net investment in WPD. In 2010, these contracts were included in PPL Energy Supply's business. As a result of the distribution of PPL Energy Supply's membership interest in PPL Global to PPL Energy Funding, effective January 2011, these contracts are no longer included in PPL Energy Supply's business.

The contracts outstanding at September 30, 2011 had an aggregate notional amount of £65 million (approximately $106 million based on contracted rates). The settlement dates of these contracts range from January 2012 through June 2012. At September 30, 2011, the fair value of these contracts was $5 million. For the three and nine months ended September 30, 2011, PPL recognized insignificant amounts of activity in the foreign currency translation adjustment component of AOCI. For the three and nine months ended September 30, 2010, PPL and PPL Energy Supply recognized insignificant amounts of activity in the foreign currency translation adjustment component of AOCI. At September 30, 2011, PPL included $18 million of accumulated net investment hedge gains (losses), after tax, in the foreign currency translation adjustment component of AOCI. At December 31, 2010, PPL and PPL Energy Supply included $15 million of accumulated net investment hedge gains (losses), after-tax, in AOCI.

Economic Activity

(PPL)

In anticipation of the repayment of a portion of the GBP-denominated borrowings under the 2011 Bridge Facility with U.S. dollar proceeds received from PPL's issuance of common stock and 2011 Equity Units and PPL WEM's issuance of U.S. dollar-denominated senior notes, as discussed in Note 7, PPL entered into forward contracts to purchase GBP in order to economically hedge the foreign currency exchange rate risk related to the repayment. These trades were settled in April 2011. Gains and losses on these contracts are included in "Other Income (Expense) - net" on the Statement of Income. PPL recorded insignificant losses and $55 million of pre-tax, net gains (losses) for the three and nine months ended September 30, 2011.

(PPL and PPL Energy Supply)

PPL enters into foreign currency contracts on behalf of a subsidiary to economically hedge anticipated earnings denominated in GBP. In 2010, these contracts were included in PPL Energy Supply's business. As a result of the distribution of PPL Energy Supply's membership interest in PPL Global to PPL Energy Funding, effective January 2011, these contracts are no longer included in PPL Energy Supply's business. At September 30, 2011, the total exposure hedged by PPL was £393 million, the net fair value of these positions was $16 million and these contracts had termination dates ranging from October 2011 through November 2012. PPL records gains (losses) on these contracts in "Other Income (Expense) - net" on the Statements of Income. Gains (losses) were $11 million for both the three and nine months ended September 30, 2011 and insignificant for 2010. PPL Energy Supply's 2010 gains (losses), both realized and unrealized, are included in "Income (Loss) from Discontinued Operations (net of income taxes)" on the Statement of Income and were insignificant for the three and nine months ended September 30, 2010.

Accounting and Reporting

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

All derivative instruments are recorded at fair value on the Balance Sheets as an asset or liability unless they qualify for NPNS. NPNS contracts for PPL and PPL Energy Supply include full-requirement sales contracts, power purchase agreements and certain retail energy and physical capacity contracts, and for PPL Electric include full-requirement purchase contracts and block purchase contracts. Changes in the derivatives' fair value are recognized currently in earnings unless specific hedge accounting criteria are met, except for the change in fair value of LG&E's interest rate swaps which is recognized as a regulatory asset. See Note 6 for amounts recorded in regulatory assets at September 30, 2011 and December 31, 2010.

See Notes 1 and 19 in PPL and PPL Electric's 2010 Form 10-K, Notes 1 and 15 in PPL Energy Supply's Form 8-K dated June 24, 2011 and Notes 1 and 5 in the annual financial statements included in LKE's, LG&E's and KU's 2011 Registration Statements for additional information on accounting policies related to derivative instruments.

(PPL)

The following table presents the fair value and location of derivative instruments recorded on the Balance Sheets.

	September 30, 2011				December 31, 2010			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments (a)		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments (a)	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:								
Price Risk Management Assets/Liabilities (b):								
Interest rate swaps	$ 5	$ 63		$ 4	$ 11	$ 19		$ 2
Cross-currency swaps		2			7	9		
Foreign currency exchange contracts	5		$ 16		7		$ 4	
Commodity contracts	667	2	700	734	878	19	1,011	1,095
Total current	677	67	716	738	903	47	1,015	1,097
Noncurrent:								
Price Risk Management Assets/Liabilities (b):								
Interest rate swaps				53	4			32
Cross-currency swaps	51				37			
Commodity contracts	152	16	523	439	169	7	445	431
Total noncurrent	203	16	523	492	210	7	445	463
Total derivatives	$ 880	$ 83	$ 1,239	$ 1,230	$ 1,113	$ 54	$ 1,460	$ 1,560

(a) $261 million and $326 million of net gains associated with derivatives that were no longer designated as hedging instruments are recorded in AOCI at September 30, 2011 and December 31, 2010.
(b) Represents the location on the Balance Sheet.

The after-tax balances of accumulated net gains (losses) (excluding net investment hedges) in AOCI were $491 million and $695 million at September 30, 2011 and December 31, 2010. The after-tax balances of accumulated net gains (losses) (excluding net investment hedges) in AOCI were $921 million and $602 million at September 30, 2010 and December 31, 2009.

The following tables present the pre-tax effect of derivative instruments recognized in income, OCI or regulatory assets for the periods ended September 30, 2011.

Derivatives in Fair Value Hedging Relationships	Hedged Items in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income	Gain (Loss) Recognized in Income on Derivative		Gain (Loss) Recognized in Income on Related Item	
			Three Months	Nine Months	Three Months	Nine Months
Interest rate swaps	Fixed rate debt	Interest expense		$ 2	$ 5	$ 23
		Other income (expense) - net			22	22

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Location of Gain (Loss) Recognized in Income	Three Months		Nine Months	
	Three Months	Nine Months		Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:							
Interest rate swaps	$ (52)	$ (51)	Interest expense	$ (4)		$ (10)	$ (13)
Cross-currency swaps	46	13	Interest expense			3	
			Other income (expense) - net	32		49	
Commodity contracts	66	116	Wholesale energy marketing	163	$ (9)	530	(31)
			Fuel	1		1	
			Depreciation	1		1	
			Energy purchases	(42)		(159)	1
Total	$ 60	$ 78		$ 151	$ (9)	$ 415	$ (43)
Net Investment Hedges:							
Foreign exchange contracts	$ 5	$ 4					

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized in Income on Derivatives	Three Months	Nine Months
Foreign exchange contracts	Other income (expense) - net	$ 11	$ 66
Interest rate swaps	Interest expense	(2)	(6)
Commodity contracts	Utility	1	(2)
	Unregulated retail electric and gas	6	11
	Wholesale energy marketing	193	167
	Net energy trading margins (a)	(2)	9
	Fuel	(27)	(12)
	Energy purchases	(192)	(156)
	Total	$ (12)	$ 77

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	Three Months	Nine Months
Interest rate swaps	Regulatory assets - noncurrent	$ (22)	$ (23)

(a) Differs from the Statement of Income due to intra-month transactions that PPL defines as spot activity, which is not accounted for as a derivative.

The following tables present the pre-tax effect of derivative instruments recognized in income or OCI for the periods ended September 30, 2010.

Derivatives in Fair Value Hedging Relationships	Hedged Items in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income	Gain (Loss) Recognized in Income on Derivative		Gain (Loss) Recognized in Income on Related Item	
			Three Months	Nine Months	Three Months	Nine Months
Interest rate swaps	Fixed rate debt	Interest expense	$ 12	$ 46	$ (1)	$ (14)

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion) Three Months	Derivative Gain (Loss) Recognized in OCI (Effective Portion) Nine Months	Location of Gain (Loss) Recognized in Income	Three Months Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Three Months Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Nine Months Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Nine Months Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:							
Interest rate swaps	$ (124)	$ (225)	Interest expense	$ (1)		$ (2)	$ (3)
			Other income (expense) - net	(30)		(30)	
Cross-currency swaps	(6)	40	Interest expense	1		2	
			Other income (expense) - net	(19)		19	
Commodity contracts	360	789	Wholesale energy marketing	93	$ (8)	469	(173)
			Fuel	1		2	
			Depreciation	1		2	
			Energy purchases	(87)	20	(398)	2
Total	$ 230	$ 604		$ (41)	$ 12	$ 64	$ (174)
Net Investment Hedges:							
Foreign exchange contracts	$ (1)	$ 4					

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized in Income on Derivatives	Three Months	Nine Months
Foreign exchange contracts	Other income (expense) - net	$ (1)	$ 1
Commodity contracts	Unregulated retail electric and gas	10	22
	Wholesale energy marketing	61	384
	Net energy trading margins (a)	(11)	
	Fuel	10	(2)
	Energy purchases	(378)	(873)
	Total	$ (309)	$ (468)

(a) Differs from the Statement of Income due to intra-month transactions that PPL defines as spot activity, which is not accounted for as a derivative.

(PPL Energy Supply)

See Note 8 for information on PPL Energy Supply's January 2011 distribution of its membership interest in PPL Global to its parent, PPL Energy Funding. The following table presents the fair value and location of derivative instruments recorded on the Balance Sheets.

	September 30, 2011				December 31, 2010			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments (a)		Derivatives designated as hedging instruments		Derivatives not designated hedging instruments (a)	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:								
Price Risk Management Assets/Liabilities (b):								
Cross-currency swaps					$ 7	$ 9		
Foreign currency exchange contracts					7		$ 4	
Commodity contracts	$ 667	$ 2	$ 699	$ 733	878	19	1,011	$ 1,084
Total current	667	2	699	733	892	28	1,015	1,084
Noncurrent:								
Price Risk Management Assets/Liabilities (b):								
Cross-currency swaps					37			
Commodity contracts	152	16	523	439	169	7	445	431
Total noncurrent	152	16	523	439	206	7	445	431
Total derivatives	$ 819	$ 18	$ 1,222	$ 1,172	$ 1,098	$ 35	$ 1,460	$ 1,515

(a) $261 million and $326 million of net gains associated with derivatives that were no longer designated as hedging instruments are recorded in AOCI at September 30, 2011 and December 31, 2010.

(b) Represents the location on the balance sheet.

The after-tax balances of accumulated net gains (losses) (excluding net investment hedges) in AOCI were $539 million and $733 million at September 30, 2011 and December 31, 2010. At September 30, 2011, AOCI reflects the effect of PPL Energy Supply's January 2011 distribution of its membership interest in PPL Global to its parent, PPL Energy Funding. See Note 8 for additional information. The after-tax balances of accumulated net gains (losses) (excluding net investment hedges) in AOCI were $1.0 billion and $573 million at September 30, 2010 and December 31, 2009.

The following tables present the pre-tax effect of derivative instruments recognized in income or OCI for the periods ended September 30, 2011.

Derivatives in Fair Value Hedging Relationships	Hedged Items in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income	Gain (Loss) Recognized in Income on Derivative		Gain (Loss) Recognized in Income on Related Item	
			Three Months	Nine Months	Three Months	Nine Months
Interest rate swaps	Fixed rate debt	Interest expense				$ 1

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Location of Gains (Losses) Recognized in Income	Three Months		Nine Months	
	Three Months	Nine Months		Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:							
Commodity contracts	$ 66	$ 116	Wholesale energy marketing	$ 163	$ (9)	$ 530	$ (31)
			Fuel	1		1	
			Depreciation	1		1	
			Energy purchases	(42)		(159)	1
Total	$ 66	$ 116		$ 123	$ (9)	$ 373	$ (30)

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized in Income on Derivatives	Three Months	Nine Months
Commodity contracts	Unregulated retail electric and gas	$ 6	$ 11
	Wholesale energy marketing	193	167
	Net energy trading margins (a)	(2)	9
	Fuel	(27)	(12)
	Energy purchases	(192)	(156)
	Total	$ (22)	$ 19

(a) Differs from the Statement of Income due to intra-month transactions that PPL Energy Supply defines as spot activity, which is not accounted for as a derivative.

The following tables present the pre-tax effect of derivative instruments recognized in income or OCI for the periods ended September 30, 2010.

Derivatives in Fair Value Hedging Relationships	Hedged Items in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income	Gain (Loss) Recognized in Income on Derivative		Gain (Loss) Recognized in Income on Related Item	
			Three Months	Nine Months	Three Months	Nine Months
Interest rate swaps	Fixed rate debt	Interest expense			$ 1	$ 1

Derivative Relationships	Derivative Gain (Loss) Recognized in OCI (Effective Portion) Three Months	Derivative Gain (Loss) Recognized in OCI (Effective Portion) Nine Months	Location of Gains (Losses) Recognized in Income	Three Months: Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Three Months: Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Nine Months: Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Nine Months: Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Cash Flow Hedges:							
Interest rate swaps			Discontinued operations				$ (3)
Cross-currency swaps	$ (6)	$ 40	Discontinued operations	$ (18)		$ 21	
Commodity contracts	$ 360	789	Wholesale energy marketing	93	$ (8)	469	(173)
			Fuel	1		2	
			Depreciation			1	
			Energy purchases	(87)	20	(398)	2
Total	$ 354	$ 829		$ (11)	$ 12	$ 95	$ (174)
Net Investment Hedges:							
Foreign exchange contracts	$ (1)	$ 4					

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized in Income on Derivatives	Three Months	Nine Months
Foreign exchange contracts	Discontinued operations	$ (1)	$ 1
Commodity contracts	Unregulated retail electric and gas	10	22
	Wholesale energy marketing	61	384
	Net energy trading margins (a)	(11)	
	Fuel	10	(2)
	Energy purchases	(378)	(873)
	Total	$ (309)	$ (468)

(a) Differs from the Statement of Income due to intra-month transactions that PPL Energy Supply defines as spot activity, which is not accounted for as a derivative.

(LKE and LG&E)

The following table presents the fair value and location of derivative instruments recorded on the Balance Sheets.

	September 30, 2011				December 31, 2010			
	Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments		Derivatives designated as hedging instruments		Derivatives not designated as hedging instruments	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Current:								
Other Current Assets/Liabilities (a):								
Interest rate swaps				$ 4				$ 2
Commodity contracts			$ 1	1				2
Total current			1	5				4
Noncurrent:								
Price Risk Management Assets/Liabilities (a):								
Interest rate swaps				53				32
Total noncurrent				53				32
Total derivatives			$ 1	$ 58				$ 36

(a) Represents the location on the Balance Sheet.

There were no after-tax balances of accumulated net gains (losses) in AOCI at September 30, 2011, December 31, 2010 and September 30, 2010. The after-tax balance of accumulated net gains in AOCI was $5 million at December 31, 2009.

The following tables present the pre-tax effect of derivative instruments recognized in income or regulatory assets for the periods ended September 30, 2011, for the successor.

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized in Income on Derivatives	Three Months	Nine Months
Interest rate swaps	Interest expense	$ (2)	$ (6)
Commodity contracts	Operating revenues - retail and wholesale	1	(2)
	Total	$ (1)	$ (8)

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	Three Months	Nine Months
Interest rate swaps	Regulatory assets	$ (22)	$ (23)

The following tables present the pre-tax effect of derivative instruments recognized in income or regulatory assets for the periods ended September 30, 2010, for the predecessor.

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized in Income on Derivatives	Three Months	Nine Months
Interest rate swaps	Other income (expense) - net	$ 29	$ 19
Commodity contracts	Operating revenues - retail and wholesale		3
	Total	$ 29	$ 22

Derivatives Not Designated as Hedging Instruments:	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	Three Months	Nine Months
Interest rate swaps	Regulatory assets	$ (59)	$ (59)

The gains and losses recognized in income on derivatives associated with commodity contracts for the three-month period ended September 30, 2010 were not significant.

During the nine months ended September 30, 2010, LG&E recorded a pre-tax gain to reverse previously recorded losses of $21 million and $9 million to reflect the reclassification of the ineffective swaps and the terminated swap to a regulatory asset.

The gain on hedging interest rate swaps recognized in OCI for the three and nine months ended September 30, 2010, was $21 million and $17 million. For the three and nine months ended September 30, 2010, the gain on derivatives reclassified from AOCI to regulatory assets was $23 million.

Prior to including the unrealized gains and losses on the effective and ineffective interest rate swaps in regulatory assets, amounts previously recorded in AOCI were reclassified into earnings in the same period during which the hedged forecasted transaction affected earnings. The amount amortized from OCI to income in the three and nine months ended September 30, 2010 was not significant.

(KU)

The gains and losses recognized in income on derivatives associated with commodity contracts were not significant for the three and nine months ended September 30, 2011 and 2010.

Credit Risk-Related Contingent Features *(PPL, PPL Energy Supply, LKE and LG&E)*

Certain of PPL's, PPL Energy Supply's, LKE's and LG&E's derivative contracts contain credit contingent provisions which would permit the counterparties with which PPL, PPL Energy Supply, LKE or LG&E is in a net liability position to require the transfer of additional collateral upon a decrease in the credit ratings of PPL, PPL Energy Supply, LKE, LG&E, or certain of their subsidiaries. Most of these provisions would require PPL, PPL Energy Supply, LKE or LG&E to transfer additional collateral or permit the counterparty to terminate the contract if the applicable credit rating were to fall below investment grade. Some of these provisions also would allow the counterparty to require additional collateral upon each decrease in the credit rating at levels that remain above investment grade. In either case, if the applicable credit rating were to fall below investment grade (i.e., below BBB- for S&P or Fitch, or Baa3 for Moody's), and assuming no assignment to an investment grade affiliate were allowed, most of these credit contingent provisions require either immediate payment of the net liability as a termination payment or immediate and ongoing full collateralization by PPL, PPL Energy Supply, LKE or LG&E on derivative instruments in net liability positions.

Additionally, certain of PPL's, PPL Energy Supply's, LKE's and LG&E's derivative contracts contain credit contingent provisions that require PPL, PPL Energy Supply, LKE or LG&E to provide "adequate assurance" of performance if the other party has reasonable grounds for insecurity regarding PPL's, PPL Energy Supply's, LKE's or LG&E's performance of its obligation under the contract. A counterparty demanding adequate assurance could require a transfer of additional collateral or other security, including letters of credit, cash and guarantees from a creditworthy entity. This would typically involve negotiations among the parties. However, amounts disclosed below represent assumed immediate payment or immediate and ongoing full collateralization for derivative instruments in net liability positions with "adequate assurance" provisions.

At September 30, 2011, the effect of a decrease in credit ratings below investment grade on derivative contracts that contain credit contingent features and were in a net liability position is summarized as follows:

	PPL	PPL Energy Supply	LKE	LG&E
Aggregate fair value of derivative instruments in a net liability position with credit contingent provisions	$ 103	$ 51	$ 37	$ 37
Aggregate fair value of collateral posted on these derivative instruments	45	15	30	30
Aggregate fair value of additional collateral requirements in the event of a credit downgrade below investment grade (a)	191	167	9	9

(a) Includes the effect of net receivables and payables already recorded on the Balance Sheet.

15. Goodwill

(PPL and PPL Energy Supply)

The changes in the carrying amounts of goodwill by segment were as follows.

	Kentucky Regulated	International Regulated	Supply	Total
PPL				
Balance at December 31, 2010 (a)	$ 662	$ 679	$ 420 (d)	$ 1,761
Goodwill recognized during the period (b)		2,366		2,366
Effect of foreign currency exchange rates		69		69
Balance at September 30, 2011 (a)	$ 662	$ 3,114	$ 420	$ 4,196

	International Regulated	Supply	Total
PPL Energy Supply			
Balance at December 31, 2010 (a)	$ 679	$ 86	$ 765
Derecognition (c)	(679)		(679)
Balance at September 30, 2011 (a)	$	$ 86	$ 86

(a) There were no accumulated impairment losses related to goodwill.
(b) Recognized as a result of the 2011 acquisition of WPD Midlands. See Note 8 for additional information.
(c) Represents the amount of goodwill derecognized as a result of PPL Energy Supply's distribution of its membership interest in PPL Global to PPL Energy Supply's parent, PPL Energy Funding. See Note 8 for additional information on the distribution. Subsequent to the distribution, PPL Energy Supply operates in a single business operating segment and reporting unit.
(d) Includes goodwill attributed to the Supply segment as a result of the 2010 acquisition of LKE.

16. Asset Retirement Obligations

(PPL, LKE, LG&E and KU)

Accretion expense recorded by LG&E and KU is offset with a regulatory credit and related regulatory asset, such that there is no income statement impact.

(PPL, PPL Energy Supply, LKE, LG&E and KU)

The changes in the carrying amounts of AROs were as follows.

	PPL	PPL Energy Supply	LKE	LG&E	KU
ARO at December 31, 2010	$ 448	$ 345	$ 103	$ 49	$ 54
Accretion expense	25	20	4	2	2
Obligations assumed in acquisition of WPD Midlands (a)	15				
Derecognition (b)		(5)			
Obligations incurred	11	11			
Changes in estimated cash flow or settlement date	3	(4)	7	4	3
Obligations settled	(13)	(13)			
ARO at September 30, 2011	$ 489	$ 354	$ 114	$ 55	$ 59

(a) Obligations required under U.K. law related to treated wood poles, gas-filled switchgear and fluid-filled cables. See Note 8 for additional information on the acquisition.
(b) Represents AROs derecognized as a result of PPL Energy Supply's distribution of its membership interest in PPL Global to PPL Energy Supply's parent, PPL Energy Funding. See Note 8 for additional information on the distribution.

The classification of AROs on the Balance Sheet was as follows.

	September 30, 2011				
	PPL	PPL Energy Supply	LKE	LG&E	KU
Current portion (a)	$ 10	$ 9	$ 1	$ 1	
Long-term portion (b)	479	345	113	54	$ 59
Total	$ 489	$ 354	$ 114	$ 55	$ 59

	December 31, 2010				
	PPL	PPL Energy Supply	LKE	LG&E	KU
Current portion (a)	$ 13	$ 13			
Long-term portion (b)	435	332	$ 103	$ 49	$ 54
Total	$ 448	$ 345	$ 103	$ 49	$ 54

(a) Included in "Other current liabilities."
(b) Included in "Asset retirement obligations."

(PPL and PPL Energy Supply)

The most significant ARO recorded by PPL and PPL Energy Supply relates to the decommissioning of the Susquehanna nuclear plant. The accrued nuclear decommissioning obligation was $287 million and $270 million at September 30, 2011 and December 31, 2010, and is included in "Asset retirement obligations" on the Balance Sheets.

Assets in the NDT funds are legally restricted for purposes of settling PPL's and PPL Energy Supply's ARO related to the decommissioning of the Susquehanna nuclear plant. The aggregate fair value of these assets was $594 million and $618 million at September 30, 2011 and December 31, 2010, and is included in "Nuclear plant decommissioning trust funds" on the Balance Sheets. See Notes 13 and 17 for additional information on these assets.

17. Available-for-Sale Securities

(PPL, PPL Energy Supply, LKE and LG&E)

PPL and its subsidiaries classify certain short-term investments, securities held by the NDT funds and auction rate securities as available-for-sale. Available-for-sale securities are carried on the Balance Sheets at fair value. Unrealized gains and losses on these securities are reported, net of tax, in OCI or are recognized currently in earnings when a decline in fair value is determined to be other-than-temporary. The specific identification method is used to calculate realized gains and losses.

The following table shows the amortized cost, the gross unrealized gains and losses recorded in AOCI, and the fair value of available-for-sale securities.

	September 30, 2011				December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
PPL								
Short-term investments - municipal debt securities					$ 163			$ 163
NDT funds:								
Cash and cash equivalents	$ 13			$ 13	10			10
Equity securities:								
U.S. large-cap	170	$ 90		260	180	$ 123		303
U.S. mid/small-cap	67	37		104	67	52		119
Debt securities:								
U.S. Treasury	72	10		82	71	4		75
U.S. government sponsored agency	10	1		11	6	1		7
Municipality	79	4	$ 1	82	69			69
Investment-grade corporate	34	3		37	31	2		33
Other	3			3	1			1
Receivables/payables, net	2			2	1			1
Total NDT funds	450	145	1	594	436	182		618
Auction rate securities	25		1	24	25			25
Total	$ 475	$ 145	$ 2	$ 618	$ 624	$ 182		$ 806
PPL Energy Supply								
NDT funds:								
Cash and cash equivalents	$ 13			$ 13	$ 10			$ 10
Equity securities:								
U.S. large-cap	170	$ 90		260	180	$ 123		303
U.S. mid/small-cap	67	37		104	67	52		119
Debt securities:								
U.S. Treasury	72	10		82	71	4		75
U.S. government sponsored agency	10	1		11	6	1		7
Municipality	79	4	$ 1	82	69			69
Investment-grade corporate	34	3		37	31	2		33
Other	3			3	1			1
Receivables/payables, net	2			2	1			1
Total NDT funds	450	145	1	594	436	182		618
Auction rate securities	20		1	19	20			20
Total	$ 470	$ 145	$ 2	$ 613	$ 456	$ 182		$ 638
LKE and LG&E								
Short-term investments - municipal debt securities					$ 163			$ 163

There were no securities with credit losses at September 30, 2011 or December 31, 2010.

The following table shows the scheduled maturity dates of debt securities held at September 30, 2011.

	Maturity Less Than 1 Year	Maturity 1-5 Years	Maturity 5-10 Years	Maturity in Excess of 10 Years	Total
PPL					
Amortized cost	$ 10	$ 70	$ 64	$ 79	$ 223
Fair value	10	73	70	86	239
PPL Energy Supply					
Amortized cost	$ 10	$ 70	$ 64	$ 74	$ 218
Fair value	10	73	70	81	234

The following table shows proceeds from and realized gains and losses on sales of available-for-sale securities for the periods ended September 30.

	Three Months		Nine Months	
	2011	2010	2011	2010
PPL				
Proceeds from sales of NDT securities (a)	$ 34	$ 15	$ 134	$ 83
Other proceeds from sales			163	
Gross realized gains (b)	3	2	26	11
Gross realized losses (b)	4	1	15	4
PPL Energy Supply				
Proceeds from sales of NDT securities (a)	$ 34	$ 15	$ 134	$ 83
Gross realized gains (b)	3	2	26	11
Gross realized losses (b)	4	1	15	4

(a) These proceeds are used to pay income taxes and fees related to managing the trust. Remaining proceeds are reinvested in the trust.
(b) Excludes the impact of other-than-temporary impairment charges recognized in the Statements of Income.

(PPL, LKE and LG&E)

At December 31, 2010, LG&E held $163 million aggregate principal amount of tax-exempt revenue bonds issued by Louisville/Jefferson County, Kentucky on behalf of LG&E that were purchased from the remarketing agent in 2008. At December 31, 2010, these investments were reflected in "Short-term investments" on the Balance Sheet. During the nine months ended September 30, 2011, LG&E received $163 million for its investments in these bonds when they were remarketed to unaffiliated investors. No realized or unrealized gains (losses) were recorded on these securities, as the difference between carrying value and fair value was not significant.

18. New Accounting Guidance Pending Adoption

(PPL, PPL Energy Supply, PPL Electric, LKE, LG&E and KU)

Fair Value Measurements

Effective January 1, 2012, PPL and its subsidiaries will prospectively adopt accounting guidance that was issued to clarify existing fair value measurement guidance as well as enhance fair value disclosures. The additional disclosures required by this guidance include quantitative information about significant unobservable inputs used for Level 3 measurements, qualitative information about the sensitivity of recurring Level 3 measurements, information about any transfers between Level 1 and 2 of the fair value hierarchy, information about when the current use of a non-financial asset is different from the highest and best use, and the hierarchy classification for assets and liabilities whose fair value is disclosed only in the notes to the financial statements.

Any fair value measurement differences resulting from the adoption of this guidance will be recognized in income in the period of adoption. The adoption of this guidance is not expected to have a significant impact on PPL and its subsidiaries.

Presentation of Comprehensive Income

Effective January 1, 2012, PPL and its subsidiaries will retrospectively adopt accounting guidance that was issued to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items that are recorded in OCI. The amendments require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements where the first statement includes the components of net income and the second statement includes the components of OCI.

Regardless of whether an entity chooses to present comprehensive income in a single continuous statement or in two separate but consecutive statements, the entity is required to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented.

Subsequent to the issuance of this new accounting guidance, the Financial Accounting Standards Board (FASB) announced plans to propose deferral of the requirement that companies present reclassification adjustments for each component of OCI in both net income and OCI on the face of the financial statements. During the deferral period, the FASB also plans to re-evaluate the requirement. The deferral, if finalized, would not change the requirement to present items of net income, items of other comprehensive income and total comprehensive income in either one continuous statement or two separate consecutive statements.

Upon adoption, the change in presentation is not expected to have a significant impact on PPL and its subsidiaries.

Disclosures about an Employer's Participation in a Multiemployer Plan

Effective December 31, 2011, PPL and its subsidiaries will retrospectively adopt accounting guidance that was issued to improve the transparency about an employer's participation in a multiemployer plan. The disclosures required by this guidance include the significant multiemployer plans in which an employer participates, the level of the employer's participation in these plans, the financial health of these plans and the nature of employer commitments to these plans. For plans for which users are unable to obtain additional publicly available information outside the employer's financial statements, additional disclosures are required.

The adoption of this standard is not expected to have a significant impact on PPL and its subsidiaries.

Testing Goodwill for Impairment

Effective January 1, 2012, PPL and its subsidiaries will prospectively adopt accounting guidance which will allow an entity to elect the option to first make a qualitative evaluation about the likelihood of an impairment of goodwill. If, based on this assessment, the entity determines it is not more likely than not the fair value of a reporting unit is less than the carrying amount, the two-step goodwill impairment test is not necessary. However, the first step of the impairment test is required if an entity concludes it is more likely than not the fair value of a reporting unit is less than the carrying amount based on the qualitative assessment.

The adoption of this standard is not expected to have a significant impact on PPL and its subsidiaries.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following information should be read in conjunction with PPL's Condensed Consolidated Financial Statements and the accompanying Notes and with PPL's 2010 Form 10-K. Capitalized terms and abbreviations are explained in the glossary. Dollars are in millions, except per share data, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides an overview of PPL's business strategy, financial and operational highlights, and key legal and regulatory matters.

- "Results of Operations" provides a summary of PPL's earnings and a review of results by reportable segment and a description of key factors by segment that are expected to impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of significant changes in principal items on PPL's Statements of Income, comparing the three and nine months ended September 30, 2011 with the same periods in 2010.

- "Financial Condition - Liquidity and Capital Resources" provides an analysis of PPL's liquidity position and credit profile. This section also includes a discussion of rating agency decisions and capital expenditure projections.

- "Financial Condition - Risk Management" provides an explanation of PPL's risk management programs relating to market and credit risk.

- "Application of Critical Accounting Policies" provides an update to PPL's critical accounting policy related to "Business Combinations - Purchase Price Allocation." This critical accounting policy is being updated to reflect the impact of the April 2011 acquisition of WPD Midlands.

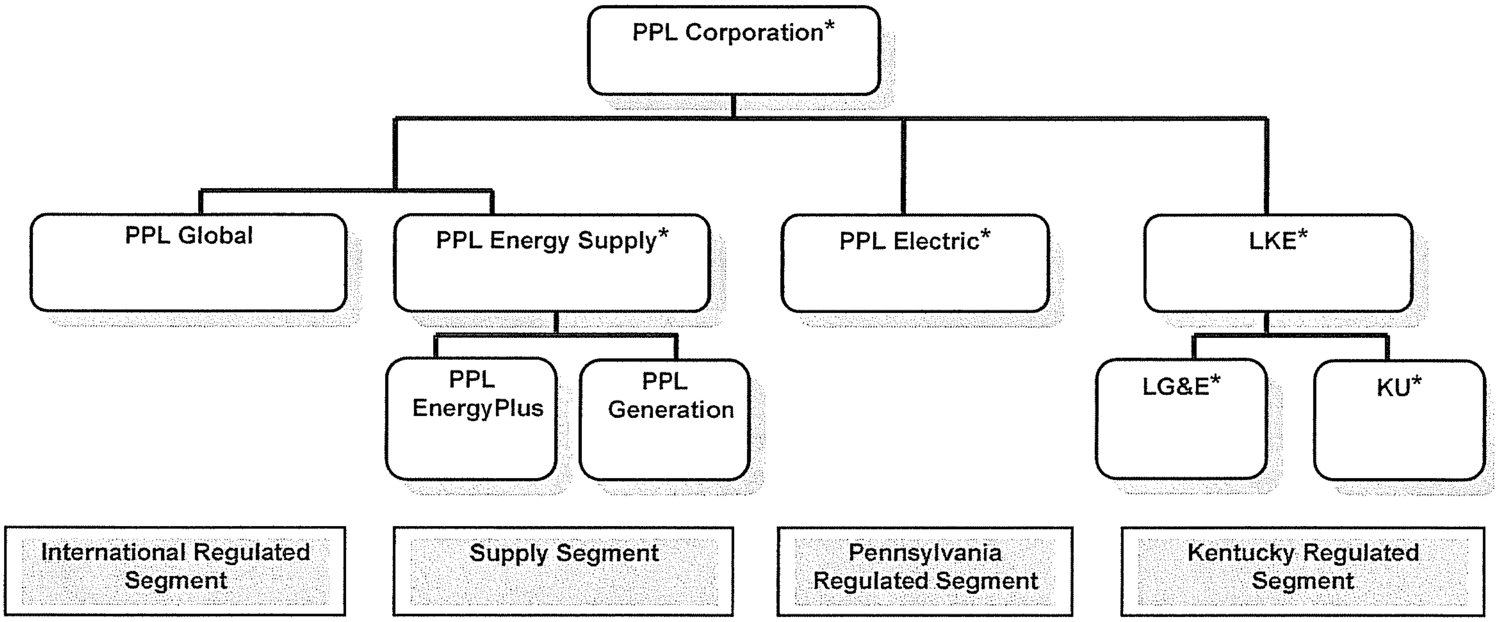
Overview

Introduction

PPL is an energy and utility holding company with headquarters in Allentown, Pennsylvania. Through subsidiaries, PPL generates electricity from power plants in the northeastern, northwestern and southeastern U.S., markets wholesale or retail energy primarily in the northeastern and northwestern portions of the U.S., delivers electricity to customers in Pennsylvania, Kentucky, Virginia, Tennessee and the U.K. and delivers natural gas to customers in Kentucky.

In January 2011, PPL Energy Supply distributed its 100% membership interest in PPL Global to its parent, PPL Energy Funding (the parent holding company of PPL Energy Supply and PPL Global with no other material operations), to better align PPL's organizational structure with the manner in which it manages its businesses and reports segment information in its consolidated financial statements. The distribution separated the U.S.-based competitive energy marketing and supply business from the U.K.-based regulated electricity distribution business. The following chart depicts the organizational structure subsequent to this distribution and illustrates how PPL's principal subsidiaries align with PPL's reportable segments. After distributing PPL Global to its parent, PPL Energy Supply and its subsidiaries' operations are entirely within the Supply segment.

Subsequent to the distribution of PPL Global, PPL's principal subsidiaries are shown below (* denotes an SEC registrant - LKE, LG&E and KU became SEC Registrants effective June 1, 2011):



Business Strategy

PPL's overall strategy is to achieve stable, long-term growth in its regulated electricity delivery businesses through efficient operations and strong customer and regulatory relations, and disciplined growth in energy supply margins while mitigating volatility in both cash flows and earnings. In pursuing this strategy, PPL acquired LKE in November 2010 and WPD Midlands in April 2011. These acquisitions have reduced PPL's overall business risk profile and reapportioned the mix of PPL's regulated and competitive businesses by increasing the regulated portion of its business and enhancing rate-regulated growth opportunities as the regulated businesses make investments to improve infrastructure and customer reliability.

The increase in regulated assets is expected to provide earnings stability through regulated returns and the ability to recover costs of capital investments, in contrast to the competitive energy supply business where earnings and cash flows are subject to commodity market volatility. Following the LKE and WPD Midlands acquisitions, approximately 70% of PPL's assets are in its regulated businesses. The pro forma impacts of the acquisitions of LKE and WPD Midlands on PPL's income from continuing operations (after income taxes) for the nine months ended September 30 are as follows.

	2011				2010			
	Pro forma		Actual		Pro forma		Actual	
Regulated	$ 799	61%	$ 696	58%	$ 704	66%	$ 315	47%
Competitive	507	39%	507	42%	358	34%	358	53%
	$ 1,306		$ 1,203		$ 1,062		$ 673	

Note: Pro forma and actual amounts exclude non-recurring items identified in Note 8 to the Financial Statements.

Accordingly, results for periods prior to the acquisitions of LKE and WPD Midlands are not comparable with, or indicative of, results for periods subsequent to the acquisitions.

With the purchase of WPD Midlands and the related growth of the portion of PPL's overall earnings translated from British pounds sterling, the related foreign currency risk is more substantial. The U.K. subsidiaries also have currency exposure to the U.S. dollar to the extent they have U.S. dollar denominated debt. To manage these risks, PPL generally uses contracts such as forwards, options and cross currency swaps that contain characteristics of both interest rate and foreign currency exchange contracts.

PPL's strategy for its competitive energy supply business is to optimize the value from its unregulated generation and marketing portfolio. PPL endeavors to do this by matching energy supply with load, or customer demand, under contracts of varying durations with creditworthy counterparties to capture profits while effectively managing exposure to energy and fuel price volatility, counterparty credit risk and operational risk.

To manage financing costs and access to credit markets, a key objective of PPL's business strategy is to maintain a strong credit profile. PPL continually focuses on maintaining an appropriate capital structure and liquidity position. In addition, PPL has adopted financial and operational risk management programs that, among other things, are designed to monitor and manage its exposure to earnings and cash flow volatility related to changes in energy and fuel prices, interest rates, counterparty credit quality and the operating performance of its generating units.

Financial and Operational Highlights

Net Income Attributable to PPL Corporation

Net Income Attributable to PPL Corporation for the three and nine months ended September 30, 2011 was $444 million and $1.0 billion compared to $248 million and $583 million for the same periods in 2010. This represents a 79% increase over 2010 for both periods. These increases reflect the following after-tax impacts by segment.

	Three Months	Nine Months
Kentucky Regulated Segment earnings	$ 78	$ 184
International Regulated Segment		
WPD Midlands earnings	102	159
WPD Midlands acquisition-related costs	(64)	(164)
Reduction in U.K. tax rate related to PPL WW	15	15
Pennsylvania Regulated Segment		
Distribution base rate increase effective January 2011	9	29
Supply Segment		
Net unrealized gains/(losses) on energy-related economic activity	(14)	119
Impairment charges in 2010 related to the sale of certain non-core generation facilities	62	60
Losses on the monetization of certain full-requirement sales contracts in 2010	27	102
Litigation settlement in 2011 related to spent nuclear fuel storage	4	33
Change in "Unregulated Gross Energy Margins" (a)	(37)	(154)
Unallocated costs - LKE acquisition-related costs in 2010	34	53
Other	(20)	22
	$ 196	$ 458

(a) The change in "Unregulated Gross Energy Margins" is primarily due to lower baseload energy and capacity prices, changes in coal and hydro generation volumes and losses from the monetization of certain contracts in 2010 that rebalanced the business and portfolio, partially offset by higher margins on full-requirement sales contracts driven by contracts monetized in 2010 and reduced shopping. See "Statement of Income Analysis - Margins" for additional information and a reconciliation of "Unregulated Gross Energy Margins" to Operating Income.

See "Results of Operations" below for further discussion and analysis of the consolidated results of operations, as well as a discussion of each of PPL's business segments.

Acquisition of WPD Midlands

On April 1, 2011, PPL, through its indirect, wholly owned subsidiary PPL WEM, acquired Central Networks, which operates two regulated distribution networks that serve five million end users in the Midlands area of England, for $6.6 billion, including long-term debt assumed through the acquisition. Subsequent to the close of the acquisition, the entities acquired were renamed and are collectively referred to as WPD Midlands. The service territories of PPL WW and WPD Midlands are contiguous and cost savings, efficiencies and other benefits are expected from the combined operation of these entities.

The cash consideration of $5.8 billion was primarily funded by borrowings under the 2011 Bridge Facility. The following permanent financing was completed in the second quarter of 2011 to repay 2011 Bridge Facility borrowings, pay certain acquisition-related fees and raise additional capital for general corporate purposes.

- PPL issued 92 million shares of its common stock and received net proceeds of $2.258 billion.
- PPL issued 19.55 million 2011 Equity Units and received net proceeds of $948 million.
- PPL WEM issued $460 million of 3.90% Senior Notes due 2016 and $500 million of 5.375% Senior Notes due 2021 and received net proceeds of $953 million.
- WPD (West Midlands) issued £800 million of 5.75% Senior Notes due 2032 and WPD (East Midlands) issued £600 million of 5.25% Senior Notes due 2023. Collectively, net proceeds of £1.4 billion were received, which equated to $2.2 billion at the time of issuance.
- WPD (East Midlands) issued £100 million of Index-Linked Notes due 2043 and received net proceeds of £99 million, which equated to $163 million at the time of issuance.

Pursuant to WPD's previously described intention to combine the operations of PPL WW and WPD Midlands, approximately 740 employees of WPD Midlands will receive separation benefits from the companies as a new regional structure is implemented. In September 2011, WPD determined that the total separation benefits payable in connection with the reorganization would be $102 million, including $58 million of severance compensation, $43 million of early retirement deficiency costs (ERDC) and $1 million in outplacement services.

WPD Midlands recorded $84 million of the total separation benefits in the three and nine months ended September 30, 2011, of which $41 million relates to severance compensation and $43 million relates to ERDC. WPD Midlands expects to record the remaining portion of severance compensation, based on the expected timing of when employees will separate from the companies, as follows: an estimated $6 million in the fourth quarter of 2011 and an estimated $11 million in 2012. The separation benefits recorded in the three and nine months ended September 30, 2011 are included in "Other operation and maintenance" on the Statement of Income. The $41 million of accrued severance compensation is reflected in "Other current liabilities" and the ERDC of $43 million reduced "Other noncurrent assets" on the Balance Sheet at September 30, 2011.

These amounts do not include $9 million recorded in the nine months ended September 30, 2011 for ERDC payable under applicable pension plans and severance compensation for certain employees who separated from the WPD Midlands companies, but were not part of the reorganization. These separation benefits are included in "Other operation and maintenance" on the Statement of Income.

PPL incurred acquisition-related costs of $84 million and $215 million, pre tax, for the three and nine months ended September 30, 2011 which includes, among other items, the separation benefits discussed above, advisory, accounting and legal fees, taxes and certain financing costs, including gains on hedges and foreign currency losses on the 2011 Bridge Facility.

See Note 8 to the Financial Statements for additional information related to the acquisition and Note 7 to the Financial Statements for additional information related to the financings.

Registered Debt Exchange Offer by LKE, LG&E and KU

In April 2011, LKE, LG&E and KU each filed a Registration Statement with the SEC, related to an offer to exchange certain first mortgage bonds and senior notes issued in November 2010, in transactions not subject to registration under the Securities Act of 1933, with similar but registered securities. The 2011 Registration Statements became effective in June 2011, and the exchanges were completed in July 2011 with substantially all of LKE's senior notes and LG&E's and KU's first mortgage bonds being exchanged. See Note 7 to the Financial Statements and PPL's 2010 Form 10-K for additional information on the original debt issuances.

Susquehanna Turbine Blade Replacement

In April 2011, during the PPL Susquehanna Unit 2 refueling and generation uprate outage, a planned inspection of the Unit 2 turbine revealed cracks in certain of its low pressure turbine blades. Replacement of these blades was required, but was not anticipated as part of the original scope of this outage. The necessary replacement work extended the Unit 2 outage by six weeks. As a precaution, PPL Susquehanna also took Unit 1 out of service in mid-May to inspect the turbine blades in that unit. This inspection revealed cracks in blades similar to those found in Unit 2. The duration of the Unit 1 outage, in which turbine blades were replaced, was also about six weeks. The after-tax earnings impact, including reduced energy-sales margins and repair expense for both units, was $63 million. The majority of these costs were incurred during the second quarter of 2011.

Storm Recovery

PPL Electric experienced several PUC-reportable storms during the three and nine months ended September 30, 2011 resulting in total restoration costs of $34 million and $59 million, of which $23 million and $39 million were recorded in "Other operation and maintenance" on the Statement of Income. However, a PPL subsidiary has a $10 million reinsurance policy with a third party insurer. In the third quarter of 2011 a $10 million receivable was recorded with an offsetting credit to "Other operation and maintenance" on the Statement of Income. In November 2011, PPL Electric filed with the PUC a request for permission to defer $15 million to $20 million for future recovery of allowable storm-related costs. At the time PPL Electric seeks recovery of any deferred amount, its claim will be based on the actual costs, net of insurance recoveries. A regulatory asset, for the actual costs net of insurance recoveries, will be recorded at such time as an order is received from the PUC approving deferral of these costs.

In late October 2011, PPL Electric experienced significant damage to its transmission and distribution network from a severe snow storm. The costs associated with the restoration efforts are still being determined and are not included in the amounts disclosed above. PPL Electric will evaluate such costs, when quantified, and will likely file with the PUC for permission to defer certain of the costs incurred to repair the distribution network for future recovery. Costs incurred to repair the transmission network are recoverable through the FERC Formula Rate mechanism which is updated annually.

Legal and Regulatory Matters

Federal

CSAPR

In July 2011, the EPA signed the CSAPR which finalizes and renames the Clean Air Transport Rule (Transport Rule) proposed in August 2010. This rule applies to PPL's Pennsylvania and Kentucky plants. The CSAPR is meant to facilitate attainment of ambient air quality standards for ozone and fine particulates by requiring reductions in sulfur dioxide and nitrogen oxide emissions. In October 2011, the EPA proposed technical adjustments to the CSAPR to account for updated data submitted to the agency. Several states and a number of companies have filed petitions for review with the U.S. Court of Appeals for the District of Columbia Circuit challenging various provisions of the CSAPR. PPL's initial review of the allocations under the CSAPR indicates that greater reductions in sulfur dioxide emissions will be required beginning in 2012 under the CSAPR than were required under the CAIR.

For the initial phase of the rule beginning in 2012, sulfur dioxide allowance allocations are expected to be greater than the forecasted emissions based on present operations of existing sulfur dioxide scrubbers and coal supply. However, for the second phase beginning in 2014, PPL will likely have to modify operations and dispatch of its generation fleet in Pennsylvania and Kentucky, including upgrades or installation of new sulfur dioxide scrubbers for certain generating units or retirement of certain other units.

With respect to nitrogen oxide emissions, the CSAPR provides a slightly higher amount of allowances for PPL's Pennsylvania plants, but still less than the current forecasted emissions and a slightly higher amount of allowances for the Kentucky plants than under CAIR. With uncertainty surrounding the trading program, other compliance options are being analyzed for the Pennsylvania and Kentucky fleets, such as the installation of new technology or modifications of plant operations as well as the retirement and replacement of certain coal-fired generating units in Kentucky. LG&E and KU are seeking recovery of their expected costs to comply with the CSAPR and certain other EPA requirements through the ECR plan filed with the KPSC in June 2011.

Additionally, PPL's plants, including those in Montana, may face further reductions in sulfur dioxide and nitrogen oxide emissions as a result of more stringent national ambient air quality standards for ozone, nitrogen oxide, sulfur dioxide and/or fine particulates. PPL anticipates that some of the measures required for compliance with the CSAPR, such as upgraded or new sulfur dioxide scrubbers at some of its plants and retirement of certain units, may also be necessary to achieve compliance with the new sulfur dioxide standard. If additional reductions were to be required, the economic impact to PPL could be significant. See Notes 6 and 10 to the Financial Statements for additional information on the CSAPR and the Kentucky regulatory proceeding.

Spent Nuclear Fuel Litigation

In May 2011, PPL Susquehanna entered into a settlement agreement with the U.S. Government relating to PPL Susquehanna's lawsuit, seeking damages for the Department of Energy's failure to accept spent nuclear fuel from the PPL Susquehanna station. Under the settlement agreement, PPL Susquehanna received $50 million, pre-tax for its share of claims to partially offset its expenses incurred to store spent nuclear fuel at the Susquehanna station through September 2009, and recognized a credit to "Fuel" expense in the second quarter of 2011. PPL Susquehanna also will be eligible to receive payment of annual claims for allowed costs that are incurred thereafter through the December 2013 termination of the settlement agreement. See Note 10 to the Financial Statements for additional information.

Kentucky and Virginia

CPCN Filing

In September 2011, LG&E and KU filed a CPCN with the KPSC requesting approval to build a 640 MW NGCC at the existing Cane Run station site. LG&E and KU also requested approval to purchase three additional natural gas combustion turbines from Bluegrass Generation Company, L.L.C. (Bluegrass Plant) that are expected to provide up to 495 MW of peak generation supply. LG&E and KU anticipate that the NGCC construction and Bluegrass Plant acquisition could require up to $800 million in capital costs including related transmission projects. Formal requests for recovery of the costs associated with the NGCC and Bluegrass Plant acquisition were not included in the CPCN filing with the KPSC, but are expected to be included in a future base rate case filing. The KPSC issued an Order on the procedural schedule in the CPCN filing that has discovery, but no hearing, scheduled through early February 2012. A KPSC order on the CPCN filing is anticipated in the second quarter of 2012. See Note 6 to the Financial Statements for additional information.

ECR Filing - Environmental Upgrades

In June 2011, in order to achieve compliance with new and pending mandated federal EPA regulations, LG&E and KU filed ECR plans with the KPSC requesting approval to install environmental upgrades for certain of their coal-fired plants and for recovery of the expected $2.5 billion in associated capital costs, as well as operating expenses as incurred. The ECR plans included upgrades that will be made to certain of their coal-fired generating stations to continue to be compliant with EPA regulations. See Notes 6 and 10 to the Financial Statements for additional information.

Pennsylvania

Legislation - Regulatory Procedures and Mechanisms

In June 2011, the Pennsylvania House Consumer Affairs Committee approved legislation that would authorize the PUC to approve regulatory procedures and mechanisms to provide for more timely recovery of a utility's costs. Alternative ratemaking is important to PPL Electric as it begins a period of significant increasing capital investment related to the asset optimization program focused on the replacement of aging distribution assets. Those procedures and mechanisms include, but are not limited to, the use of a fully projected test year and an automatic adjustment clause to recover certain capital costs and related operating expenses. In October 2011, the legislation was passed by the Pennsylvania House of Representatives. It will now be considered by the Pennsylvania Senate. PPL Electric is working with other stakeholders to support passage of this legislation but cannot predict the outcome of this process.

Montana

Montana Hydroelectric Litigation

In June 2011, the U.S. Supreme Court granted PPL Montana's petition to review the March 2010 Montana Supreme Court decision, which substantially affirmed the June 2008 Montana District Court decision to award the State of Montana retroactive compensation for PPL Montana's hydroelectric facilities' use and occupancy of certain Montana riverbeds. Oral argument is scheduled for December 2011. The stay of judgment granted during the proceedings before the Montana Supreme Court has been extended by agreement with the State of Montana to cover the anticipated period of the proceeding before the U.S. Supreme Court. See Note 10 to the Financial Statements for additional information.

U.K.

Tax Rate Change

In July 2011, the U.K.'s Finance Act of 2011 was enacted. The most significant change to the law was a reduction in the U.K.'s statutory income tax rate. The statutory tax rate was changed from 27% to 26%, effective April 1, 2011 and from 26% to 25%, effective April 1, 2012. As a result of these changes, for the three and nine months ended September 30, 2011, PPL reduced its net deferred tax liabilities and recognized a $69 million deferred tax benefit to comprehend both rate decreases.

The U.K.'s Finance Act of 2010, enacted in July 2010, also included a reduction in the U.K. statutory income tax rate. Effective April 1, 2011, the statutory income tax rate was reduced from 28% to 27%. As a result, PPL reduced its net deferred tax liabilities and recognized a $19 million deferred tax benefit for the three and nine months ended September 30, 2010.

Ofgem Pricing Model

In October 2010, Ofgem announced a pricing model that will be effective for the U.K. electricity distribution sector, including WPD, beginning April 2015. The model, known as RIIO (Revenues = Incentives + Innovation + Outputs), is intended to encourage investment in regulated infrastructure. Key components of the model are: an extension of the price review period from five to eight years; increased emphasis on outputs and incentives; enhanced stakeholder engagement including network customers; a stronger incentive framework to encourage more efficient investment and innovation; expansion of the current Low Carbon Network Fund to stimulate innovation; and continued use of a single weighted average cost of capital. At this time, management does not expect the impact of this pricing model to be significant to WPD's operating results.

Results of Operations

As a result of the LKE acquisition on November 1, 2010 and the WPD Midlands acquisition on April 1, 2011, LKE's and WPD Midlands' results (since the date of acquisition) for the three and nine months ended September 30, 2011 are included in PPL's results. When discussing PPL's results of operations for 2011 compared with 2010, the results of LKE and WPD Midlands are isolated for purposes of comparability. LKE's results are included within "Segment Results - Kentucky Regulated Segment" and WPD Midlands' results are included within "Segment Results - International Regulated Segment." The results of WPD (including WPD Midlands) are recorded on a one-month lag.

The results for interim periods can be disproportionately influenced by various factors and developments and by seasonal variations. As such, the results of operations for interim periods do not necessarily indicate results or trends for the year or for future periods.

Tables analyzing changes in amounts between periods within "Segment Results" and "Statement of Income Analysis" are presented on a constant U.K. foreign currency exchange rate basis, where applicable, in order to isolate the impact of the change in the exchange rate on the item being explained. Results computed on a constant U.K. foreign currency exchange rate basis are calculated by translating current year results at the prior year weighted-average foreign currency exchange rate.

Earnings

Net Income Attributable to PPL Corporation and related EPS for the periods ended September 30 was:

	Three Months		Nine Months	
	2011	2010	2011	2010
Net Income Attributable to PPL Corporation	$ 444	$ 248	$ 1,041	$ 583
EPS - basic	$ 0.76	$ 0.51	$ 1.92	$ 1.40
EPS - diluted	$ 0.76	$ 0.51	$ 1.91	$ 1.40

The changes in Net Income Attributable to PPL Corporation from period to period were, in part, attributable to the acquisitions of LKE and WPD Midlands and several items that management considers special. Details of these special items are provided within the review of each segment's earnings.

Segment Results

Net Income Attributable to PPL Corporation by segment for the periods ended September 30 was:

	Three Months		Nine Months	
	2011	2010	2011	2010
Kentucky Regulated	$ 78		$ 184	
International Regulated (a)	138	$ 93	231	$ 227
Pennsylvania Regulated	28	36	116	89
Supply	200	153	510	320
Unallocated Costs (b)		(34)		(53)
Total	$ 444	$ 248	$ 1,041	$ 583

(a) As a result of the acquisition on April 1, 2011, WPD Midlands' results since the acquisition date, recorded on a one-month lag, are included in the 2011 amounts.

(b) The three and nine months ended September 30, 2010 include $4 million and $11 million, pre-tax, ($2 million and $8 million, after-tax) of certain acquisition-related costs, including advisory, accounting and legal fees associated with the acquisition of LKE that are recorded in "Other Income (Expense) - net" on the Statements of Income. Also included are $45 million and $67 million, pre-tax, ($31 million and $44 million, after-tax) of 2010 Bridge Facility costs that are recorded in "Interest Expense" on the Statements of Income. See Notes 7 and 10 in PPL's 2010 Form 10-K for additional information on the acquisition and related financing. These costs were considered special items by management and were not included within any segment's results.

Kentucky Regulated Segment

The Kentucky Regulated segment consists primarily of LKE's results from the operation of regulated electricity generation, transmission and distribution assets, primarily in Kentucky, as well as in Virginia and Tennessee. This segment also includes LKE's results from the regulated distribution and sale of natural gas in Kentucky.

Kentucky Regulated segment Net Income Attributable to PPL Corporation for the periods ended September 30, 2011 was:

	Three Months	Nine Months
Operating revenues	$ 736	$ 2,140
Fuel and energy purchases	277	845
Other operation and maintenance	187	566
Depreciation	84	249
Taxes, other than income	10	28
Total operating expenses	558	1,688
Other Income (Expense) - net		(1)
Interest Expense (a)	53	161
Income Taxes	46	105
Income (Loss) from Discontinued Operations	(1)	(1)
Net Income Attributable to PPL Corporation	$ 78	$ 184

(a) The three and nine months ended September 30, 2011 include allocated interest expense of $17 million and $53 million, pre-tax, related to the 2010 Equity Units and certain interest rate swaps.

The following after-tax amounts, which management considers special items, also impacted the segment's earnings for the periods ended September 30, 2011.

	Line Item	Three Months	Nine Months
Special Items, net of tax benefit (expense):			
Adjusted energy-related economic activity, net, net of tax of ($1), $0	Utility Revenues	$ 1	$ 1
Other:			
LKE discontinued operations, net of tax of $1, $0	Disc. Operations	(1)	(1)
Total		$	$

Outlook

Excluding special items, and the impact of a full year of earnings versus two months in 2010, earnings are expected generally to be driven by the results of electricity and natural gas base rate increases that became effective August 1, 2010.

Earnings in 2011 are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2 and Notes 6 and 10 to the Financial Statements in this Form 10-Q and "Item 1. Business," and "Item 1A. Risk Factors" in PPL's 2010 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings. Among these uncertainties is the ultimate regulatory recovery of storm costs recorded as regulatory assets.

International Regulated Segment

The International Regulated segment consists primarily of the electric distribution operations in the U.K. As a result of the acquisition on April 1, 2011, WPD Midlands' results since the acquisition date are included in the 2011 results, recorded on a one-month lag.

International Regulated segment Net Income Attributable to PPL Corporation for the periods ended September 30 was:

	Three Months			Nine Months		
	2011	2010	% Change	2011	2010	% Change
Utility revenues	$ 194	$ 163	19	$ 613	$ 538	14
Energy-related businesses	8	9	(11)	27	25	8
Total operating revenues	202	172	17	640	563	14
Other operation and maintenance	45	39	15	136	122	11
Depreciation	32	28	14	94	86	9
Taxes, other than income	14	12	17	40	39	3
Energy-related businesses	4	4		12	12	
Total operating expenses	95	83	14	282	259	9
Other Income (Expense) - net	10		n/a	13	2	550
Interest Expense	34	38	(11)	119	102	17
Income Taxes	(17)	(42)	(60)	16	(23)	(170)
WPD Midlands, net of tax (a)	102		n/a	159		n/a
WPD Midlands acquisition-related costs, net of tax (b)	(64)		n/a	(164)		n/a
Net Income Attributable to PPL Corporation	$ 138	$ 93	48	$ 231	$ 227	2

(a) Represents the operations of WPD Midlands since the acquisition date, recorded on a one-month lag, including revenue from external customers of $292 million and $499 million (pre-tax) for the three and nine months ended September 30, 2011. The three and nine-month periods also include allocated charges totaling $16 million and $24 million (after-tax), which include interest expense related to the 2011 Equity Units.
(b) Represents items considered special by management, including $2 million and $44 million (after-tax) of allocated charges for the three and nine months ended September 30, 2011.

The changes in the components of Net Income Attributable to PPL Corporation between the periods ended September 30, 2011 and 2010 were primarily due to the following factors. The amounts for PPL WW are presented on a constant U.K. foreign currency exchange rate basis in order to isolate the impact of the change in the exchange rate.

	Three Months	Nine Months
PPL WW		
Utility revenues	$ 21	$ 51
Other operation and maintenance	(7)	(9)
Interest expense	2	(12)
Income taxes	(8)	(16)
Foreign currency exchange rates	3	7
Other	(1)	(1)
WPD Midlands, after-tax	67	124
U.S.		
Income taxes	(14)	(20)
Other	(1)	(4)
Special items, after-tax	(17)	(116)
Total	$ 45	$ 4

PPL WW

- Utility revenues were $24 million and $45 million higher resulting from a price increase in April 2011 for the three-month period and in April 2010 and 2011 for the nine-month period. In addition, the nine-month period was higher due to a $9 million unfavorable impact on regulatory allowed revenues associated with a charge recorded in the first quarter of 2010 primarily resulting from changes in the network electricity line loss assumptions. Such charges were insignificant in the first quarter of 2011.

- Other operation and maintenance expense was higher for the three and nine-month periods primarily due to $4 million and $7 million of higher pension expense resulting primarily from an increase in amortization of actuarial losses.

- Interest expense for the nine-month period was $11 million higher due to higher debt balances arising from a March 2010 debt issuance.

- U.K. income taxes were higher in the three-month period due to $4 million of additional tax as a result of higher pre-tax income.

  U.K. income taxes were higher in the nine-month period due to $8 million of additional tax as a result of higher pre-tax income and a $7 million income tax benefit recorded in 2010 related to uncertain tax positions.

- U.S. income taxes were higher in the three-month period primarily due to a $20 million tax benefit recorded in 2010 related to a favorable U.S. Tax Court ruling on the creditability of the U.K. Windfall Profits Tax. This increase was partially offset by a $7 million U.S. tax benefit recorded in 2011 as a result of U.K. pension plan contributions.

  U.S. income taxes were higher in the nine-month period primarily due to a $20 million tax benefit recorded in 2010 related to a favorable U.S. Tax Court ruling on the creditability of the U.K. Windfall Profits Tax, $9 million of higher taxes due to tax benefits recorded in 2010 related to foreign dividends and tax refunds and $8 million of higher taxes in 2011 on foreign source income. These increases were partially offset by a $21 million tax benefit recorded in 2011 as a result of U.K. pension plan contributions.

The following after-tax amounts, which management considers special items, also impacted the segment's earnings for the periods ended September 30.

	Income Statement Line Item	Three Months 2011	Three Months 2010	Nine Months 2011	Nine Months 2010
Special Items, net of tax benefit (expense):					
Foreign currency-related economic hedges, net of tax of ($3), $0, ($4), $0 (a)	Other Income-net	$ 8	$ (1)	$ 8	$ (2)
WPD Midlands acquisition-related costs:					
2011 Bridge Facility costs, net of tax of $0, $0, $13, $0 (b)	Interest Expense			(30)	
Foreign currency loss on 2011 Bridge Facility, net of tax of $0, $0, $19, $0 (c)	Other Income-net			(38)	
Net hedge gains, net of tax of $0, $0, ($17), $0 (c)	Other Income-net			38	
Hedge ineffectiveness, net of tax of $0, $0, $3, $0 (d)	Interest Expense			(9)	
U.K. stamp duty tax, net of tax of $0, $0, $0, $0 (e)	Other Income-net			(21)	
Separation benefits, net of tax of $22, $0, $24, $0 (f)	Other O&M	(64)		(68)	
Other acquisition-related costs, net of tax of ($2), $0, $9, $0	(g)			(36)	
Other:					
Change in U.K. tax rate (h)	Income Taxes	69	19	69	19
U.S. Tax Court ruling (U.K. Windfall Profits Tax) (i)	Income Taxes		12		12
Total		$ 13	$ 30	$ (87)	$ 29

(a) Represents unrealized gains (losses) on contracts that economically hedge anticipated earnings denominated in GBP.
(b) Represents fees incurred in connection with establishing the 2011 Bridge Facility. See Note 7 to the Financial Statements for additional information.
(c) Represents the foreign currency loss on the repayment of the 2011 Bridge Facility, including a pre-tax foreign currency loss of $15 million associated with proceeds received on the U.S. dollar-denominated senior notes issued by PPL WEM in April 2011 that were used to repay a portion of PPL WEM's borrowing under the 2011 Bridge Facility. The foreign currency risk was economically hedged with forward contracts to purchase GBP, which resulted in pre-tax gains of $55 million.
(d) Represents a combination of ineffectiveness associated with closed out interest rate swaps and a charge recorded as a result of certain interest rate swaps failing hedge effectiveness testing.
(e) Tax on the transfer of ownership of property in the U.K. which is not tax deductible for income tax purposes.
(f) Primarily represents severance compensation, early retirement deficiency costs and outplacement services for employees separating from the WPD Midlands companies as a result of a reorganization to transition the WPD Midlands companies to the same operating structure as WPD (South West) and WPD (South Wales). Also includes severance compensation and early retirement deficiency costs associated with certain employees who separated from the WPD Midlands companies, but were not part of the reorganization.
(g) The nine months ended September 30, 2011 primarily includes $36 million, pre-tax, of advisory, accounting and legal fees which are reflected in "Other Income (Expense) - net" on the Statements of Income. Other acquisition-related costs of $9 million were recorded to "Other operation and maintenance" expense on the Statements of Income.
(h) The U.K.'s Finance Act of 2011, enacted in July 2011, reduced the U.K. statutory income tax rate from 27% to 26% retroactive to April 1, 2011 and will further reduce the rate from 26% to 25% effective April 1, 2012. As a result, PPL reduced its net deferred tax liability and recognized a deferred tax benefit in the three and nine-month periods of 2011 to comprehend both rate decreases. WPD Midlands' portion of the deferred tax benefit is $35 million.

The U.K.'s Finance Act of 2010, enacted in July 2010, reduced the U.K. statutory income tax rate from 28% to 27% effective April 1, 2011. As a result, PPL reduced its net deferred tax liability and recognized a deferred tax benefit in the three and nine-month periods of 2010.
(i) Represents the net tax benefit recorded as a result of the U.S. Tax Court ruling that the U.K. Windfall Profits Tax is creditable for U.S. tax purposes, excluding the reversal of accrued interest.

Outlook

Excluding special items and the impact of the newly acquired U.K. businesses, earnings are expected to be higher in 2011, compared with 2010, primarily due to higher electricity delivery revenue and a more favorable currency exchange rate, partially offset by higher income taxes, higher depreciation and higher financing costs.

Earnings in 2011 are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, Notes 6 and 10 to the Financial Statements and "Part II. Other Information - Item 1A. Risk Factors" in this Form 10-Q and "Item 1. Business," and "Item 1A. Risk Factors" in PPL's 2010 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

Pennsylvania Regulated Segment

The Pennsylvania Regulated segment includes the regulated electric delivery operations of PPL Electric.

Pennsylvania Regulated segment Net Income Attributable to PPL Corporation for the periods ended September 30 was:

	Three Months			Nine Months		
	2011	2010	% Change	2011	2010	% Change
Operating revenues						
External	$ 454	$ 570	(20)	$ 1,444	$ 1,901	(24)
Intersegment	1	1		9	5	80
Total operating revenues	455	571	(20)	1,453	1,906	(24)
Energy purchases						
External	171	229	(25)	591	848	(30)
Intersegment	5	71	(93)	15	250	(94)
Other operation and maintenance	146	126	16	402	377	7
Depreciation	38	34	12	108	101	7
Taxes, other than income	26	32	(19)	83	108	(23)
Total operating expenses	386	492	(22)	1,199	1,684	(29)
Other Income (Expense) - net	3		n/a	4	4	
Interest Expense	26	24	8	74	74	
Income Taxes	14	15	(7)	56	47	19
Net Income	32	40	(20)	128	105	22
Net Income Attributable to Noncontrolling Interests	4	4		12	16	(25)
Net Income Attributable to PPL Corporation	$ 28	$ 36	(22)	$ 116	$ 89	30

The changes in the components of Net Income Attributable to PPL Corporation between the periods ended September 30, 2011 and 2010 were due to the following factors.

	Three Months	Nine Months
Pennsylvania gross delivery margins	$ 8	$ 56
Other operation and maintenance	(15)	(18)
Depreciation	(4)	(7)
Other	2	1
Income taxes	1	(9)
Noncontrolling interests		4
Total	$ (8)	$ 27

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of gross margins from the Pennsylvania regulated electric delivery operations.

- Other operation and maintenance expenses were $14 million and $17 million higher for the three and nine-month periods due to storm costs exceeding insurance policy limits in 2011.

- Income taxes were $12 million higher for the nine-month period due to higher pre-tax income. This increase was partially offset by a $5 million tax benefit related to the impact of flow-through regulated tax depreciation that is primarily related to the Pennsylvania Department of Revenue interpretive guidance regarding 100% bonus depreciation.

Outlook

Excluding special items, earnings are expected to be slightly higher in 2011, compared with 2010, as a result of higher distribution revenues from a January 1, 2011 distribution base rate increase, partially offset by higher operation and maintenance expenses.

Earnings in 2011 are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2 and Notes 6 and 10 to the Financial Statements in this Form 10-Q and "Item 1. Business," and "Item 1A. Risk Factors" in PPL's 2010 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings. Among these uncertainties are the ultimate regulatory recovery of storm costs, transmission service charges and other regulatory assets.

Supply Segment

The Supply segment primarily consists of the energy marketing and trading activities, as well as the competitive generation and development operations of PPL Energy Supply. In 2011 and 2010, PPL Energy Supply subsidiaries completed the sale of several businesses, which have been classified as Discontinued Operations. See Note 8 to the Financial Statements for additional information.

Supply segment Net Income Attributable to PPL Corporation for the periods ended September 30 was:

	Three Months			Nine Months		
	2011	2010	% Change	2011	2010	% Change
Energy revenues						
External (a)	$ 1,305	$ 1,339	(3)	$ 3,437	$ 3,908	(12)
Intersegment	5	71	(93)	15	250	(94)
Energy-related businesses	132	98	35	360	286	26
Total operating revenues	1,442	1,508	(4)	3,812	4,444	(14)
Fuel and energy purchases						
External (a)	693	779	(11)	1,572	2,512	(37)
Intersegment	2	1	100	3	2	50
Other operation and maintenance	191	199	(4)	707	731	(3)
Depreciation	66	65	2	194	189	3
Taxes, other than income	18	12	50	49	34	44
Energy-related businesses	131	96	36	356	276	29
Total operating expenses	1,101	1,152	(4)	2,881	3,744	(23)
Other Income (Expense) - net	22	(23)	(196)	41	(14)	(393)
Other-Than-Temporary Impairments	5		n/a	6	3	100
Interest Expense	59	63	(6)	159	170	(6)
Income Taxes	99	63	57	299	154	94
Income (Loss) from Discontinued Operations	1	(53)	(102)	3	(38)	(108)
Net Income	201	154	31	511	321	59
Net Income Attributable to Noncontrolling Interests	1	1		1	1	
Net Income Attributable to PPL Corporation	$ 200	$ 153	31	$ 510	$ 320	59

(a) Includes the impact from energy-related economic activity. See "Commodity Price Risk (Non-trading) - Economic Activity" in Note 14 to the Financial Statements for additional information.

The changes in the components of Net Income Attributable to PPL Corporation between the periods ended September 30, 2011 and 2010 were due to the following factors.

	Three Months	Nine Months
Unregulated gross energy margins	$ (64)	$ (264)
Other operation and maintenance	(2)	(40)
Other income (expense) - net	20	27
Other	(4)	(9)
Income taxes	(7)	85
Discontinued operations, after-tax - excluding certain revenues and expenses included in margins	5	14
Special items, after-tax	99	377
Total	$ 47	$ 190

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of margins.

- Other operation and maintenance expense was higher for the nine-month period primarily due to $16 million of higher payroll-related costs, $9 million of which relates to PPL Susquehanna, and increased costs at PPL Susquehanna of $10 million from the dual-unit turbine blade replacement outages and $8 million from the refueling outage.

- Other income (expense)-net was higher for the three and nine-month periods primarily due to a $22 million gain on the redemption of debt in 2011. See Note 12 to the Financial Statements for additional information.

- Income taxes for the three-month period includes adjustments in federal and state income tax reserves of $13 million and a $12 million decrease in the tax benefit from the domestic manufacturing deduction resulting from the impact of revised bonus tax depreciation estimates and the $27 million impact of lower pre-tax income.

  Income taxes were $135 million lower for the nine-month period primarily due to lower pre-tax income. The decrease in income taxes was partially offset by a $24 million decrease in the tax benefit from the domestic manufacturing deduction resulting from the impact of revised bonus tax depreciation, $19 million in Pennsylvania net operating loss valuation allowance adjustments, primarily related to the impact of 100% bonus tax depreciation on future projected Pennsylvania taxable income, and a $13 million increase in income taxes due to 2010 adjustments in federal and state income tax reserves.

The following after-tax amounts, which management considers special items, also impacted the segment's earnings for the periods ended September 30.

	Income Statement Line Item	Three Months 2011	Three Months 2010	Nine Months 2011	Nine Months 2010
Special Items, net of tax benefit (expense):					
Adjusted energy-related economic activity, net, net of tax of $8, ($1), ($2), $83	(a)	$ (10)	$ 4	$ 4	$ (115)
Sales of assets:					
Sundance indemnification, net of tax of $0, $0, $0, $0	Other Income-net				1
Impairments:					
Emission allowances, net of tax of $0, $2, $1, $6 (Note 13)	Other O&M		(2)	(1)	(9)
Renewable energy credits, net of tax of $0, $0, $2, $0 (Note 13)	Other O&M			(3)	
Adjustments - nuclear decommissioning trust investments, net of tax of $2, $0, $2, $1 (b)	Other Income-net	(1)			
LKE acquisition-related costs:					
Monetization of certain full-requirement sales contracts, net of tax of $0, $20, $0, $72	(c)		(27)		(102)
Sale of certain non-core generation facilities, net of tax of $0, $39, $0, $39 (d)	Disc. Operations		(62)	(2)	(62)
Discontinued cash flow hedges and ineffectiveness, net of tax of $0, $10, $0, $10 (e)	Other Income-net		(19)		(19)
Other:					
Montana hydroelectric litigation, net of tax of $0, $0, $1, $22	(f)	(1)	(1)	(2)	(34)
Litigation settlement - spent nuclear fuel storage, net of tax of ($2), $0, ($23), $0 (g)	Fuel	4		33	
Health care reform - tax impact (h)	Income Taxes				(8)
Total		$ (8)	$ (107)	$ 29	$ (348)

(a) See "Reconciliation of Economic Activity" below.

(b) Represents other-than-temporary impairment charges on securities, including the reversal of previous other-than-temporary impairment charges when securities previously impaired were sold.

(c) See "Monetization of Certain Full-Requirement Sales Contracts" in Note 14 to the Financial Statements. For the three and nine months ended September 30, 2010, $150 and $343 million of pre-tax gains were recorded to "Wholesale energy marketing" and $197 and $517 million of pre-tax losses were recorded to "Energy purchases" on the Statements of Income.

(d) Assets associated with certain non-core generation facilities were written down to their estimated fair value (less cost to sell). These facilities were sold in March 2011.

(e) Due to expected net proceeds from the then-anticipated sale of certain non-core generation facilities, coupled with the monetization of certain full-requirement sales contracts, debt that had been planned to be issued by PPL Energy Supply was no longer needed. As a result, hedge accounting associated with the interest rate swaps entered into by PPL in anticipation of a debt issuance by PPL Energy Supply was discontinued.

(f) In March 2010, the Montana Supreme Court substantially affirmed a June 2008 Montana District Court decision regarding lease payments for the use of certain Montana streambeds. Through September 30, 2010, PPL Montana recorded a pre-tax charge of $56 million, representing estimated rental compensation for years prior to 2010, including interest. Of this total charge $47 million, pre-tax, was recorded to "Other operation and maintenance" and $9 million, pre-tax, was recorded to "Interest Expense" on the Statements of Income. In August 2010, PPL Montana filed a petition for a writ of certiorari with the U.S. Supreme Court requesting the Court's review of this matter. In June 2011, the Supreme Court granted PPL Montana's petition. Oral argument is scheduled for December 2011. PPL Montana continues to accrue interest expense on rental compensation covered by the court decision.

(g) In May 2011, PPL Susquehanna entered into a settlement agreement with the U.S. Government relating to PPL Susquehanna's lawsuit, seeking damages for the Department of Energy's failure to accept spent nuclear fuel from the PPL Susquehanna station. PPL Susquehanna recorded credits to fuel expense of $6 million and $56 million, pre-tax for the three and nine months ended September 30, 2011 to recognize recovery, under the settlement agreement, of certain costs to store spent nuclear fuel at the Susquehanna station. The amounts recorded through September 2011 cover the costs incurred from 1998 through December 2010.

(h) Represents income tax expense recorded as a result of the provisions within Health Care Reform which eliminated the tax deductibility of retiree health care costs to the extent of federal subsidies received by plan sponsors that provide retiree prescription drug benefits equivalent to Medicare Part D Coverage.

Reconciliation of Economic Activity

The following table reconciles unrealized pre-tax gains (losses) from the table within "Commodity Price Risk (Non-trading) - Economic Activity" in Note 14 to the Financial Statements to the special item identified as "Adjusted energy-related economic activity, net" for the periods ended September 30.

	Three Months		Nine Months	
	2011	2010	2011	2010
Operating Revenues				
Unregulated retail electric and gas	$ 4	$ 8	$ 9	$ 16
Wholesale energy marketing	216	52	229	(190)
Operating Expenses				
Fuel	(28)	16	(16)	13
Energy Purchases	(176)	(300)	(49)	(418)
Energy-related economic activity (a)	16	(224)	173	(579)
Option premiums (b)	6	21	17	46
Adjusted energy-related economic activity	22	(203)	190	(533)
Less: Unrealized economic activity associated with the monetization of certain full-requirement sales contracts in 2010 (c)		(208)		(335)
Less: Economic activity realized, associated with the monetization of certain full-requirement sales contracts in 2010	40		184	
Adjusted energy-related economic activity, net, pre-tax	$ (18)	$ 5	$ 6	$ (198)
Adjusted energy-related economic activity, net, after-tax	$ (10)	$ 4	$ 4	$ (115)

(a) See Note 14 to the Financial Statements for additional information.

(b) Adjustment for the net deferral and amortization of option premiums over the delivery period of the item that was hedged or upon realization. Option premiums are recorded in Wholesale energy marketing - realized and Energy purchases - realized on the Statements of Income.

(c) See "Components of Monetization of Certain Full-Requirement Sales Contracts" below.

Components of Monetization of Certain Full-Requirement Sales Contracts

The following table provides the components of the "Monetization of Certain Full-Requirements Sales Contracts" special item for the periods ended September 30, 2010.

	Three Months	Nine Months
Full-requirement sales contracts monetized (a)	$ 32	$ (28)
Economic activity related to the full-requirement sales contracts monetized	(79)	(146)
Monetization of certain full-requirement sales contracts, pre-tax (b)	$ (47)	$ (174)
Monetization of certain full-requirement sales contracts, after-tax	$ (27)	$ (102)

(a) See "Commodity Price Risk (Non-trading) - Monetization of Certain Full-Requirement Sales Contracts" in Note 14 to the Financial Statements for additional information.

(b) The three and nine-month periods include unrealized losses of $208 million and $335 million, which are reflected in "Wholesale energy marketing - Unrealized economic activity" and "Energy purchases - Unrealized economic activity" on the Statement of Income. Both periods include net realized gains of $161 million, which are reflected in "Wholesale energy marketing - Realized" and "Energy purchases - Realized" on the Statement of Income. This economic activity will continue to be realized through May 2013.

Outlook

Excluding special items, earnings are expected to be lower in 2011, compared with 2010, as a result of lower energy margins driven by lower Eastern energy and capacity prices, higher average fuel costs and the turbine blade replacement outages at the Susquehanna nuclear plant, as well as higher income taxes and higher operation and maintenance expense.

Earnings in 2011 are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2 and Note 10 to the Financial Statements in this Form 10-Q and "Item 1. Business," and "Item 1A Risk Factors" in PPL's 2010 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings.

Statement of Income Analysis --

Margins

Non-GAAP Financial Measures

The following discussion includes financial information prepared in accordance with GAAP, as well as three non-GAAP financial measures: "Kentucky Gross Margins," "Pennsylvania Gross Delivery Margins" and "Unregulated Gross Energy Margins." These measures are not intended to replace "Operating Income," which is determined in accordance with GAAP, as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. PPL believes that these measures provide additional criteria to make investment decisions.

These performance measures are used, in conjunction with other information, internally by senior management and the Board of Directors to manage the Kentucky Regulated, Pennsylvania Regulated and Supply segment operations, analyze each respective segment's actual results compared to budget and, in certain cases, to measure certain corporate financial goals used in determining variable compensation.

PPL's three non-GAAP financial measures include:

- "Kentucky Gross Margins" is a single financial performance measure of the Kentucky Regulated segment's electricity generation, transmission and distribution operations as well as its distribution and sale of natural gas. In calculating this measure, utility revenues and expenses associated with approved cost recovery tracking mechanisms are offset. Certain costs associated with these mechanisms, primarily ECR and DSM, are recorded as "Other operation and maintenance" expense and the depreciation associated with ECR equipment is recorded as "Depreciation" expense. These mechanisms allow for recovery of certain expenses, returns on capital investments and performance incentives. As a result, this measure represents the net revenues from the Kentucky Regulated segment's operations.

- "Pennsylvania Gross Delivery Margins" is a single financial performance measure of the Pennsylvania Regulated segment's electric delivery operations, which includes transmission and distribution activities. In calculating this measure, utility revenues and expenses associated with approved recovery mechanisms, including energy provided as a PLR, are offset with minimal impact on earnings. Costs associated with these mechanisms are recorded in "Energy purchases," "Other operation and maintenance," which is primarily Act 129 costs, and in "Taxes, other than income," which is primarily gross receipts tax. This performance measure includes PLR energy purchases by PPL Electric from PPL EnergyPlus, which are reflected in "PLR intersegment Utility revenue (expense)" in the table below. These mechanisms allow for recovery of certain expenses; therefore, certain expenses and revenues offset with minimal impact on earnings. As a result, this measure represents the net revenues from the Pennsylvania Regulated segment's electric delivery operations.

- "Unregulated Gross Energy Margins" is a single financial performance measure of the Supply segment's competitive energy non-trading and trading activities. In calculating this measure, the Supply segment's energy revenues, which include operating revenues associated with certain Supply segment businesses that are classified as discontinued operations, are offset by the cost of fuel, energy purchases, certain other operation and maintenance expenses, primarily ancillary charges, gross receipts tax, which is recorded in "Taxes, other than income," and operating expenses associated with certain Supply segment businesses that are classified as discontinued operations. This performance measure is relevant to PPL due to the volatility in the individual revenue and expense lines on the Statements of Income that comprise "Unregulated Gross Energy Margins." This volatility stems from a number of factors, including the required netting of certain transactions with ISOs and significant swings in unrealized gains and losses. Such factors could result in gains or losses being recorded in either "Wholesale energy marketing" or "Energy purchases" on the Statements of Income. This performance measure includes PLR revenues from energy sales to PPL Electric by PPL EnergyPlus, which are reflected in "PLR intersegment Utility revenue (expense)" in the table below. PPL excludes from "Unregulated Gross Energy Margins" the Supply segment's energy-related economic activity, which includes the changes in fair value of positions used to economically hedge a portion of the economic value of PPL's competitive generation assets, full-requirement sales contracts and retail activities. This economic value is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power) prior to the delivery period that was hedged. Also included in this energy-related economic activity is the ineffective portion of qualifying cash flow hedges, the monetization of certain full-requirement sales contracts and premium amortization associated with options. This economic activity is deferred, with the exception of the full-requirement sales contracts that were monetized, and included in unregulated gross energy margins over the delivery period that was hedged or upon realization.

Reconciliation of Non-GAAP Financial Measures

The following tables reconcile "Operating Income" to PPL's three non-GAAP financial measures for the periods ended September 30.

	2011 Three Months					2010 Three Months				
	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Revenues										
Utility	$ 734	$ 454		$ 487 (c)	$ 1,675		$ 570		$ 162 (c)	$ 732
PLR intersegment Utility revenue (expense) (d)		(5)	$ 5				(71)	$ 71		
Unregulated retail electric and gas			186	3	189			108	8	116
Wholesale energy marketing										
Realized			897	10 (e)	907			916	276 (e)	1,192
Unrealized economic activity				216 (f)	216				52 (f)	52
Net energy trading margins			(7)		(7)			(20)		(20)
Energy-related businesses				140	140				107	107
Total Operating Revenues	734	449	1,081	856	3,120		499	1,075	605	2,179
Operating Expenses										
Fuel	245		338	20 (g)	603			340	(18) (g)	322
Energy purchases										
Realized	32	171	119	40 (e)	362		229	68	89 (e)	386
Unrealized economic activity				176 (f)	176				300 (f)	300
Other operation and maintenance	26	30		679	735		25	7	334	366
Depreciation	12			240	252				127	127
Taxes, other than income		24	8	58	90		29	2	25	56
Energy-related businesses				135	135				100	100
Intercompany eliminations		(1)	1				(1)	1		
Total Operating Expenses	315	224	466	1,348	2,353		282	418	957	1,657
Discontinued operations								22	(22) (h)	
Total	$ 419	$ 225	$ 615	$ (492)	$ 767		$ 217	$ 679	$ (374)	$ 522

	2011 Nine Months					2010 Nine Months				
	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)	Kentucky Gross Margins	PA Gross Delivery Margins	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Revenues										
Utility	$ 2,139	$ 1,444		$ 1,112 (c)	$ 4,695		$ 1,901		$ 537 (c)	$ 2,438
PLR intersegment Utility revenue (expense) (d)		(15)	$ 15				(250)	$ 250		
Unregulated retail electric and gas			509	8	517			305	16	321
Wholesale energy marketing										
Realized			2,635	42 (e)	2,677			3,481	301 (e)	3,782
Unrealized economic activity				229 (f)	229				(190) (f)	(190)
Net energy trading margins			14		14			(4)		(4)
Energy-related businesses				387	387				311	311
Total Operating Revenues	2,139	1,429	3,173	1,778	8,519		1,651	4,032	975	6,658
Operating Expenses										
Fuel	666		872	(46) (g)	1,492			829	(19) (g)	810
Energy purchases										
Realized	179	591	496	201 (e)	1,467		848	1,198	86 (e)	2,132
Unrealized economic activity				49 (f)	49				418 (f)	418
Other operation and maintenance	67	77	13	1,884	2,041		70	20	1,139	1,229
Depreciation	37			660	697				376	376
Taxes, other than income		77	22	139	238		101	8	72	181
Energy-related businesses				368	368				288	288
Intercompany eliminations		(9)	3	6			(5)	2	3	
Total Operating Expenses	949	736	1,406	3,261	6,352		1,014	2,057	2,363	5,434
Discontinued operations			12	(12) (h)				68	(68) (h)	
Total	$ 1,190	$ 693	$ 1,779	$ (1,495)	$ 2,167		$ 637	$ 2,043	$ (1,456)	$ 1,224

(a) Represents amounts that are excluded from Margins.
(b) As reported on the Statement of Income.

(c) Primarily represents WPD's utility revenue.
(d) Primarily related to PLR supply sold by PPL EnergyPlus to PPL Electric.
(e) Represents energy-related economic activity as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 14 to the Financial Statements. For the three and nine months ended September 30, 2011, "Wholesale energy marketing - Realized" and "Energy purchases - Realized" include a net pre-tax gain of $6 million and $17 million related to the amortization of option premiums and a net pre-tax loss of $40 million and $184 million related to the monetization of certain full-requirement sales contracts. The three and nine months ended September 30, 2010 include a net pre-tax gain of $21 million and $46 million related to the amortization of option premiums and a net pre-tax gain of $161 million for both periods related to the monetization of certain full-requirement sales contracts.
(f) Represents energy-related economic activity as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 14 to the Financial Statements.
(g) 2011 includes credits for the spent nuclear fuel litigation settlement recorded in the three and nine months ended September 30, 2011 of $6 million and $56 million and economic activity related to fuel. 2010 includes economic activity related to fuel.
(h) Represents the net of certain revenues and expenses associated with certain businesses that are classified as discontinued operations. These revenues and expenses are not reflected in "Operating Income" on the Statements of Income.

Changes in Non-GAAP Financial Measures

The following table shows PPL's three non-GAAP financial measures for the periods ended September 30 as well as the change between periods. The factors that gave rise to the changes are described below the table.

	Three Months			Nine Months		
	2011	2010	Change	2011	2010	Change
Kentucky Gross Margins	$ 419		$ 419	$ 1,190		$ 1,190
PA Gross Delivery Margins by Component						
Distribution	$ 179	$ 170	$ 9	$ 560	$ 506	$ 54
Transmission	46	47	(1)	133	131	2
Total	$ 225	$ 217	$ 8	$ 693	$ 637	$ 56
Unregulated Gross Energy Margins by Region						
Non-trading						
Eastern U.S.	$ 530	$ 611	$ (81)	$ 1,502	$ 1,788	$ (286)
Western U.S.	92	88	4	263	259	4
Net energy trading	(7)	(20)	13	14	(4)	18
Total	$ 615	$ 679	$ (64)	$ 1,779	$ 2,043	$ (264)

Kentucky Gross Margins

PPL acquired LKE on November 1, 2010. Margins for the three and nine months ended September 30, 2011 are included in PPL's results with no comparable amounts for 2010.

Pennsylvania Gross Delivery Margins

Distribution

The approved distribution rate case increased rates approximately 1.6% effective January 1, 2011, which improved distribution margins by $15 million and $50 million for the three and nine months ended September 30, 2011, compared with the same periods in 2010. Weather also had a $5 million favorable impact on the nine months ended September 30, 2011, compared with the same period in 2010. Weather-related variances for PPL Electric are calculated based on a ten-year historical average.

The three and nine months ended September 30, 2011 also reflect a $7 million charge to reduce a portion of the transmission service charge regulatory asset associated with a 2005 undercollection that was not included in any subsequent rate reconciliations filed with the PUC. PPL Electric plans to seek PUC approval to recover this amount. However, management cannot assert at the present time that it is probable that the previously recorded regulatory asset will be recovered. The regulatory asset will be reinstated should the PUC approve recovery of these costs.

Unregulated Gross Energy Margins

Eastern U.S.

Changes in Eastern U.S. non-trading margins for the periods ended September 30, 2011 compared with 2010 were due to:

	Three Months	Nine Months
Lower baseload energy and capacity prices	$ (65)	$ (142)
Coal and hydro generation volume	2	(47)
2010 monetization of certain deals that rebalanced the business and portfolio	(14)	(41)
Impact of non-core generation facilities sold in the first quarter of 2011	(21)	(37)
Nuclear generation volume (a)	20	(35)
Higher coal prices	(16)	(31)
Lower intermediate/peaking capacity prices, partially offset by higher generation volumes in the first half of 2011	(18)	(18)
Full-requirement sales contracts driven by contracts monetized in 2010 and reduced shopping in 2011	23	74
Other	8	(9)
	$ (81)	$ (286)

(a) Volumes were higher for the three-month period as the result of the final uprate at Susquehanna Unit 2. Volumes were lower for the nine-month period primarily as a result of the dual-unit turbine blade replacement outages beginning in May 2011.

Net Energy Trading Margins

Net energy trading margins increased during the three and nine months ended September 30, 2011, compared with the same periods in 2010, as a result of higher margins on power and gas positions of $13 million and $18 million.

Utility Revenues

Changes in utility revenues for the periods ended September 30, 2011 compared with 2010 were due to:

	Three Months	Nine Months
Domestic:		
PPL Electric		
Decrease in energy revenue due to customers selecting alternative suppliers (a)	$ (134)	$ (522)
Price increase related to the distribution rate case effective January 1, 2011	15	50
Other	3	15
Total	(116)	(457)
LKE (b)	736	2,140
Total Domestic	620	1,683
U.K.:		
PPL WW		
Price increases (c)	24	45
Change in recovery of allowed revenues (d)	(2)	9
Foreign currency exchange rates	12	25
Other	(3)	(4)
Total PPL WW	31	75
WPD Midlands (b)	292	499
Total U.K.	323	574
Total	$ 943	$ 2,257

(a) In 2011, customers continue to select alternative suppliers to provide their energy needs. This decrease in energy revenue has a minimal impact on earnings as the cost of providing this energy is passed through to the customer with no additional mark-up. These revenues are offset with purchases in "Pennsylvania Gross Delivery Margins."

(b) There are no comparable amounts in the 2010 periods as LKE was acquired in November 2010 and WPD Midlands was acquired in April 2011.

(c) The three- and nine-month periods were impacted by price increases effective April 1, 2011. The nine-month period was also impacted by price increases effective April 1, 2010.

(d) The nine-month period was higher due to a $9 million unfavorable impact on regulatory allowed revenues associated with a charge recorded in the first quarter of 2010, primarily resulting from changes in network electricity line loss assumptions.

Other Operation and Maintenance

Changes in other operation and maintenance expense for the periods ended September 30, 2011 compared with 2010 were due to:

	Three Months	Nine Months
Domestic:		
LKE (a)	$ 187	$ 566
Montana hydroelectric litigation (b)		(47)
PUC reportable storm costs, net of insurance recoveries	8	20
Susquehanna nuclear plant costs (c)	(5)	23
Impacts from emission allowances (d)	(3)	(13)
Disposition of RECs (e)	(3)	5
Other	12	8

	Three Months	Nine Months
U.K.:		
PPL WW (f)	9	14
WPD Midlands (a) (g)	164	236
Total	$ 369	$ 812

(a) There are no comparable amounts in the 2010 periods as LKE was acquired in November 2010 and WPD Midlands was acquired in April 2011.
(b) In March 2010, the Montana Supreme Court substantially affirmed a June 2008 Montana District Court decision regarding lease payments for the use of certain Montana streambeds. As a result, in the first quarter of 2010, PPL Montana recorded a pre-tax charge of $56 million, representing estimated rental compensation for the first quarter of 2010 and prior years, including interest. The portion of the total charge recorded to other operation and maintenance totaled $49 million. PPL Montana continues to accrue rental compensation. See Note 10 to the Financial Statements for additional information.
(c) The nine-month period was $23 million higher primarily due to increased costs of $10 million from the dual-unit turbine blade replacement outages, $9 million of higher payroll-related costs and $8 million from the refueling outage.
(d) The nine-month period was $13 million lower primarily due to $2 million of impairment charges in 2011 compared with $15 million of impairment charges in 2010.
(e) The three and nine-month periods in 2011 include impairment charges of $1 million and $5 million.
(f) The three and nine-month periods were higher primarily due to higher pension costs resulting primarily from increased amortization of actuarial losses.
(g) The three and nine-month periods include $84 million of severance compensation, early retirement deficiency costs and outplacement services for employees separating from the WPD Midlands companies as a result of a reorganization to transition the WPD Midlands companies to the same operating structure as WPD (South West) and WPD (South Wales).

Depreciation

Changes in depreciation expense for the periods ended September 30, 2011 compared with 2010 were due to:

	Three Months	Nine Months
Additions to PP&E	$ 8	$ 17
Foreign currency exchange rates	2	4
LKE (a) (b)	84	249
WPD Midlands (b)	31	51
Total	$ 125	$ 321

(a) The three and nine-month periods include $13 million and $35 million of depreciation expense related to plant additions at TC2 and E.W. Brown.
(b) There are no comparable amounts in the 2010 periods as LKE was acquired in November 2010 and WPD Midlands was acquired in April 2011.

Taxes, Other Than Income

Changes in taxes, other than income for the periods ended September 30, 2011 compared with 2010 were due to:

	Three Months	Nine Months
Domestic property tax (a)	(3)	(8)
LKE (b)	10	28
WPD Midlands (b)	23	38
Other	4	(1)
Total	$ 34	$ 57

(a) The decrease for the three and nine month periods is primarily due to the amortization of the PURTA refund. This is included in "Pennsylvania Gross Delivery Margins."
(b) There are no comparable amounts in the 2010 periods as LKE was acquired in November 2010 and WPD Midlands was acquired in April 2011.

Other Income (Expense) - net

The $63 million increase in other income (expense) - net for the three months ended September 30, 2011 compared with the same period in 2010 was primarily attributable to:

- a $22 million gain on the accelerated amortization of the fair value adjustment to the debt recorded in connection with previously settled fair value hedges. The accelerated amortization was the result of the July 2011 redemption of PPL Electric's 7.125% Senior Secured Bonds due 2013; and
- $29 million of net losses reclassified from AOCI into earnings in 2010 resulting from the discontinuation of interest rate swaps entered into in anticipation of a debt issuance by PPL Energy Supply.

In addition to the factors described above, the $16 million increase in other income (expense) - net for the nine months ended September 30, 2011 compared with the same period in 2010 was also attributable to:

- a $10 million increase in gains from economic foreign currency exchange contracts;

- $11 million of LKE other acquisition-related costs recorded in 2010;
- $57 million of WPD Midlands other acquisition-related costs in 2011, including U.K. stamp duty tax; and
- a $57 million foreign currency loss related to the repayment of the 2011 Bridge Facility borrowing, offset by a $55 million gain on foreign currency forward contracts that hedged the repayment of such borrowings.

Interest Expense

Changes in interest expense for the periods ended September 30, 2011 compared with 2010 were due to:

	Three Months	Nine Months
2011 Bridge Facility costs related to the acquisition of WPD Midlands		$ 43
2010 Bridge Facility costs related to the acquisition of LKE	$ (45)	(67)
2010 Equity Units (a)	(1)	29
2011 Equity Units (b)	12	22
LKE (c)	36	108
WPD Midlands (c) (d)	54	96
Other short-term and long-term debt interest expense	2	20
Interest expense on the March 2010 WPD (South Wales) and WPD (South West) debt issuances		11
Hedging activity	8	15
Amortization of debt discounts, premiums and issuance costs (e)	12	12
Capitalized interest	(4)	(13)
Montana hydroelectric litigation (f)		(6)
Other	(5)	(5)
Total	$ 69	$ 265

(a) Interest related to the June 2010 issuance to support the November 2010 LKE acquisition.
(b) Interest related to the April 2011 issuance to support the April 2011 WPD Midlands acquisition.
(c) There are no comparable amounts in the 2010 periods as LKE was acquired in November 2010 and WPD Midlands was acquired in April 2011.
(d) 2011 Bridge Facility costs of $22 million are included in "2011 Bridge Facility costs related to the acquisition of WPD Midlands" above.
(e) The three and nine-month periods include the acceleration of deferred financing fees of $7 million due to the July 2011 redemption by PPL Energy Supply of $250 million of 7.00% Senior Notes due 2046.
(f) In March 2010, the Montana Supreme Court substantially affirmed a June 2008 Montana District Court decision regarding lease payments for the use of certain Montana streambeds. As a result, in the first quarter of 2010, PPL Montana recorded $7 million of interest expense on rental compensation covered by the court decision. In August 2010, PPL Montana filed a petition for a writ of certiorari with the U.S. Supreme Court requesting the Court's review of this matter. In June 2011, the Supreme Court granted PPL Montana's petition. Oral argument is scheduled for December 2011. PPL Montana continues to accrue interest expense on the rental compensation covered by the court decision. See Note 10 to the Financial Statements for additional information.

Income Taxes

Changes in income taxes for the periods ended September 30, 2011 compared with 2010 were due to:

	Three Months	Nine Months
Higher pre-tax book income	$ 5	$ 96
State valuation allowance adjustments (a)		19
Domestic manufacturing deduction (b)	12	24
Federal and state tax reserve adjustments (c)	56	60
U.S. income tax on foreign earnings net of foreign tax credit	(2)	(11)
U.K. Finance Act adjustments (d)	(15)	(15)
Foreign losses resulting from restructuring (e)	27	52
Foreign tax reserve adjustments (e)	(24)	(46)
Health Care Reform		(8)
LKE (f)	52	125
WPD Midlands (d) (f)	(36)	(26)
Intercompany interest on WPD financing entities	5	11
Other	11	(4)
Total	$ 91	$ 277

(a) Primarily reflects the impact of Pennsylvania Department of Revenue interpretive guidance issued in February 2011 on the treatment of bonus depreciation for Pennsylvania income tax purposes. In accordance with Corporation Tax Bulletin 2011-01, Pennsylvania allows 100% bonus depreciation for qualifying assets in the same year bonus depreciation is allowed for federal income tax purposes. Due to the reduction in projected Pennsylvania taxable income for tax years 2011 and 2012 related to the 100% bonus depreciation deduction, PPL adjusted its deferred tax valuation allowances for Pennsylvania net operating losses. As a result, during the nine months ended September 30, 2011 PPL recorded $11 million of deferred income tax expense.
(b) In December 2010, Congress enacted legislation allowing for 100% bonus depreciation on qualified property. The increased tax depreciation eliminates the estimated income tax benefit related to the domestic manufacturing deduction in 2011.
(c) In 1997, the U.K. imposed a Windfall Profits Tax on privatized utilities, including WPD. In September 2010, the U.S. Tax Court ruled in PPL's favor in a pending dispute with the IRS, concluding that the U.K. Windfall Profits Tax is a creditable tax for U.S. tax purposes. As a result and with the finalization of other issues, PPL recorded a $42 million tax benefit which impacted federal and state income tax reserves and related deferred income taxes during the third quarter of 2010. In January 2011, the IRS appealed the U.S. Tax Court's decision to the U.S. Court of Appeals for the Third Circuit. See Note 5 to the Financial Statements for additional information.

In July 2010, the U.S. Tax Court ruled in PPL's favor in a pending dispute with the IRS, concluding that street lighting assets of PPL Electric are depreciable for tax purposes over seven years. As a result, PPL recorded a $7 million tax benefit to federal and state income tax reserves and related deferred income taxes in the third quarter of 2010.

(d) The U.K.'s Finance Act of 2011, enacted in July 2011, included reductions in the U.K. statutory income tax rate. The statutory income tax rate was reduced from 27% to 26% retroactive to April 1, 2011 and will be reduced from 26% to 25 % effective April 1, 2012. As a result, PPL reduced its net deferred tax liabilities and recognized a deferred tax benefit of $69 million in the third quarter of 2011. WPD Midlands' portion of the deferred tax benefit is $35 million.

The U.K.'s Finance Act of 2010, enacted in July 2010, included a reduction in the U.K. statutory income tax rate. Effective April 1, 2011, the statutory income tax rate was reduced from 28% to 27%. As a result, PPL reduced its net deferred tax liabilities and recognized a deferred tax benefit of $19 million in the third quarter of 2010.

(e) During the three and nine months ended September 30, 2010, PPL recorded $27 million and $52 million of foreign tax benefits and related adjustments to foreign tax reserves of $24 million and $46 million in conjunction with losses resulting from restructuring in the U.K. These losses offset tax on a deferred gain from a prior year sale of WPD's supply business. See Note 5 to the Financial Statements for additional information.

(f) There are no comparable amounts in the 2010 periods as LKE was acquired in November 2010 and WPD Midlands was acquired in April 2011.

See Note 5 to the Financial Statements for additional information on income taxes.

Discontinued Operations

Income (Loss) from Discontinued Operations (net of income taxes) increased by $53 million and $40 million for the three and nine months ended September 30, 2011, compared with the same periods in 2010. The increases were primarily due to after-tax impairment charges recorded in the third quarter of 2010 totaling $62 million related to the impairment of assets associated with certain non-core generation facilities that were written down to their estimated fair value (less cost to sell). These facilities were sold in March 2011. See "Discontinued Operations" in Note 8 to the Financial Statements for additional information.

Financial Condition

Liquidity and Capital Resources

PPL had the following at:

	September 30, 2011	December 31, 2010
Cash and cash equivalents	$ 1,511	$ 925
Short-term investments (a)	16	163
	$ 1,527	$ 1,088
Short-term debt	$ 428	$ 694

(a) Balance at December 31, 2010 represents tax-exempt revenue bonds issued by Louisville/Jefferson County, Kentucky on behalf of LG&E that were purchased from the remarketing agent in 2008. Such bonds were remarketed to unaffiliated investors in January 2011. See Note 17 to the Financial Statements for further discussion.

The $586 million increase in PPL's cash and cash equivalents position was primarily the net result of:

- proceeds of $5.2 billion from the issuance of long-term debt;
- proceeds of $2.3 billion from the issuance of common stock;
- cash provided by operating activities of $1.8 billion;
- proceeds from the sale of certain non-core generation facilities of $381 million;
- the payment of $5.8 billion for the acquisition of WPD Midlands;
- capital expenditures of $1.7 billion;
- the retirement of $708 million of long-term debt:
- the payment of $543 million of common stock dividends;
- a net decrease in short-term debt of $322 million; and
- the payment of $84 million of debt issuance and credit facility costs.

PPL's cash provided by operating activities increased by $150 million for the nine months ended September 30, 2011 compared with the same period in 2010. The increase was the net effect of:

- operating cash provided by LKE, $674 million, and WPD Midlands, $206 million;
- cash from components of working capital, $56 million (excluding LKE and Midlands); partially offset by
- reduction in cash from counter party collateral, $442 million;
- lower gross energy margins, $154 million after-tax; and
- proceeds from monetizing certain full-requirements energy contracts in 2010, $249 million.

Credit Facilities

At September 30, 2011, PPL's total committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

		Committed Capacity		Borrowed		Letters of Credit Issued		Unused Capacity
PPL Energy Supply Credit Facilities (a)	$	3,200	$	250	$	208	$	2,742
PPL Electric Credit Facilities (b)		350				13		337
LG&E Credit Facility (c)		400						400
KU Credit Facilities (c)(d)		598				198		400
Total Domestic Credit Facilities (e)	$	4,548	$	250	$	419	$	3,879
PPL WW Credit Facility	£	150	£	111		n/a	£	39
WPD (South West) Credit Facility		210				n/a		210
WPD (East Midlands) Credit Facility (f)		300			£	70		230
WPD (West Midlands) Credit Facility (f)		300				71		229
Total WPD Credit Facilities (g)	£	960	£	111	£	141	£	708

(a) In March 2011, PPL Energy Supply's $300 million Structured Credit Facility expired. PPL Energy Supply's obligations under this facility were supported by a $300 million letter of credit issued on PPL Energy Supply's behalf under a separate, but related $300 million 5-year credit agreement, which also expired in March 2011.

(b) Committed capacity includes a $150 million credit facility related to an asset-backed commercial paper program through which PPL Electric obtains financing by selling and contributing its eligible accounts receivable and unbilled revenue to a special purpose, wholly owned subsidiary on an ongoing basis. The subsidiary pledges these assets to secure loans of up to an aggregate of $150 million from a commercial paper conduit sponsored by a financial institution. At September 30, 2011, based on accounts receivable and unbilled revenue pledged, the amount available for borrowing under the facility was limited to $86 million. In July 2011, PPL Electric and the subsidiary extended the expiration date of the credit agreement related to the asset-backed commercial paper program to July 2012.

(c) In June 2011, LG&E and KU each amended its respective Syndicated Credit Facility such that the fees and the spread to benchmark interest rates for borrowings depend upon the respective company's senior secured long-term debt rating rather than the senior unsecured debt rating.

(d) In April 2011, KU entered into a new $198 million letter of credit facility that has been used to issue letters of credit to support outstanding tax exempt bonds. The facility matures in April 2014. In August 2011, KU amended its letter of credit facility such that the fees depend upon KU's senior secured long-term debt rating rather than the senior unsecured debt rating.

(e) Total borrowings outstanding under PPL's domestic credit facilities decreased on a net basis by $263 million since December 31, 2010.

In October 2011, PPL Energy Supply, PPL Electric, LG&E and KU each amended its respective Syndicated Credit Facility. The amendments included extending the expiration dates from December 2014 to October 2016. Under these facilities, PPL Energy Supply, PPL Electric, LG&E and KU each continue to have the ability to make cash borrowings and to request the lenders to issue letters of credit.

The commitments under PPL's domestic credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 9% of the total committed capacity.

(f) In April 2011, following the completion of the acquisition of WPD Midlands, WPD (East Midlands) and WPD (West Midlands) each entered into a £300 million 5-year syndicated credit facility. Under the facilities, WPD (East Midlands) and WPD (West Midlands) each have the ability to make cash borrowings and to request the lenders to issue up to £80 million of letters of credit in lieu of borrowing.

(g) At September 30, 2011, the unused capacity of WPD's credit facilities was approximately $1.3 billion.

The commitments under WPD's credit facilities are provided by a diverse bank group, with no one bank providing more than 17% of the total committed capacity.

See Note 7 to the Financial Statements for further discussion of PPL's credit facilities.

Commercial Paper

PPL Electric maintains a commercial paper program for up to $200 million to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by PPL Electric's Syndicated Credit Facility. PPL Electric had no commercial paper outstanding at September 30, 2011.

In October 2011, PPL Energy Supply re-activated its $500 million commercial paper program to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by PPL Energy Supply's Syndicated Credit Facility. At November 4, 2011, PPL Energy Supply had $400 million of commercial paper outstanding at a weighted-average interest rate of approximately 0.51%, which was used to partially fund the repayment of PPL Energy Supply's 6.40% Senior Notes upon maturity in November 2011. PPL Energy Supply expects to refinance outstanding commercial paper on a long-term basis at a future date, subject to market conditions.

2011 Bridge Facility

In March 2011, concurrently, and in connection with entering into the agreement to acquire WPD Midlands, PPL entered into a commitment letter with certain lenders pursuant to which the lenders committed to provide PPL with 364-day unsecured bridge financing of up to £3.6 billion solely to (i) fund the acquisition and (ii) pay certain fees and expenses in connection with the acquisition. The bridge financing commitment was subsequently syndicated to a group of banks, including the initial commitment lenders. Upon the syndication of the commitment, in March 2011, PPL Capital Funding and PPL WEM, as borrowers, and PPL, as guarantor, entered into the 2011 Bridge Facility.

On April 1, 2011, concurrent with the closing of the WPD Midlands acquisition, PPL Capital Funding borrowed an aggregate of £1.75 billion and PPL WEM borrowed £1.85 billion under the 2011 Bridge Facility. The borrowings bore interest at approximately 2.62%. See Note 8 to the Financial Statements for additional information on the acquisition.

In accordance with the terms of the 2011 Bridge Facility, PPL Capital Funding's borrowings of £1.75 billion were repaid with approximately $2.8 billion of proceeds received from PPL's issuance of common stock and 2011 Equity Units in April 2011, as discussed in "Long-term Debt and Equity Securities" below. Also in April 2011, PPL WEM repaid £650 million of its 2011 Bridge Facility borrowing. Such repayment was funded primarily with proceeds received from PPL WEM's issuance of senior notes, which is also discussed below. In May 2011, PPL WEM repaid the remaining £1.2 billion of borrowings outstanding under the 2011 Bridge Facility, primarily with the proceeds from senior notes issued by WPD (East Midlands) and WPD (West Midlands), also discussed below.

In anticipation of the repayment of a portion of the GBP-denominated borrowings under the 2011 Bridge Facility with U.S. dollar-denominated proceeds received from PPL's issuance of common stock and 2011 Equity Units and PPL WEM's issuance of U.S. dollar-denominated senior notes, PPL entered into forward contracts to purchase GBP in order to economically hedge the foreign currency exchange rate risk related to the repayment. See Note 14 to the Financial Statements for further discussion.

Long-term Debt and Equity Securities

PPL's long-term debt and equity securities activity through September 30, 2011 was:

	Debt		Equity
	Issuances (a)	Retirements	Issuances
PPL Common Stock			$ 2,328
PPL Capital Funding Junior Subordinated Notes	$ 978		
PPL Energy Supply Senior Unsecured Notes (b)		$ (250)	
PPL Electric First Mortgage Bonds (c)	645	(458)	
LKE Senior Unsecured Notes	250		
PPL WEM Senior Unsecured Notes	959		
WPD (West Midlands) Senior Unsecured Notes	1,282		
WPD (East Midlands) Senior Unsecured Notes	967		
WPD (East Midlands) Index-linked Notes	164		
Total Cash Flow Impact	$ 5,245	$ (708)	$ 2,328
Assumed through consolidation - WPD Midlands acquisition:			
WPD (East Midlands) Senior Unsecured Notes (d)	$ 418		
WPD (West Midlands) Senior Unsecured Notes (d)	412		
Total Assumed	$ 830		
Non-cash Exchanges (e):			
LKE Senior Unsecured Notes	$ 875	$ (875)	
LG&E First Mortgage Bonds	535	(535)	
KU First Mortgage Bonds	1,500	(1,500)	
Total Exchanged	$ 2,910	$ (2,910)	
Net Increase	$ 5,367		$ 2,328

PPL's long-term debt and equity securities activity since September 30, 2011 was:

	Debt		Equity
	Issuances	Retirements	Issuances
PPL Energy Supply Senior Unsecured Notes (f)		$ (500)	
LG&E and KU Capital LLC Medium Term Notes (f)		(2)	
Total Cash Flow Impact		$ (502)	
Net Decrease	$ (502)		

(a) Issuances are net of pricing discounts, where applicable and exclude the impact of debt issuance costs.

(b) Senior unsecured notes were redeemed at par prior to their 2046 maturity date.
(c) Retirement reflects amount paid to redeem $400 million aggregate principal amount of first mortgage bonds prior to their 2013 maturity date.
(d) Reflects fair value adjustments resulting from the preliminary purchase price allocation. The principal amount of each issuance is £250 million, which equated to approximately $400 million at the time of closing.
(e) In April 2011, LKE, LG&E and KU each filed a 2011 Registration Statement with the SEC related to offers to exchange securities issued in November 2010 in transactions not registered under the Securities Act of 1933 with similar but registered securities. The 2011 Registration Statements became effective in June 2011 and the exchanges were completed in July 2011, with substantially all securities being exchanged.
(f) Notes were retired upon maturity.

In July 2011, PPL Electric entered into a supplemental indenture that contains prospective amendments to its 2001 Mortgage Indenture, including amendments to reduce the amount of first mortgage bonds issuable on the basis of property additions from 100% of the cost or fair value (whichever is less, as determined in accordance with the terms of the indenture) of such property additions to 66-2/3% of such cost or fair value. The amendments became effective in the third quarter of 2011.

At September 30, 2011, LKE's tax-exempt revenue bonds that are in the form of auction rate securities and total $231 million continue to experience failed auctions. Therefore, the interest rate continues to be set by a formula pursuant to the relevant indentures. For the nine months ended September 30, 2011, the weighted-average rate on LG&E's and KU's auction rate bonds in total was 0.27%.

See Note 7 to the Financial Statements for additional information about long-term debt and equity securities.

Common Stock Dividends

In August 2011, PPL declared its quarterly common stock dividend, payable October 1, 2011, at 35.0 cents per share (equivalent to $1.40 per annum). Future dividends, declared at the discretion of the Board of Directors, will be dependent upon future earnings, cash flows, financial and legal requirements and other factors.

Rating Agency Decisions

Moody's, S&P and Fitch periodically review the credit ratings on the debt and preferred securities of PPL and its subsidiaries. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of PPL and its subsidiaries are based on information provided by PPL and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of PPL or its subsidiaries. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. A downgrade in PPL's or its subsidiaries' credit ratings could result in higher borrowing costs and reduced access to capital markets.

In prior periodic reports, PPL described its then-current credit ratings in connection with, and to facilitate, an understanding of its liquidity position. As a result of the passage of the Dodd-Frank Act and the attendant uncertainties relating to the extent to which issuers of non-asset backed securities may disclose credit ratings without being required to obtain rating agency consent to the inclusion of such disclosure, or incorporation by reference of such disclosure, in a registrant's registration statement or section 10(a) prospectus, PPL is limiting its credit rating disclosure to a description of the actions taken by the rating agencies with respect to PPL's ratings, but without stating what ratings have been assigned to PPL or its subsidiaries, or their securities. The ratings assigned by the rating agencies to PPL and its subsidiaries and their respective securities may be found, without charge, on each of the respective rating agencies' websites, which ratings together with all other information contained on such rating agency websites is, hereby, explicitly not incorporated by reference in this report.

Following the announcement of the then-pending acquisition of WPD Midlands in March 2011, the rating agencies took the following actions:

Moody's affirmed all of the ratings for PPL and all of its rated subsidiaries.

S&P revised the outlook for PPL, PPL Capital Funding, PPL Energy Supply, PPL Electric, LKE, LG&E, KU, PPL WW, WPD (South West) and WPD (South Wales), affirmed the issuer and senior unsecured ratings of PPL WW, and lowered the following ratings:

- the issuer rating of PPL;
- the senior unsecured and junior subordinated ratings of PPL Capital Funding;
- the issuer and senior unsecured ratings of PPL Energy Supply;
- the issuer, senior secured, preference stock, and commercial paper ratings of PPL Electric;

- the issuer and senior unsecured ratings of LKE;
- the issuer, senior secured ratings, and short-term ratings of LG&E;
- the issuer, senior secured ratings, and short-term ratings of KU;
- the issuer and senior unsecured ratings of WPD (South West); and
- the issuer and senior unsecured ratings of WPD (South Wales).

Fitch affirmed all of the ratings for PPL, PPL Capital Funding, PPL Energy Supply, PPL Electric, LKE, LG&E and KU.

In April 2011, Moody's and S&P took the following actions following the completion of the acquisition of WPD Midlands.

Moody's:
- lowered the issuer and senior unsecured debt ratings of WPD (East Midlands) and WPD (West Midlands);
- affirmed the short-term issuer rating of WPD (East Midlands); and
- assigned a senior unsecured rating and an outlook to PPL WEM.

S&P:
- lowered the issuer and senior unsecured debt ratings of WPD (East Midlands) and WPD (West Midlands);
- assigned issuer ratings to PPL WEM;
- raised the issuer rating of PPL WW;
- revised the outlook for PPL and all of its rated subsidiaries;
- raised the short-term ratings of LG&E, KU, WPD (East Midlands), WPD (West Midlands), PPL WEM, PPL WW, WPD (South West), WPD (South Wales) and PPL Electric; and
- affirmed all of the long-term ratings for PPL and its rated subsidiaries.

In May 2011, S&P downgraded the long-term rating of four series of pollution control bonds issued on behalf of KU by one notch in connection with the substitution of the letters of credit enhancing these four bonds.

Also in May 2011, Fitch affirmed its rating and maintained its outlook for PPL Montana's Pass Through Certificates due 2020.

In July 2011, S&P upgraded the senior secured rating for PPL Electric's first mortgage bonds following the execution of a supplemental indenture that provided for prospective amendments to PPL Electric's 2001 Mortgage Indenture, as discussed in "Long-term Debt and Equity Securities" above.

In September 2011, Moody's affirmed the following ratings:
- the issuer ratings for PPL, LG&E, and KU;
- the senior unsecured ratings for PPL Energy Supply and PPL Capital Funding; and
- all of the ratings for LKE.

Also in September 2011, S&P assigned a short-term rating to PPL Energy Supply's commercial paper program.

In October 2011, Moody's and Fitch also assigned a short-term rating to PPL Energy Supply's commercial paper program in support of PPL Energy Supply's re-opening of the program.

In October 2011, Fitch affirmed all of the ratings for PPL WW, WPD (South West), and WPD (South Wales).

Ratings Triggers

PPL and its subsidiaries have various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity and fuel, commodity transportation and storage, tolling agreements and interest rate and foreign currency instruments, which contain provisions requiring PPL and its subsidiaries to post additional collateral, or permitting the counterparty to terminate the contract, if PPL's or the subsidiaries' credit ratings were to fall below investment grade. See Note 14 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at September 30, 2011. At September 30, 2011, if PPL's or its subsidiaries' credit ratings had been below investment grade, the maximum amount that PPL would have been required to post as additional collateral to counterparties was $492 million for both derivative and non-derivative commodity and commodity-related contracts used in its generation, marketing and trading operations and interest rate and foreign currency contracts.

Capital Expenditures

The table below shows PPL's capital expenditure projections at September 30, 2011.

	Projected				
	2011	2012	2013	2014	2015
Construction expenditures (a) (b)					
Generating facilities	$ 762	$ 640	$ 553	$ 360	$ 492
Transmission and distribution facilities	1,401	1,925	2,248	2,215	2,071
Environmental (c)	211	764	1,239	1,212	888
Other	124	173	133	122	138
Total Construction Expenditures	2,498	3,502	4,173	3,909	3,589
Nuclear fuel	152	159	161	158	160
Total Capital Expenditures	$ 2,650	$ 3,661	$ 4,334	$ 4,067	$ 3,749

(a) Construction expenditures include capitalized interest and AFUDC, which are expected to be approximately $320 million for the years 2011 through 2015.
(b) Includes expenditures for certain intangible assets.
(c) Includes approximately $700 million of LKE's currently estimable costs related to replacement generation units due to EPA regulations not recoverable through the ECR mechanism. LKE expects to recover these costs over a period equivalent to the related depreciable lives of the assets through base rates established by future rate cases.

PPL's capital expenditure projections for the years 2011 through 2015 total approximately $18.5 billion. Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. This table has been revised from that which was presented in PPL's 2010 Form 10-K for changes in estimates for LKE's environmental projects related to new and anticipated EPA compliance standards (actual costs may be significantly lower or higher depending on the final requirements; certain environmental compliance costs incurred by LG&E and KU in serving KPSC jurisdictional customers are generally eligible for recovery through the ECR mechanism) and expenditures to be made by the newly acquired WPD Midlands. See Note 8 to the Financial Statements for information on PPL's April 2011 acquisition of WPD Midlands.

For additional information on PPL's liquidity and capital resources, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in PPL's 2010 Form 10-K.

Risk Management

Market Risk

See Notes 13 and 14 to the Financial Statements for information about PPL's risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of possible losses under normal market conditions at a given confidence level.

Commodity Price Risk (Non-trading)

PPL segregates its non-trading activities into two categories: hedge activity and economic activity. Transactions that are accounted for as hedge activity qualify for hedge accounting treatment. The economic activity category includes transactions that address a specific risk, but were not eligible for hedge accounting or for which hedge accounting was not elected. This activity includes the changes in fair value of positions used to hedge a portion of the economic value of PPL's generation assets, full-requirement sales contracts and retail activities. This economic activity is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power). Although they do not receive hedge accounting treatment, these transactions are considered non-trading activity. The net fair value of economic positions at September 30, 2011 and December 31, 2010 was a net liability of $218 million and $391 million. See Note 14 to the Financial Statements for additional information on economic activity.

To hedge the impact of market price volatility on PPL's energy-related assets, liabilities and other contractual arrangements, PPL both sells and purchases physical energy at the wholesale level under FERC market-based tariffs throughout the U.S. and enters into financial exchange-traded and over-the-counter contracts. PPL's non-trading commodity derivative contracts mature at various times through 2017.

The following table sets forth the change in net fair value of PPL's non-trading commodity derivative contracts for the periods ended September 30. See Notes 13 and 14 to the Financial Statements for additional information.

	Gains (Losses)			
	Three Months Ended		Nine Months Ended	
	2011	2010	2011	2010
Fair value of contracts outstanding at the beginning of the period	$ 894	$ 1,303	$ 956	$ 1,280
Contracts realized or otherwise settled during the period	(100)	(96)	(237)	(330)
Fair value of new contracts entered into during the period	4	3	19	10
Changes in fair value attributable to changes in valuation techniques (a)				(23)
Other changes in fair value	46	144	106	417
Fair value of contracts outstanding at the end of the period	$ 844	$ 1,354	$ 844	$ 1,354

(a) In June 2010, PPL received market bids for certain full-requirement sales contracts that were monetized in early July. See Note 14 to the Financial Statements for additional information. At September 30, 2010, these contracts were valued based on the bids received (the market approach). In prior periods, the fair value of these contracts was measured using the income approach.

The following table segregates the net fair value of PPL's non-trading commodity derivative contracts at September 30, 2011, based on whether the fair value was determined by prices quoted in active markets for identical instruments or other more subjective means.

	Net Asset (Liability)				
	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	Total Fair Value
Source of Fair Value					
Prices based on significant other observable inputs	$ 533	$ 272	$ 13		$ 818
Prices based on significant unobservable inputs	(8)	(13)	20	$ 27	26
Fair value of contracts outstanding at the end of the period	$ 525	$ 259	$ 33	$ 27	$ 844

PPL sells electricity, capacity and related services and buys fuel on a forward basis to hedge the value of energy from its generation assets. If PPL were unable to deliver firm capacity and energy or to accept the delivery of fuel under its agreements, under certain circumstances it could be required to pay liquidating damages. These damages would be based on the difference between the market price and the contract price of the commodity. Depending on price changes in the wholesale energy markets, such damages could be significant. Extreme weather conditions, unplanned power plant outages, transmission disruptions, nonperformance by counterparties with which it has energy contracts and other factors could affect PPL's ability to meet its obligations, or cause significant increases in the market price of replacement energy. Although PPL attempts to mitigate these risks, there can be no assurance that it will be able to fully meet its firm obligations, that it will not be required to pay damages for failure to perform, or that it will not experience counterparty nonperformance in the future.

Commodity Price Risk (Trading)

PPL's trading commodity derivative contracts mature at various times through 2015. The following table sets forth changes in the net fair value of PPL's trading commodity derivative contracts for the periods ended September 30. See Notes 13 and 14 to the Financial Statements for additional information.

	Gains (Losses)			
	Three Months		Nine Months	
	2011	2010	2011	2010
Fair value of contracts outstanding at the beginning of the period	$ 15	$ 4	$ 4	$ (6)
Contracts realized or otherwise settled during the period	(10)	(8)	(7)	(8)
Fair value of new contracts entered into during the period	(2)	45	6	47
Other changes in fair value	4	(39)	4	(31)
Fair value of contracts outstanding at the end of the period	$ 7	$ 2	$ 7	$ 2

Unrealized gains of approximately $4 million will be reversed over the next three months as the transactions are realized.

The following table segregates the net fair value of trading commodity derivative contracts at September 30, 2011, based on whether the fair value was determined by prices quoted in active markets for identical instruments or other more subjective means.

	Net Asset (Liability)				
Source of Fair Value	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	Total Fair Value
Prices based on significant other observable inputs	$ (4)	$ 11			$ 7
Fair value of contracts outstanding at the end of the period	$ (4)	$ 11			$ 7

VaR Models

A VaR model is utilized to measure commodity price risk in domestic gross energy margins for the non-trading and trading portfolios. VaR is a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level. VaR is calculated using a Monte Carlo simulation technique based on a five-day holding period at a 95% confidence level. Given the company's conservative hedging program, the non-trading VaR exposure is expected to be limited in the short-term. The VaR for portfolios using end-of-month results for the period was as follows.

	Trading VaR		Non-Trading VaR	
	Nine Months Ended September 30, 2011	Twelve Months Ended December 31, 2010	Nine Months Ended September 30, 2011	Twelve Months Ended December 31, 2010
95% Confidence Level, Five-Day Holding Period				
Period End	$ 3	$ 1	$ 5	$ 5
Average for the Period	2	4	5	7
High	4	9	7	12
Low	1	1	4	4

The trading portfolio includes all speculative positions, regardless of the delivery period. All positions not considered speculative are considered non-trading. The non-trading portfolio includes the entire portfolio, including generation, with delivery periods through the next 12 months. Both the trading and non-trading VaR computations exclude FTRs due to the absence of reliable spot and forward markets. The fair value of the non-trading and trading FTR positions was insignificant at September 30, 2011.

Interest Rate Risk

PPL and its subsidiaries have issued debt to finance their operations, which exposes them to interest rate risk. PPL utilizes various financial derivative instruments to adjust the mix of fixed and floating interest rates in its debt portfolio, adjust the duration of its debt portfolio and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under the risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of PPL's debt portfolio due to changes in the absolute level of interest rates.

At September 30, 2011, PPL's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

PPL is also exposed to changes in the fair value of its domestic and international debt portfolios. PPL estimated that a 10% decrease in interest rates at September 30, 2011 would increase the fair value of its debt portfolio by $632 million.

At September 30, 2011, PPL had the following interest rate hedges outstanding:

	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates (b)
Cash flow hedges			
Interest rate swaps (c)	$ 550	$ (62)	$ (12)
Cross-currency swaps (d)	1,262	49	(184)
Fair value hedges			
Interest rate swaps (e)	99	6	
Economic hedges			
Interest rate swaps (f)	179	(58)	(4)

(a) Includes accrued interest, if applicable.

(b) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability.
(c) PPL utilizes various risk management instruments to reduce its exposure to the expected future cash flow variability of its debt instruments. These risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financing. While PPL is exposed to changes in the fair value of these instruments, any changes in the fair value of such cash flow hedges are recorded in equity. The changes in fair value of these instruments are then reclassified into earnings in the same period during which the item being hedged affects earnings. Sensitivities represent a 10% adverse movement in interest rates. The positions outstanding at September 30, 2011 mature through 2022.
(d) PPL WEM, through PPL, and PPL WW use cross-currency swaps to hedge the interest payments and principal of their U.S. dollar-denominated senior notes with maturity dates ranging from May 2016 to December 2028. While PPL is exposed to changes in the fair value of these instruments, any change in the fair value of these instruments is recorded in equity and reclassified into earnings in the same period during which the item being hedged affects earnings. Sensitivities represent a 10% adverse movement in both interest rates and foreign currency exchange rates.
(e) PPL utilizes various risk management instruments to adjust the mix of fixed and floating interest rates in its debt portfolio. The change in fair value of these instruments, as well as the offsetting change in the value of the hedged exposure of the debt, is reflected in earnings. Sensitivities represent a 10% adverse movement in interest rates. The positions outstanding at September 30, 2011 mature in 2047.
(f) PPL utilizes various risk management instruments to reduce its exposure to the expected future cash flow variability of its debt instruments. These risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financing. While PPL is exposed to changes in the fair value of these instruments, any changes in the fair value of such economic hedges are recorded in regulatory assets and liabilities. The changes in fair value of these instruments are then reclassified into earnings in the same period during which the item being hedged affects earnings. Sensitivities represent a 10% adverse movement in interest rates.

Foreign Currency Risk

PPL is exposed to foreign currency risk, primarily through investments in U.K. affiliates. In addition, PPL's domestic operations may make purchases of equipment in currencies other than U.S. dollars.

PPL has adopted a foreign currency risk management program designed to hedge certain foreign currency exposures, including the risk associated with translating earnings and dividends for the U.K. affiliates, firm commitments, recognized assets or liabilities, other anticipated transactions and net investments. In addition, PPL enters into financial instruments to protect against foreign currency translation risk of expected earnings.

At September 30, 2011, PPL had the following foreign currency hedges outstanding:

	Exposure Hedged	Fair Value, Net - Asset (Liability)	Effect of a 10% Adverse Movement in Foreign Currency Exchange Rates (a)
Net investment hedges (b)	£ 65	$ 5	$ (10)
Economic hedges			
Earnings translation (c)	393	16	(53)

(a) Effects of adverse movements decrease assets or increase liabilities, as applicable, which could result in an asset becoming a liability.
(b) To protect the value of a portion of its net investment in WPD, PPL executes forward contracts to sell GBP.
(c) To economically hedge the translation of expected income denominated in GBP to U.S. dollars, PPL enters into a combination of average rate forwards and average rate options to sell GBP. The forwards and options outstanding at September 30, 2011, have termination dates ranging from October 2011 through November 2012.

NDT Funds - Securities Price Risk

In connection with certain NRC requirements, PPL Susquehanna maintains trust funds to fund certain costs of decommissioning the Susquehanna nuclear plant. At September 30, 2011, these funds were invested primarily in domestic equity securities and fixed-rate, fixed-income securities and are reflected at fair value on the Balance Sheet for $594 million. The mix of securities is designed to provide returns sufficient to fund such decommissioning and to compensate for inflationary increases in decommissioning costs. However, the equity securities included in the trusts are exposed to price fluctuation in equity markets, and the values of fixed-rate, fixed-income securities are primarily exposed to changes in interest rates. PPL actively monitors the investment performance and periodically reviews asset allocation in accordance with its NDT policy statement. At September 30, 2011, a hypothetical 10% increase in interest rates and a 10% decrease in equity prices would have resulted in an estimated $39 million reduction in the fair value of the trust assets. See Notes 13 and 17 to the Financial Statements for additional information regarding the NDT funds.

Credit Risk

See Notes 13 and 14 to the Financial Statements in this Form 10-Q and "Risk Management - Energy Marketing & Trading and Other - Credit Risk" in PPL's 2010 Form 10-K for additional information.

Foreign Currency Translation

During 2011 and 2010, the GBP fluctuated in relation to the U.S. dollar. Changes in these exchange rates resulted in a foreign currency translation gain of $154 million for the nine months ended September 30, 2011, which primarily reflected a $242 million increase to PP&E offset by an increase of $88 million to net liabilities. Changes in these exchange rates resulted in a foreign currency translation loss of $83 million for the nine months ended September 30, 2010, which primarily reflected a $223 million reduction to PP&E offset by a reduction of $140 million to net liabilities. These adjustments, net of tax, resulting from translation are recorded in AOCI.

Related Party Transactions

PPL is not aware of any material ownership interests or operating responsibility by senior management of PPL, PPL Energy Supply, PPL Electric, LKE, LG&E or KU in outside partnerships, including leasing transactions with variable interest entities or other entities doing business with PPL. See Note 11 to the Financial Statements for additional information on related party transactions between PPL affiliates.

Acquisitions, Development and Divestitures

PPL continuously evaluates potential acquisitions, divestitures and development projects as opportunities arise or are identified. Development projects are continuously reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options.

In April 2011, PPL, through its indirect, wholly owned subsidiary PPL WEM, completed its acquisition of WPD Midlands.

In the third quarter of 2011, the Susquehanna Unit 2 uprate, representing the final phase of the project to increase the nuclear plant's generation capacity, was completed and is projected to yield an additional 50 MW.

In September 2011, LG&E and KU entered into an Asset Purchase Agreement for the purchase of three existing natural gas simple cycle combustion units in LaGrange, Kentucky, aggregating approximately 495 MW, plus limited associated contractual arrangements required for operation of the plant (collectively, the Bluegrass Plant), for a purchase price of $110 million. In conjunction with a September 2011 CPCN filing, LG&E and KU anticipate retiring three older coal-fired electric generating stations to meet new, stricter EPA regulations at the end of 2015. These plants include Cane Run, Tyrone and Green River, which have a combined summer rating of 797 MW. Also, in September, the companies requested KPSC approval to build a 640 MW natural gas-fired combined-cycle plant at the existing Cane Run site in Kentucky. The project has an expected cost of approximately $583 million, which includes costs of building a natural gas supply pipeline.

See Note 8 to the Financial Statements for additional information.

With limited exceptions, LKE took care, custody and control of TC2 in January 2011, and has dispatched the unit to meet customer demand since that date. TC2 is a new 760 MW capacity baseload, coal-fired unit that is jointly owned by LG&E and KU (combined 75% interest), and the Illinois Municipal Electric Agency and the Indiana Municipal Power Agency (combined 25% interest). See Note 10 to the Financial Statements for additional information.

See Notes 1 and 10 to the Financial Statements in PPL's 2010 Form 10-K for information on PPL's November 2010 acquisition of LKE.

Environmental Matters

Protection of the environment is a priority for PPL and a significant element of its business activities. Extensive federal, state and local environmental laws and regulations are applicable to PPL'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 but could be material. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed from prior versions by the relevant agencies. Costs may take the form of increased capital or operating and maintenance expenses; monetary fines, penalties or forfeitures or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers, industrial power users, etc., and may impact the costs for their products or their demand for PPL's services. See "Overview" and Note 10 to the Financial Statements in this Form 10-Q and "Item 1. Business - Environmental Matters" in PPL's 2010 Form 10-K for additional information on environmental matters.

New Accounting Guidance

See Note 18 to the Financial Statements for a discussion of new accounting guidance pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations, and require estimates or other judgments of matters inherently uncertain: price risk management, defined benefits, asset impairment, loss accruals, AROs, income taxes, regulatory assets and liabilities and business combinations - purchase price allocation. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in PPL's 2010 Form 10-K for a discussion of each critical accounting policy.

Following is an update to the critical accounting policies disclosed in PPL's 2010 Form 10-K.

Business Combinations - Purchase Price Allocation

On April 1, 2011, PPL, through its indirect, wholly owned subsidiary, PPL WEM, completed its acquisition of all of the outstanding ordinary share capital of Central Networks East plc and Central Networks Limited, the sole owner of Central Networks West plc, together with certain other related assets and liabilities (collectively referred to as Central Networks and subsequently renamed WPD Midlands). In accordance with accounting guidance on business combinations, the identifiable assets acquired and the liabilities assumed must be measured at fair value at the acquisition date. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The excess of the purchase price over the estimated fair value of the identifiable net assets is recorded as goodwill.

The determination and allocation of fair value to the identifiable assets acquired and liabilities assumed is based on various assumptions and valuation methodologies requiring considerable management judgment, including estimates based on key assumptions of the acquisition, and historical and current market data. Significant variables in these valuations include the discount rates, the number of years on which to base cash flow projections, as well as the assumptions and estimates used to determine cash inflows and outflows.

As noted in Note 8 to the Financial Statements, the purchase price allocation is preliminary and could change materially in subsequent periods. The preliminary purchase price allocation was based on PPL's best estimates using information obtained as of the reporting date. Any changes to the purchase price allocation during the measurement period, which can extend up to one year from the date of acquisition, that result in material changes to the consolidated financial results will be adjusted retrospectively. The final purchase price allocation is expected to be completed before the end of 2011. The items pending finalization include, but are not limited to, the valuation of PP&E, intangible assets including goodwill, defined benefit plans, certain liabilities and income tax related matters.

The fair value of the majority of PP&E was determined utilizing a discounted cash flow approach and corroborated by the RAV, which is a measure of the unrecovered value of the regulated network business in the U.K. For purposes of measuring the fair value of the majority of PP&E, PPL determined that fair value should approximate the RAV at the acquisition date because WPD Midlands' operations are conducted in a regulated environment and the regulator allows for earning a rate of return on and recovery of RAV at rates determined to be fair and reasonable. As there is no current prospect for deregulation in WPD Midlands' operating area, it is expected that these operations will remain in a regulated environment for the foreseeable future; therefore, management has concluded that the use of these assets in the regulatory environment represents their highest and best use and a market participant would measure the fair value of these assets using the regulatory rate of return as the discount rate, thus resulting in fair value approximately equal to the RAV. The amounts recorded for PP&E are based on estimates and will be updated upon the finalization of the valuation work.

The preliminary purchase price allocation resulted in goodwill of $2.4 billion that was assigned to the International Regulated segment. This reflects the expected continued growth of a rate-regulated business with a defined service area operating under a constructive regulatory framework, expected cost savings, efficiencies and other benefits resulting from a contiguous service area with WPD (South West) and WPD (South Wales) and the ability to leverage WPD (South West)'s and WPD (South Wales)'s existing management team's high level of performance in capital cost efficiency, system reliability and customer service.

See Note 8 to the Financial Statements for additional information regarding the acquisition.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following information should be read in conjunction with PPL Energy Supply's Condensed Consolidated Financial Statements and the accompanying Notes and with PPL Energy Supply's Form 8-K dated June 24, 2011 and 2010 Form 10-K. Capitalized terms and abbreviations are explained in the glossary. Dollars are in millions, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides an overview of PPL Energy Supply's business strategy, financial and operational highlights and key legal and regulatory matters.

- "Results of Operations" provides a summary of PPL Energy Supply's earnings and a description of key factors that are expected to impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of significant changes in principal items on PPL Energy Supply's Statements of Income, comparing the three and nine months ended September 30, 2011 with the same periods in 2010.

- "Financial Condition - Liquidity and Capital Resources" provides an analysis of PPL Energy Supply's liquidity position and credit profile. This section also includes a discussion of rating agency decisions.

- "Financial Condition - Risk Management" provides an explanation of PPL Energy Supply's risk management programs relating to market and credit risk.

Overview

Introduction

PPL Energy Supply is an energy company with headquarters in Allentown, Pennsylvania. Through its subsidiaries, PPL Energy Supply is primarily engaged in the generation and marketing of electricity in two key markets - the northeastern and northwestern U.S.

Through December 31, 2010, PPL Energy Supply had two reportable segments - International Regulated and Supply. However, in January 2011, PPL Energy Supply distributed its 100% membership interest in PPL Global to its direct parent, PPL Energy Funding, to better align PPL's organizational structure with the manner in which it manages its businesses and reports segment information in its consolidated financial statements. The distribution separated the U.S. based competitive energy marketing and supply business from the U.K. based regulated electricity distribution business. As a result, effective January 1, 2011, PPL Energy Supply operates in a single business segment. The 2010 operating results of the International Regulated segment have been reclassified to "Income (Loss) from Discontinued Operations (net of income taxes)" on the Statements of Income. See Note 8 to the Financial Statements for additional information on the January 2011 distribution.

Business Strategy

PPL Energy Supply's overall strategy is to achieve disciplined growth in energy supply margins while mitigating volatility in both cash flows and earnings. More specifically, PPL Energy Supply's strategy is to optimize the value from its unregulated generation and marketing portfolio. PPL Energy Supply endeavors to do this by matching energy supply with load, or customer demand, under contracts of varying durations with creditworthy counterparties to capture profits while effectively managing exposure to energy and fuel price volatility, counterparty credit risk and operational risk.

To manage financing costs and access to credit markets, a key objective of PPL Energy Supply's business is to maintain a strong credit profile. PPL Energy Supply continually focuses on maintaining an appropriate capital structure and liquidity position. In addition, PPL Energy Supply has adopted financial and operational risk management programs that, among other things, are designed to monitor and manage its exposure to earnings and cash flow volatility related to changes in energy and fuel prices, interest rates, counterparty credit quality and the operating performance of its generating units.

Financial and Operational Highlights

Net Income Attributable to PPL Energy Supply

Net Income Attributable to PPL Energy Supply for the three and nine months ended September 30, 2011 was $169 million and $472 million compared to $265 million and $551 million for the same periods in 2010. This represents a 36% and 14% decrease from 2010. These decreases reflect the following after-tax impacts.

	Three Months	Nine Months
Net unrealized gains/(losses) on energy-related economic activity	$ (14)	$ 119
Impairment charges in 2010 related to the sale of certain non-core generation facilities	62	60
Losses on the monetization of certain full-requirement sales contracts in 2010	27	102
Litigation settlement in 2011 related spent nuclear fuel storage	4	33
Change in "Unregulated Gross Energy Margins" (a)	(37)	(154)
Change in tax benefit from the domestic manufacturing deduction	(12)	(24)
Federal and state tax reserve adjustments	(12)	(13)
Results of PPL Global no longer being consolidated within PPL Energy Supply	(106)	(227)
Other	(8)	25
	$ (96)	$ (79)

(a) The change in "Unregulated Gross Energy Margins" is primarily due to lower baseload energy and capacity prices, changes in coal and hydro generation volumes and losses from the monetization of certain contracts in 2010 that rebalanced the business and portfolio, partially offset by higher margins on full-requirement sales contracts driven by contracts monetized in 2010 and reduced shopping. See "Statement of Income Analysis - Margins" for additional information and a reconciliation of "Unregulated Gross Energy Margins" to Operating Income.

See "Results of Operations" below for further discussion and analysis of the consolidated results of operations.

Susquehanna Turbine Blade Replacement

In April 2011, during the PPL Susquehanna Unit 2 refueling and generation uprate outage, a planned inspection of the Unit 2 turbine revealed cracks in certain of its low pressure turbine blades. Replacement of these blades was required, but was not anticipated as part of the original scope of this outage. The necessary replacement work extended the Unit 2 outage by six weeks. As a precaution, PPL Susquehanna also took Unit 1 out of service in mid-May to inspect the turbine blades in that unit. This inspection revealed cracks in blades similar to those found in Unit 2. The duration of the Unit 1 outage, in which turbine blades were replaced, was also about six weeks. The after-tax earnings impact, including reduced energy-sales margins and repair expense for both units was $63 million. The majority of these costs were incurred during the second quarter of 2011.

Legal and Regulatory Matters

Federal

CSAPR

In July 2011, the EPA signed the CSAPR which finalizes and renames the Clean Air Transport Rule (Transport Rule) proposed in August 2010. This rule applies to PPL Energy Supply's plants in Pennsylvania. The CSAPR is meant to facilitate attainment of ambient air quality standards for ozone and fine particulates by requiring reductions in sulfur dioxide and nitrogen oxide emissions. In October 2011, the EPA proposed technical adjustments to the CSAPR to account for updated data submitted to the agency. Several states and a number of companies have filed petitions for review with the U.S. Court of Appeals for the District of Columbia Circuit challenging various provisions of the CSAPR. PPL Energy Supply's initial review of the allocations under the CSAPR indicates that greater reductions in sulfur dioxide emissions will be required beginning in 2012 under the CSAPR than were required under the CAIR.

For the initial phase of the rule beginning in 2012, sulfur dioxide allowance allocations are expected to be greater than the forecasted emissions based on present operations of existing sulfur dioxide scrubbers and coal supply. However, for the second phase beginning in 2014, PPL Energy Supply will likely have to modify operations and dispatch of its generation fleet in Pennsylvania. With respect to nitrogen oxide emissions, the CSAPR provides a slightly higher amount of allowances for PPL Energy Supply's Pennsylvania plants than under CAIR, but still less than their current forecasted emissions. With uncertainty surrounding the trading program, other compliance options are being analyzed for the fleet, such as the installation of new technology.

Additionally, PPL Energy Supply's plants, including those in Montana, may face further reductions in sulfur dioxide and nitrogen oxide emissions as a result of more stringent national ambient air quality standards for ozone, nitrogen oxide, sulfur dioxide and/or fine particulates. PPL Energy Supply anticipates that some of the measures required for compliance with the CSAPR, such as upgraded or new sulfur dioxide scrubbers at some of its plants and retirement of certain units, may also be necessary to achieve compliance with new sulfur dioxide standards. If additional reductions were to be required, the economic impact to PPL Energy Supply could be significant. See Note 10 to the Financial Statements for additional information on the CSAPR.

Spent Nuclear Fuel Litigation

In May 2011, PPL Susquehanna entered into a settlement agreement with the U.S. Government relating to PPL Susquehanna's lawsuit, seeking damages for the Department of Energy's failure to accept spent nuclear fuel from the PPL Susquehanna station. Under the settlement agreement, PPL Susquehanna received $50 million, pre-tax for its share of claims to partially offset its expenses incurred to store spent nuclear fuel at the Susquehanna station through September 2009 and recognized a credit to "Fuel" expense in the second quarter of 2011. PPL Susquehanna also will be eligible to receive payment of annual claims for allowed costs that are incurred thereafter through the December 2013 termination of the settlement agreement. See Note 10 to the Financial Statements for additional information.

Montana Hydroelectric Litigation

In June 2011, the U.S. Supreme Court granted PPL Montana's petition to review the March 2010 Montana Supreme Court decision, which substantially affirmed the June 2008 Montana District Court decision to award the State of Montana retroactive compensation for PPL Montana's hydroelectric facilities' use and occupancy of certain Montana riverbeds. Oral argument is scheduled for December 2011. The stay of judgment granted during the proceedings before the Montana Supreme Court has been extended by agreement with the State of Montana to cover the anticipated period of the proceeding before the U.S. Supreme Court. See Note 10 to the Financial Statements for additional information.

Results of Operations

The results for interim periods can be disproportionately influenced by various factors and developments and by seasonal variations. As such, the results of operations for interim periods do not necessarily indicate results or trends for the year or for future periods.

Earnings

Net Income Attributable to PPL Energy Supply for the periods ended September 30 was:

	Three Months			Nine Months		
	2011	2010	% Change	2011	2010	% Change
Operating revenues	$ 1,441	$ 1,508	(4)	$ 3,807	$ 4,437	(14)
Fuel	358	322	11	826	810	2
Energy purchases	338	460	(27)	753	1,709	(56)
Other operation and maintenance	208	213	(2)	741	765	(3)
Depreciation	62	59	5	181	176	3
Taxes, other than income	18	12	50	50	34	47
Energy-related business	130	95	37	350	269	30
Total operating expenses	1,114	1,161	(4)	2,901	3,763	(23)
Other Income (Expense) - net	2	6	(67)	20	17	18
Other-Than-Temporary Impairments	5		n/a	6	3	100
Interest Income from Affiliates	2	1	100	6	3	100
Interest Expense	52	48	8	150	150	
Income Taxes	104	93	12	305	178	71
Income (Loss) from Discontinued Operations		53	(100)	2	189	(99)
Net Income	170	266	(36)	473	552	(14)
Net Income Attributable Noncontrolling Interests	1	1		1	1	
Net Income Attributable to PPL Energy Supply	$ 169	$ 265	(36)	$ 472	$ 551	(14)

The changes in the components of Net Income Attributable to PPL Energy Supply between the periods ended September 30, 2011 and 2010 were due to the following factors. PPL Energy Supply's results are adjusted for several items that management considers special. See additional detail of these items in the table below.

	Three Months	Nine Months
Unregulated gross energy margins	$ (64)	$ (264)
Other operation and maintenance	(5)	(40)
Other income (expense) - net	-	7
Interest Expense	(4)	(6)
Other	(11)	(13)
Income taxes	10	96
Discontinued operations - Domestic, after-tax - excluding certain revenues and expenses included in margins	4	13
Discontinued operations - International, after-tax	(106)	(227)
Special items, after-tax	80	355
Total	$ (96)	$ (79)

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of margins.

- Other operation and maintenance expense was higher for the nine-month period primarily due to $16 million of higher payroll-related costs, $9 million of which relates to PPL Susquehanna, and increased costs at PPL Susquehanna of $10 million from the dual-unit turbine blade replacement outages and $8 million from the refueling outage.

- Other income (expense) - net was $5 million higher in the nine-month period due to higher 2011 earnings on securities in the NDT funds.

- Income taxes were $34 and $129 million lower for the three and nine-month periods primarily due to lower pre-tax income. The decreases in income taxes were partially offset by a $12 million and $24 million decrease in the tax benefit from the domestic manufacturing deduction resulting from the impact of bonus tax depreciation and a $12 million and $13 million increase in income taxes primarily due to 2010 adjustments in federal and state income tax reserves.

- Income (loss) from discontinued operations - International, represents the results of PPL Global which was distributed to PPL Energy Supply's parent, PPL Energy Funding in January 2011. See Note 8 to the Financial Statements for additional information.

The following after-tax amounts, which management considers special items, also impacted PPL Energy Supply's earnings for the periods ended September 30.

	Income Statement Line Item	Three Months 2011	Three Months 2010	Nine Months 2011	Nine Months 2010
Special Items, net of tax benefit (expense):					
Adjusted energy-related economic activity, net, net of tax of $8, ($1), ($2), $83	(a)	$ (10)	$ 4	$ 4	$ (115)
Sales of assets:					
Sundance indemnification, net of tax of $0, $0, $0, $0	Other Income-net				1
Impairments:					
Emission allowances, net of tax of $0, $2, $1, $6 (Note 13)	Other O&M		(2)	(1)	(9)
Renewable energy credits, net of tax of $0, $0, $2, $0 (Note 13)	Other O&M			(3)	
Adjustments - nuclear decommissioning trust investments, net of tax of $2, $0, $2, $1 (b)	Other Income-net	(1)			
LKE acquisition-related costs:					
Monetization of certain full-requirement sales contracts, net of tax of $0, $20, $0, $72	(c)		(27)		(102)
Sale of certain non-core generation facilities, net of tax of $0, $39, $0, $39 (d)	Disc. Operations		(62)	(2)	(62)
Other:					
Montana hydroelectric litigation, net of tax of $0, $0, $1, $22	(e)	(1)	(1)	(2)	(34)
Litigation settlement - spent nuclear fuel storage, net of tax of ($2), $0, ($23), $0 (f)	Fuel	4		33	
Health care reform - tax impact (g)	Income Taxes				(5)
Total		$ (8)	$ (88)	$ 29	$ (326)

(a) See "Reconciliation of Economic Activity" below.
(b) Represents other-than-temporary impairment charges on securities, including the reversal of previous other-than-temporary impairment charges when securities previously impaired were sold.
(c) See "Monetization of Certain Full-Requirement Sales Contracts" in Note 14 to the Financial Statements. For the three and nine months ended September 30, 2010, $150 and $343 million of pre-tax gains were recorded to "Wholesale energy marketing" and $197 and $517 million of pre-tax losses were recorded to "Energy purchases" on the Statements of Income.
(d) Assets associated with certain non-core generation facilities were written down to their estimated fair value (less cost to sell). These facilities were sold in March 2011.

(e) In March 2010, the Montana Supreme Court substantially affirmed a June 2008 Montana District Court decision regarding lease payments for the use of certain Montana streambeds. Through September 30, 2010, PPL Montana recorded a pre-tax charge of $56 million, representing estimated rental compensation for years prior to 2010, including interest. Of this total charge $47 million, pre-tax, was recorded to "Other operation and maintenance" and $9 million, pre-tax, was recorded to "Interest Expense" on the Statements of Income. In August 2010, PPL Montana filed a petition for a writ of certiorari with the U.S. Supreme Court requesting the Court's review of this matter. In June 2011, the Supreme Court granted PPL Montana's petition. Oral argument is scheduled for December 2011. PPL Montana continues to accrue interest expense on rental compensation covered by the court decision.

(f) In May 2011, PPL Susquehanna entered into a settlement agreement with the U.S. Government relating to PPL Susquehanna's lawsuit, seeking damages for the Department of Energy's failure to accept spent nuclear fuel from the PPL Susquehanna station. PPL Susquehanna recorded credits to fuel expense of $6 million and $56 million, pre-tax for the three and nine months ended September 30, 2011 to recognize recovery, under the settlement agreement, of certain costs to store spent nuclear fuel at the Susquehanna station. The amounts recorded through September 2011 cover the costs incurred from 1998 through December 2010.

(g) Represents income tax expense recorded as a result of the provisions within Health Care Reform which eliminated the tax deductibility of retiree health care costs to the extent of federal subsidies received by plan sponsors that provide retiree prescription drug benefits equivalent to Medicare Part D Coverage.

Reconciliation of Economic Activity

The following table reconciles unrealized pre-tax gains (losses) from the table within "Commodity Price Risk (Non-trading) - Economic Activity" in Note 14 to the Financial Statements to the special item identified as "Adjusted energy-related economic activity, net" for the periods ended September 30.

	Three Months		Nine Months	
	2011	2010	2011	2010
Operating Revenues				
Unregulated retail electric and gas	$ 4	$ 8	$ 9	$ 16
Wholesale energy marketing	216	52	229	(190)
Operating Expenses				
Fuel	(28)	16	(16)	13
Energy Purchases	(176)	(300)	(49)	(418)
Energy-related economic activity (a)	16	(224)	173	(579)
Option premiums (b)	6	21	17	46
Adjusted energy-related economic activity	22	(203)	190	(533)
Less: Unrealized economic activity associated with the monetization of certain full-requirement sales contracts in 2010 (c)		(208)		(335)
Less: Economic activity realized, associated with the monetization of certain full-requirement sales contracts in 2010	40		184	
Adjusted energy-related economic activity, net, pre-tax	$ (18)	$ 5	$ 6	$ (198)
Adjusted energy-related economic activity, net, after-tax	$ (10)	$ 4	$ 4	$ (115)

(a) See Note 14 to the Financial Statements for additional information.
(b) Adjustment for the net deferral and amortization of option premiums over the delivery period of the item that was hedged or upon realization. Option premiums are recorded in Wholesale energy marketing - realized and Energy purchases - realized on the Statements of Income.
(c) See "Components of Monetization of Certain Full-Requirement Sales Contracts" below.

Components of Monetization of Certain Full-Requirement Sales Contracts

The following table provides the components of the "Monetization of Certain Full-Requirements Sales Contracts" special item for the periods ended September 30, 2010.

	Three Months	Nine Months
Full-requirement sales contracts monetized (a)	$ 32	$ (28)
Economic activity related to the full-requirement sales contracts monetized	(79)	(146)
Monetization of certain full-requirement sales contracts, pre-tax (b)	$ (47)	$ (174)
Monetization of certain full-requirement sales contracts, after-tax	$ (27)	$ (102)

(a) See "Commodity Price Risk (Non-trading) - Monetization of Certain Full-Requirement Sales Contracts" in Note 14 to the Financial Statements for additional information.
(b) The three and nine-month periods include unrealized losses of $208 million and $335 million, which are reflected in "Wholesale energy marketing - Unrealized economic activity" and "Energy purchases - Unrealized economic activity" on the Statement of Income. Both periods include net realized gains of $161 million, which are reflected in "Wholesale energy marketing - Realized" and "Energy purchases - Realized" on the Statement of Income. This economic activity will continue to be realized through May 2013.

Outlook

Excluding special items, earnings are expected to be lower in 2011, compared with 2010, as a result of lower energy margins driven by lower Eastern energy and capacity prices, higher average fuel costs and the turbine blade replacement outages at the Susquehanna nuclear plant, as well as higher income taxes and higher operation and maintenance expense.

Earnings in 2011 are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2 and Note 10 to the Financial Statements in this Form 10-Q and "Item 1. Business," and "Item 1A. Risk Factors" in the Form 8-K dated June 24, 2011 for a discussion of the risks, uncertainties and factors that may impact future earnings.

Statement of Income Analysis --

Margins

Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Unregulated Gross Energy Margins." "Unregulated Gross Energy Margins" is a single financial performance measure of PPL Energy Supply's competitive energy non-trading and trading activities. In calculating this measure, PPL Energy Supply's energy revenues, which include operating revenues associated with certain PPL Energy Supply businesses that are classified as discontinued operations, are offset by the cost of fuel, energy purchases, certain other operation and maintenance expenses, primarily ancillary charges, gross receipts tax, which is recorded in "Taxes, other than income," and operating expenses associated with certain PPL Energy Supply businesses that are classified as discontinued operations. This performance measure is relevant to PPL Energy Supply due to the volatility in the individual revenue and expense lines on the Statements of Income that comprise "Unregulated Gross Energy Margins." This volatility stems from a number of factors, including the required netting of certain transactions with ISOs and significant swings in unrealized gains and losses. Such factors could result in gains or losses being recorded in either "Wholesale energy marketing" or "Energy purchases" on the Statements of Income. This performance measure includes PLR revenues from energy sales to PPL Electric by PPL EnergyPlus, which are recorded in "Wholesale energy marketing to affiliate" revenue. PPL Energy Supply excludes from "Unregulated Gross Energy Margins" energy-related economic activity, which includes the changes in fair value of positions used to economically hedge a portion of the economic value of PPL Energy Supply's competitive generation assets, full-requirement sales contracts and retail activities. This economic value is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power) prior to the delivery period that was hedged. Also included in this energy-related economic activity is the ineffective portion of qualifying cash flow hedges, the monetization of certain full-requirement sales contracts and premium amortization associated with options. This economic activity is deferred, with the exception of the full-requirement sales contracts that were monetized, and included in unregulated gross energy margins over the delivery period that was hedged or upon realization. This measure is not intended to replace "Operating Income," which is determined in accordance with GAAP, as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. PPL Energy Supply believes that "Unregulated Gross Energy Margins" provides another criterion to make investment decisions. This performance measure is used, in conjunction with other information, internally by senior management and PPL's Board of Directors to manage PPL Energy Supply's operations, analyze actual results compared to budget and measure certain corporate financial goals used in determining variable compensation.

Reconciliation of Non-GAAP Financial Measures

The following table reconciles "Operating Income" to "Unregulated Gross Energy Margins" as defined by PPL Energy Supply for the periods ended September 30.

	2011 Three Months			2010 Three Months		
	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Revenues						
Wholesale energy marketing						
Realized	$ 897	$ 10 (c)	$ 907	$ 916	$ 276 (c)	$ 1,192
Unrealized economic activity		216 (d)	216		52 (d)	52
Wholesale energy marketing to affiliate	5		5	71		71
Unregulated retail electric and gas	186	4	190	108	8	116
Net energy trading margins	(7)		(7)	(20)		(20)
Energy-related businesses		130	130		97	97
Total Operating Revenues	1,081	360	1,441	1,075	433	1,508
Operating Expenses						
Fuel	338	20 (e)	358	340	(18) (e)	322
Energy purchases						
Realized	119	42 (c)	161	68	91 (c)	159
Unrealized economic activity		176 (d)	176		300 (d)	300
Energy purchases from affiliate	1		1	1		1
Other operation and maintenance		208	208	7	206	213
Depreciation		62	62		59	59
Taxes, other than income	8	10	18	2	10	12
Energy-related businesses		130	130		95	95
Total Operating Expenses	466	648	1,114	418	743	1,161
Discontinued Operations				22	(22) (f)	
Total	$ 615	$ (288)	$ 327	$ 679	$ (332)	$ 347

	2011 Nine Months			2010 Nine Months		
	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)	Unregulated Gross Energy Margins	Other (a)	Operating Income (b)
Operating Revenues						
Wholesale energy marketing						
Realized	$ 2,635	$ 42 (c)	$ 2,677	$ 3,481	$ 301 (c)	$ 3,782
Unrealized economic activity		229 (d)	229		(190) (d)	(190)
Wholesale energy marketing to affiliate	15		15	250		250
Unregulated retail electric and gas	509	9	518	305	16	321
Net energy trading margins	14		14	(4)		(4)
Energy-related businesses		354	354		278	278
Total Operating Revenues	3,173	634	3,807	4,032	405	4,437
Operating Expenses						
Fuel	872	(46) (e)	826	829	(19) (e)	810
Energy purchases						
Realized	496	205 (c)	701	1,198	91 (c)	1,289
Unrealized economic activity		49 (d)	49		418 (d)	418
Energy purchases from affiliate	3		3	2		2
Other operation and maintenance	13	728	741	20	745	765
Depreciation		181	181		176	176
Taxes, other than income	22	28	50	8	26	34
Energy-related businesses		350	350		269	269
Total Operating Expenses	1,406	1,495	2,901	2,057	1,706	3,763
Discontinued Operations	12	(12) (f)		68	(68) (f)	
Total	$ 1,779	$ (873)	$ 906	$ 2,043	$ (1,369)	$ 674

(a) Represents amounts excluded from Margins.
(b) As reported on the Statement of Income.
(c) Represents energy-related economic activity as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 14 to the Financial Statements. For the three and nine months ended September 30, 2011, "Wholesale energy marketing - Realized" and "Energy purchases - Realized" include a net pre-tax gain of $6 million and $17 million related to the amortization of option premiums and a net pre-tax loss of $40 million and $184 million related to the monetization of certain full-requirement sales contracts. The three and nine months ended September 30, 2010 include a net pre-tax gain of $21 million and $46 million related to the amortization of option premiums and a net pre-tax gain of $161 million for both periods related to the monetization of certain full-requirement sales contracts.
(d) Represents energy-related economic activity as described in "Commodity Price Risk (Non-trading) - Economic Activity" within Note 14 to the Financial Statements.
(e) 2011 includes credits for the spent nuclear fuel litigation settlement recorded in the three and nine months ended September 30, 2011 of $6 million and $56 million, and economic activity related to fuel. 2010 includes economic activity related to fuel.

(f) Represents the net of certain revenues and expenses associated with certain businesses that are classified as discontinued operations. These revenues and expenses are not reflected in "Operating Income" on the Statements of Income.

Changes in Non-GAAP Financial Measures

Unregulated Gross Energy Margins are generated through PPL Energy Supply's competitive non-trading and trading activities. PPL Energy Supply's non-trading energy business is managed on a geographic basis that is aligned with its generation fleet. The following table shows PPL Energy Supply's non-GAAP financial measure, Unregulated Gross Energy Margins, for the periods ended September 30, as well as the change between periods. The factors that gave rise to the changes are described below the table.

	Three Months			Nine Months		
	2011	2010	Change	2011	2010	Change
Non-trading						
Eastern U.S.	$ 530	$ 611	$ (81)	$ 1,502	$ 1,788	$ (286)
Western U.S.	92	88	4	263	259	4
Net energy trading	(7)	(20)	13	14	(4)	18
Total	$ 615	$ 679	$ (64)	$ 1,779	$ 2,043	$ (264)

Unregulated Gross Energy Margins

Eastern U.S.

Changes in Eastern U.S. non-trading margins for the periods ended September 30, 2011 compared with 2010 were due to:

	Three Months	Nine Months
Lower baseload energy and capacity prices	$ (65)	$ (142)
Coal and hydro generation volume	2	(47)
2010 monetization of certain deals that rebalanced the business and portfolio	(14)	(41)
Impact of non-core generation facilities sold in the first quarter of 2011	(21)	(37)
Nuclear generation volume (a)	20	(35)
Higher coal prices	(16)	(31)
Lower intermediate/peaking capacity prices, partially offset by higher generation volumes in the first half of 2011	(18)	(18)
Full-requirement sales contracts driven by contracts monetized in 2010 and reduced shopping in 2011	23	74
Other	8	(9)
	$ (81)	$ (286)

(a) Volumes were higher for the three-month period as the result of the final uprate at Susquehanna Unit 2. Volumes were lower for the nine-month period primarily as a result of the dual-unit turbine blade replacement outages beginning in May 2011.

Net Energy Trading Margins

Net energy trading margins increased during the three and nine months ended September 30, 2011, compared with the same periods in 2010, as a result of higher margins on power and gas positions of $13 million and $18 million.

Other Operation and Maintenance

Changes in other operation and maintenance expense for the periods ended September 30, 2011 compared with 2010 were due to:

	Three Months	Nine Months
Montana hydroelectric litigation (a)		$ (47)
Susquehanna nuclear plant costs (b)	$ (5)	23
Impacts from emission allowances (c)	(3)	(13)
Gain on disposition of RECs (d)	(3)	5
Other	6	8
Total	$ (5)	$ (24)

(a) In March 2010, the Montana Supreme Court substantially affirmed a June 2008 Montana District Court decision regarding lease payments for the use of certain Montana streambeds. As a result, in the first quarter of 2010, PPL Montana recorded a pre-tax charge of $56 million, representing estimated rental compensation for the first quarter of 2010 and prior years, including interest. The portion of the total charge recorded to other operation and maintenance totaled $49 million. PPL Montana continues to accrue rental compensation. See Note 10 to the Financial Statements for additional information.

(b) The nine-month period was $23 million higher primarily due to increased costs of $10 million from the dual-unit turbine blade replacement outages, $9 million of higher payroll-related costs and $8 million from the refueling outage.

(c) The nine-month period was $13 million lower primarily due to $2 million of impairment charges in 2011 compared with $15 million of impairment charges in 2010.
(d) The three and nine-month periods include impairment charges of $1 million and $5 million.

Taxes, Other Than Income

Taxes, other than income increased by $6 million and $16 million for the three and nine months ended September 30, 2011, compared with the same periods in 2010, primarily due to higher Pennsylvania gross receipts tax expense due to an increase in electricity revenues at PPL EnergyPlus as customers continue to select alternative suppliers in 2011. This tax is included in "Unregulated Gross Energy Margins."

Other Income (Expense) - net

See Note 12 to the Financial Statements for details.

Interest Expense

Changes in interest expense for the periods ended September 30, 2011 compared with 2010 were due to:

	Three Months	Nine Months
Capitalized interest	$ (5)	$ (13)
Montana hydroelectric litigation (a)		(6)
Short-term and long-term debt interest expense	3	13
Net amortization of debt discounts, premiums and issuance costs (b)	8	8
Other	(2)	(2)
Total	$ 4	$

(a) In March 2010, the Montana Supreme Court substantially affirmed a June 2008 Montana District Court decision regarding lease payments for the use of certain Montana streambeds. As a result, in the first quarter of 2010, PPL Montana recorded $7 million of interest expense on rental compensation covered by the court decision. In August 2010, PPL Montana filed a petition for a writ of certiorari with the U.S. Supreme Court requesting the Court's review of this matter. In June 2011, the Supreme Court granted PPL Montana's petition. Oral argument is scheduled for December 2011. PPL Montana continues to accrue interest expense on the rental compensation covered by the court decision. See Note 10 to the Financial Statements for additional information.
(b) The three and nine-month periods include the acceleration of deferred financing fees of $7 million, due to the July 2011 redemption by PPL Energy Supply of $250 million of 7.00% Senior Notes due 2046.

Income Taxes

Changes in income taxes for the periods ended September 30, 2011 compared with 2010 were due to:

	Three Months	Nine Months
Higher (lower) pre-tax book income	$ (14)	$ 94
State valuation allowance adjustments		6
Federal income tax credits	(1)	(4)
Domestic manufacturing deduction (a)	12	24
Federal and state tax reserve adjustments	12	13
Health Care Reform		(5)
Other	2	(1)
Total	$ 11	$ 127

(a) In December 2010, Congress enacted legislation allowing for 100% bonus depreciation on qualified property. The increased tax depreciation eliminates the estimated income tax benefit related to domestic manufacturing deduction in 2011. See Note 5 to the Financial Statements for additional information on income taxes.

Discontinued Operations

Income (Loss) from Discontinued Operations (net of income taxes) decreased by $53 million and $187 million for the three and nine months ended September 30, 2011, compared with the same periods in 2010. The decreases were primarily due to the presentation of PPL Global as Discontinued Operations as a result of the January 2011 distribution by PPL Energy Supply of its membership interest in PPL Global to its parent, PPL Energy Funding. In 2011, the results of PPL Global are no longer consolidated within PPL Energy Supply. Partially offsetting the decreases were after-tax impairment charges recorded in the third quarter of 2010 totaling $62 million related to assets associated with certain non-core generation facilities that were written down to their estimated fair value (less cost to sell). These facilities were sold in March 2011. See "Discontinued Operations" in Note 8 to the Financial Statements for additional information.

Financial Condition

Liquidity and Capital Resources

PPL Energy Supply had the following at:

	September 30, 2011	December 31, 2010
Cash and cash equivalents	$ 375	$ 661
Short-term debt	$ 250	$ 531

The $286 million decrease in PPL Energy Supply's cash and cash equivalents position was primarily the net result of:

- capital expenditures of $499 million;
- a distribution of $325 million of cash included in the net assets of PPL Global distributed to member;
- the retirement of $250 million of long-term debt;
- distributions to member of $209 million;
- a net decrease in short-term debt of $100 million (excluding short-term debt of PPL Global that existed at December 31, 2010);
- cash provided by operating activities of $440 million;
- proceeds of $381 million from the sale of certain non-core generation facilities; and
- contributions from member of $361 million.

PPL Energy Supply's cash provided by operating activities decreased by $1.2 billion for the nine months ended September 30, 2011, compared with the same period in 2010. This was primarily due to a reduction in cash from counter party collateral of $442 million, lower gross energy margins of $154 million, after-tax, proceeds from monetizing certain full-requirements energy contracts in 2010 of $249 million, and the loss of operating cash from PPL Global ($104 million for the nine months ended September 30, 2010.)

In January 2011, PPL Energy Supply distributed its membership interest in PPL Global to its parent, PPL Energy Funding. PPL Global's impact on cash provided by operating activities for the nine months ended September 30, 2010 was not material. See Note 8 to the Financial Statements for additional information on the distribution.

Credit Facilities

At September 30, 2011, PPL Energy Supply's total committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	Committed Capacity	Borrowed	Letters of Credit Issued	Unused Capacity
Syndicated Credit Facility (a)	$ 3,000	$ 250	$ 132	$ 2,618
Letter of Credit Facility	200	n/a	76	124
Total PPL Energy Supply Credit Facilities (b)	$ 3,200	$ 250	$ 208	$ 2,742

(a) Outstanding borrowings under this facility decreased on a net basis by $100 million since December 31, 2010.

In October 2011, PPL Energy Supply amended its Syndicated Credit Facility. The amendment included extending the expiration date from December 2014 to October 2016. Under this facility, PPL Energy Supply continues to have the ability to make cash borrowings and to request the lenders to issue letters of credit.

(b) In March 2011, PPL Energy Supply's $300 million Structured Credit Facility expired. PPL Energy Supply's obligations under this facility were supported by a $300 million letter of credit issued on PPL Energy Supply's behalf under a separate, but related $300 million 5-year credit agreement, which also expired in March 2011.

The commitments under PPL Energy Supply's credit facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 11% of the total committed capacity.

See Note 7 to the Financial Statements for further discussion of PPL Energy Supply's credit facilities.

Commercial Paper

In October 2011, PPL Energy Supply re-activated its $500 million commercial paper program to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by PPL Energy Supply's Syndicated Credit Facility. At November 4, 2011, PPL Energy Supply had $400 million of commercial paper outstanding at a weighted-average interest rate of approximately 0.51%, which was used to partially fund the repayment of PPL Energy Supply's 6.40% Senior Notes upon maturity in November 2011. PPL Energy Supply expects to refinance outstanding commercial paper on a long-term basis at a future date, subject to market conditions.

Long-term Debt Securities

In July 2011, PPL Energy Supply redeemed at par the entire $250 million aggregate principal amount of its 7.00% Senior Notes due 2046.

In November 2011, PPL Energy Supply repaid the entire $500 million principal amount of its 6.40% Senior Notes upon maturity.

Rating Agency Decisions

Moody's, S&P and Fitch periodically review the credit ratings on the debt securities of PPL Energy Supply and its subsidiaries. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of PPL Energy Supply and its subsidiaries are based on information provided by PPL Energy Supply and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of PPL Energy Supply or its subsidiaries. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. A downgrade in PPL Energy Supply's or its subsidiaries' credit ratings could result in higher borrowing costs and reduced access to capital markets.

In prior periodic reports, PPL Energy Supply described its then-current credit ratings in connection with, and to facilitate, an understanding of its liquidity position. As a result of the passage of the Dodd-Frank Act and the attendant uncertainties relating to the extent to which issuers of non-asset backed securities may disclose credit ratings without being required to obtain rating agency consent to the inclusion of such disclosure, or incorporation by reference of such disclosure, in a registrant's registration statement or section 10(a) prospectus, PPL Energy Supply is limiting its credit rating disclosure to a description of the actions taken by the rating agencies with respect to PPL Energy Supply's ratings, but without stating what ratings have been assigned to PPL Energy Supply or its subsidiaries, or their securities. The ratings assigned by the rating agencies to PPL Energy Supply and its subsidiaries and their respective securities may be found, without charge, on each of the respective rating agencies' websites, which ratings together with all other information contained on such rating agency websites is, hereby, explicitly not incorporated by reference in this report.

Following the announcement of PPL's then-pending acquisition of WPD Midlands in March 2011, the rating agencies took the following actions:

- Moody's affirmed its ratings for PPL Energy Supply;
- S&P revised the outlook and lowered the issuer and senior unsecured ratings of PPL Energy Supply; and
- Fitch affirmed its ratings for PPL Energy Supply.

In April 2011, following the completion of PPL's acquisition of WPD Midlands, S&P revised the outlook and affirmed its ratings for PPL Energy Supply.

In May 2011, Fitch affirmed its rating and maintained its outlook for PPL Montana's Pass Through Certificates due 2020.

In September 2011, Moody's affirmed its senior unsecured debt rating and outlook for PPL Energy Supply.

Also in September 2011, S&P assigned a short-term rating to PPL Energy Supply's commercial paper program.

In October 2011, Moody's and Fitch also assigned a short-term rating to PPL Energy Supply's commercial paper program in support of PPL Energy Supply's re-opening of the program.

Ratings Triggers

PPL Energy Supply and its subsidiaries have various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity and fuel, commodity transportation and storage, tolling agreements and interest rate instruments, which contain provisions requiring PPL Energy Supply and its subsidiaries to post additional collateral, or permitting the counterparty to terminate the contract, if PPL Energy Supply or its subsidiaries' credit rating were to fall below investment grade. See Note 14 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at September 30, 2011. At September 30, 2011, if PPL Energy Supply's or its subsidiaries' credit rating had been below investment grade, the maximum amount that PPL Energy Supply would have been required to post as additional collateral to counterparties was $386 million for both derivative and non-derivative commodity and commodity-related contracts used in its generation, marketing and trading operations and interest rate contracts.

For additional information on PPL Energy Supply's liquidity and capital resources, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in the Form 8-K dated June 24, 2011.

Risk Management

Market Risk

See Notes 13 and 14 to the Financial Statements for information about PPL Energy Supply's risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of possible losses under normal market conditions at a given confidence level.

Commodity Price Risk (Non-trading)

PPL Energy Supply segregates its non-trading activities into two categories: hedge activity and economic activity. Transactions that are accounted for as hedge activity qualify for hedge accounting treatment. The economic activity category includes transactions that address a specific risk, but were not eligible for hedge accounting or for which hedge accounting was not elected. This activity includes the changes in fair value of positions used to hedge a portion of the economic value of PPL Energy Supply's competitive generation assets, full-requirement sales and retail contracts. This economic activity is subject to changes in fair value due to market price volatility of the input and output commodities (e.g., fuel and power). Although they do not receive hedge accounting treatment, these transactions are considered non-trading activity. The net fair value of economic positions at September 30, 2011 and December 31, 2010 was a net liability of $218 million and $389 million. See Note 14 to the Financial Statements for additional information on economic activity.

To hedge the impact of market price volatility on PPL Energy Supply's energy-related assets, liabilities and other contractual arrangements, PPL Energy Supply both sells and purchases physical energy at the wholesale level under FERC market-based tariffs throughout the U.S. and enters into financial exchange-traded and over-the-counter contracts. PPL Energy Supply's non-trading commodity derivative contracts mature at various times through 2017.

The following table sets forth the changes in net fair value of PPL Energy Supply's non-trading commodity derivative contracts for the periods ended September 30. See Notes 13 and 14 to the Financial Statements for additional information.

	Gains (Losses)			
	Three Months		Nine Months	
	2011	2010	2011	2010
Fair value of contracts outstanding at the beginning of the period	$ 896	$ 1,303	$ 958	$ 1,280
Contracts realized or otherwise settled during the period	(99)	(96)	(234)	(330)
Fair value of new contracts entered into during the period	4	3	19	10
Changes in fair value attributable to changes in valuation techniques (a)				(23)
Other changes in fair value	43	144	101	417
Fair value of contracts outstanding at the end of the period	$ 844	$ 1,354	$ 844	$ 1,354

(a) In June 2010, PPL Energy Supply received market bids for certain full-requirement sales contracts that were monetized in early July. See Note 14 to the Financial Statements for additional information. At June 30, 2010, these contracts were valued based on the bids received (the market approach). In prior periods, the fair value of these contracts was measured using the income approach.

The following table segregates the net fair value of PPL Energy Supply's non-trading commodity derivative contracts at September 30, 2011, based on whether the fair value was determined by prices quoted in active markets for identical instruments or other more subjective means.

	Net Asset (Liability)				
	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	Total Fair Value
Source of Fair Value					
Prices based on significant other observable inputs	$ 533	$ 272	$ 13		$ 818
Prices based on significant unobservable inputs	(8)	(13)	20	$ 27	26
Fair value of contracts outstanding at the end of the period	$ 525	$ 259	$ 33	$ 27	$ 844

PPL Energy Supply sells electricity, capacity and related services and buys fuel on a forward basis to hedge the value of energy from its generation assets. If PPL Energy Supply were unable to deliver firm capacity and energy or to accept the delivery of fuel under its agreements, under certain circumstances it could be required to pay liquidating damages. These damages would be based on the difference between the market price and the contract price of the commodity. Depending on price changes in the wholesale energy markets, such damages could be significant. Extreme weather conditions, unplanned power plant outages, transmission disruptions, nonperformance by counterparties with which it has energy contracts and other factors could affect PPL Energy Supply's ability to meet its obligations, or cause significant increases in the market price of replacement energy. Although PPL Energy Supply attempts to mitigate these risks, there can be no assurance that it will be able to fully meet its firm obligations, that it will not be required to pay damages for failure to perform, or that it will not experience counterparty nonperformance in the future.

Commodity Price Risk (Trading)

PPL Energy Supply's trading commodity derivative contracts mature at various times through 2015. The following table sets forth changes in the net fair value of PPL Energy Supply's trading commodity derivative contracts for the periods ended September 30. See Notes 13 and 14 to the Financial Statements for additional information.

	Gains (Losses)			
	Three Months		Nine Months	
	2011	2010	2011	2010
Fair value of contracts outstanding at the beginning of the period	$ 15	$ 4	$ 4	$ (6)
Contracts realized or otherwise settled during the period	(10)	(8)	(7)	(8)
Fair value of new contracts entered into during the period	(2)	45	6	47
Other changes in fair value	4	(39)	4	(31)
Fair value of contracts outstanding at the end of the period	$ 7	$ 2	$ 7	$ 2

Unrealized gains of approximately $4 million will be reversed over the next three months as the transactions are realized.

The following table segregates the net fair value of trading commodity derivative contracts at September 30, 2011, based on whether the fair value was determined by prices quoted in active markets for identical instruments or other more subjective means.

	Net Asset (Liability)				
	Maturity Less Than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity in Excess of 5 Years	Total Fair Value
Source of Fair Value					
Prices based on significant other observable inputs	$ (4)	$ 11			$ 7
Fair value of contracts outstanding at the end of the period	$ (4)	$ 11			$ 7

VaR Models

A VaR model is utilized to measure commodity price risk in domestic gross energy margins for the non-trading and trading portfolios. VaR is a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level. VaR is calculated using a Monte Carlo simulation technique based on a five-day holding period at a 95% confidence level. Given the company's conservative hedging program, the non-trading VaR exposure is expected to be limited in the short-term. The VaR for portfolios using end-of-month results for the period was as follows.

	Trading VaR		Non-Trading VaR	
	Nine Months Ended September 30, 2011	Twelve Months Ended December 31, 2010	Nine Months Ended September 30, 2011	Twelve Months Ended December 31, 2010
95% Confidence Level, Five-Day Holding Period				
Period End	$ 3	$ 1	$ 5	$ 5
Average for the Period	2	4	5	7
High	4	9	7	12
Low	1	1	4	4

The trading portfolio includes all speculative positions, regardless of the delivery period. All positions not considered speculative are considered non-trading. The non-trading portfolio includes the entire portfolio, including generation, with delivery periods through the next 12 months. Both the trading and non-trading VaR computations exclude FTRs due to the absence of reliable spot and forward markets. The fair value of the non-trading and trading FTR positions was insignificant at September 30, 2011.

Interest Rate Risk

PPL Energy Supply and its subsidiaries have issued debt to finance their operations, which exposes them to interest rate risk. PPL and PPL Energy Supply utilize various financial derivative instruments to adjust the mix of fixed and floating interest rates in PPL Energy Supply's debt portfolio, adjust the duration of its debt portfolio and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under the risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of PPL Energy Supply's debt portfolio due to changes in the absolute level of interest rates. PPL Energy Supply had no interest rate hedges outstanding at September 30, 2011.

At September 30, 2011, PPL Energy Supply's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

PPL Energy Supply is also exposed to changes in the fair value of its debt portfolio. PPL Energy Supply estimated that a 10% decrease in interest rates at September 30, 2011 would increase the fair value of its debt portfolio by $36 million.

NDT Funds - Securities Price Risk

In connection with certain NRC requirements, PPL Susquehanna maintains trust funds to fund certain costs of decommissioning the Susquehanna nuclear plant. At September 30, 2011, these funds were invested primarily in domestic equity securities and fixed-rate, fixed-income securities and are reflected at fair value on the Balance Sheet for $594 million. The mix of securities is designed to provide returns sufficient to fund such decommissioning and to compensate for inflationary increases in decommissioning costs. However, the equity securities included in the trusts are exposed to price fluctuation in equity markets, and the values of fixed-rate, fixed-income securities are primarily exposed to changes in interest rates. PPL actively monitors the investment performance and periodically reviews asset allocation in accordance with its NDT policy statement. At September 30, 2011, a hypothetical 10% increase in interest rates and a 10% decrease in equity prices would have resulted in an estimated $39 million reduction in the fair value of the trust assets. See Notes 13 and 17 to the Financial Statements for additional information regarding the NDT funds.

Credit Risk

See Notes 11, 13 and 14 to the Financial Statements in this Form 10-Q and "Risk Management - Energy Marketing & Trading and Other - Credit Risk" in PPL Energy Supply's Form 8-K dated June 24, 2011 for additional information.

Foreign Currency Translation

As noted previously, in January 2011, PPL Energy Supply distributed its interest in PPL Global to its parent, PPL Energy Funding. As a result, PPL Energy Supply no longer consolidates any foreign subsidiaries and has no foreign currency translation component within AOCI. In 2010, the British pound sterling weakened in relation to the U.S. dollar. Changes in these exchange rates resulted in a foreign currency translation loss of $83 million for the nine months ended September 30, 2010, which primarily reflected a $223 million reduction to PP&E offset by a reduction of $140 million to net liabilities. These adjustments, net of tax, resulting from translation are recorded in AOCI.

Related Party Transactions

PPL Energy Supply is not aware of any material ownership interests or operating responsibility by senior management in outside partnerships, including leasing transactions with variable interest entities or other entities doing business with PPL Energy Supply. See Note 11 to the Financial Statements for additional information on related party transactions between PPL Energy Supply and affiliates.

Acquisitions, Development and Divestitures

PPL Energy Supply continuously evaluates potential acquisitions, divestitures and development projects as opportunities arise or are identified. Development projects are continuously reexamined based on market conditions and other factors to determine whether to proceed with the projects, sell, cancel or expand them, execute tolling agreements or pursue other options.

In the third quarter of 2011, the Susquehanna Unit 2 uprate, representing the final phase of the project to increase the nuclear plant's generation capacity, was completed and is projected to yield an additional 50 MW.

See Note 8 to the Financial Statements for additional information.

Environmental Matters

Protection of the environment is a priority for PPL Energy Supply and a significant element of its business activities. Extensive federal, state and local environmental laws and regulations are applicable to PPL Energy Supply'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 but could be material. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed from prior versions by the relevant agencies. Costs may take the form of increased capital or operating and maintenance expenses; monetary fines, penalties or forfeitures or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers, industrial power users, etc.; and may impact the costs for their products or their demand for PPL Energy Supply's services. See "Overview" and Note 10 to the Financial Statements in this Form 10-Q and "Item 1. Business - Environmental Matters" in PPL Energy Supply's 2010 Form 10-K for additional information on environmental matters.

New Accounting Guidance

See Note 18 to the Financial Statements for a discussion of new accounting guidance pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations, and require estimates or other judgments of matters inherently uncertain: price risk management, defined benefits, asset impairment, loss accruals, AROs and income taxes. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in PPL Energy Supply's Form 8-K dated June 24, 2011 for a discussion of each critical accounting policy.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following information should be read in conjunction with PPL Electric's Condensed Consolidated Financial Statements and the accompanying Notes and with PPL Electric's 2010 Form 10-K. Capitalized terms and abbreviations are explained in the glossary. Dollars are in millions, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides an overview of PPL Electric's business strategy, financial and operational highlights, and key regulatory matters.

- "Results of Operations" provides a summary of PPL Electric's earnings and a description of key factors that are expected to impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of significant changes in principal items on PPL Electric's Statements of Income, comparing the three and nine months ended September 30, 2011 with the same periods in 2010.

- "Financial Condition - Liquidity and Capital Resources" provides an analysis of PPL Electric's liquidity position and credit profile. This section also includes a discussion of rating agency decisions.

- "Financial Condition - Risk Management" provides an explanation of PPL Electric's risk management programs relating to market and credit risk.

Overview

Introduction

PPL Electric is an electricity delivery service provider in eastern and central Pennsylvania with headquarters in Allentown, Pennsylvania. PPL Electric is subject to regulation as a public utility by the PUC, and certain of its transmission activities are subject to the jurisdiction of FERC under the Federal Power Act. PPL Electric delivers electricity in its Pennsylvania service area and provides electricity supply to retail customers in that territory as a PLR under the Customer Choice Act.

Business Strategy

PPL Electric's strategy and principal challenge is to own and operate its electricity delivery business at the most efficient cost while maintaining high quality customer service and reliability. PPL Electric anticipates that it will have significant capital expenditure requirements in the future. In order to manage financing costs and access to credit markets, a key objective for PPL Electric's business is to maintain a strong credit profile. PPL Electric continually focuses on maintaining an appropriate capital structure and liquidity position.

Timely recovery of costs applicable to the replacement of aging distribution assets is required in order to maintain strong cash flows and a strong credit profile. Traditionally, such cost recovery would be pursued through periodic base rate case proceedings with the PUC. As such costs continue to increase, more frequent rate case proceedings may be required or an alternative rate making process would need to be implemented in order to achieve more timely recovery.

Transmission costs are recovered through a FERC Formula Rate mechanism which is updated annually for costs incurred and assets placed in service. Accordingly, increased costs including the replacement of aging transmission assets and the PJM-approved Regional Transmission Line Expansion Plan are recovered on a timely basis.

Financial and Operational Highlights

Net Income Available to PPL Corporation

Net Income Available to PPL Corporation for the three and nine months ended September 30, 2011 was $28 million and $116 million compared to $36 million and $89 million for the same periods in 2010. This represents a decrease of 22% and an increase of 30% from 2010. These changes reflect the following after tax impacts.

	Three Months	Nine Months
Distribution base rate increase effective in January 2011	$ 9	$ 29
Tax benefit related to flow-through regulated state tax depreciation		5
A 2011 transmission service charge adjustment	(4)	(4)
PUC-reportable storm costs, net of insurance recovery	(8)	(10)
Other	(5)	7
	$ (8)	$ 27

Transmission Service Charge Adjustment

During the three and nine months ended September 30, 2011, PPL Electric recorded a $7 million ($4 million after-tax) charge to "Retail electric" revenue on the Statement of Income to reduce a portion of the transmission service charge regulatory asset associated with a 2005 undercollection that was not included in any subsequent rate reconciliations filed with the PUC. PPL Electric plans to seek recovery with the PUC. However, management cannot assert at the present time that it is probable that the previously recorded regulatory asset will be recovered. The regulatory asset will be reinstated should the PUC approve recovery of these costs. The impact of this charge was not material to any previously reported financial statements and is not expected to be material to the financial statements for the full year of 2011.

Storm Recovery

PPL Electric experienced several PUC-reportable storms during the three and nine months ended September 30, 2011 resulting in total restoration costs of $34 million and $59 million, of which $23 million and $39 million were recorded in "Other operation and maintenance" on the Statement of Income. Although PPL Electric has storm insurance with a PPL affiliate, the costs associated with the unusually high number of PUC-reportable storms has exceeded policy limits. Probable insurance recoveries recorded during the three and nine months ended September 30, 2011 were $12 million and $26.5 million, of which $7 million and $16 million were included in "Other operation and maintenance" on the Statement of Income. In November 2011, PPL Electric filed with the PUC a request for permission to defer $15 million to $20 million for future recovery of allowable storm-related costs. At the time PPL Electric seeks recovery of any deferred amount, its claim will be based on the actual costs, net of insurance recoveries. A regulatory asset, for the actual costs net of insurance recoveries, will be recorded at such time as an order is received from the PUC approving deferral of these costs.

In late October 2011, PPL Electric experienced significant damage to its transmission and distribution network from a severe snow storm. The costs associated with the restoration efforts are still being determined and are not included in the amounts disclosed above. PPL Electric will evaluate such costs, when quantified, and will likely file with the PUC for permission to defer certain of the costs incurred to repair the distribution network for future recovery. Costs incurred to repair the transmission network are recoverable through the FERC Formula Rate mechanism which is updated annually.

See "Results of Operations" below for further discussion and analysis of the consolidated results of operations.

Regulatory Matters

PUC Investigation of Retail Market

In April 2011, the PUC opened an investigation of Pennsylvania's retail electricity market which will be conducted in two phases. Phase one will address the status of the current retail market and explore potential changes. Questions promulgated by the PUC for this phase of the investigation focus primarily on default service issues. In June 2011, interested parties filed comments and the PUC held a hearing in this phase of the investigation. In July 2011, the PUC entered an order initiating phase two of the investigation which will study how best to address issues identified by the PUC as being most relevant to improving the current retail electricity market. The PUC issued a tentative order in October 2011 addressing issues associated with the timing and various other details of the EDC's default service procurement plans. Parties will have an opportunity to comment on that tentative order. The PUC also has scheduled a hearing in this phase of the investigation in November 2011. It is likely that investigation will not be completed before the end of the year. PPL Electric cannot predict the outcome of the investigation.

Regional Transmission Line Expansion Plan

In 2007, PJM directed the construction of a new 150-mile, 500-kilovolt transmission line between the Susquehanna substation in Pennsylvania and the Roseland substation in New Jersey that it identified as essential to long-term reliability of the Mid-Atlantic electricity grid. PJM determined that the line is needed to prevent potential overloads that could occur as early as 2012 on several existing transmission lines in the interconnected PJM system. PJM has directed PPL Electric to construct the portion of the Susquehanna-Roseland line in Pennsylvania and has directed Public Service Electric & Gas Company to construct the portion of the line in New Jersey, in each case by June 1, 2012. PPL Electric's estimated share of the project costs is approximately $500 million.

PPL Electric has experienced delays in obtaining necessary National Park Service approvals for the Susquehanna-Roseland transmission line and anticipates a delay of the line's in-service date to 2015. In the first quarter of 2011, PJM issued an updated assessment of the new line within its 2010 Regional Transmission Expansion Plan, which confirms that the line is needed by 2012 to prevent overloads on other power lines in the region. PJM has developed a strategy to manage potential reliability problems until the line is built. In October 2011, the project was placed on the initial list of projects for the Rapid Response Team for Transmission (RRTT), an initiative of the White House to facilitate coordination among federal agencies to improve the overall quality and timeliness of electric transmission infrastructure permitting, review and consultation. The National Park Service record of decision for the project is scheduled to be issued on October 1, 2012. PPL Electric cannot predict what additional actions, if any, PJM might take in the event of a continued delay to its scheduled in-service date for the new line. See Note 8 in PPL Electric's 2010 Form 10-K for additional information.

Legislation - Regulatory Procedures and Mechanisms

In June 2011, the Pennsylvania House Consumer Affairs Committee approved legislation that would authorize the PUC to approve regulatory procedures and mechanisms to provide for more timely recovery of a utility's costs. Alternative ratemaking is important to PPL Electric as it begins a period of significant increasing capital investment related to the asset optimization program focused on the replacement of aging distribution assets. Those procedures and mechanisms include, but are not limited to, the use of a fully projected test year and an automatic adjustment clause to recover certain capital costs and related operating expenses. In October 2011, the legislation was passed by the Pennsylvania House of Representatives. It will now be considered by the Pennsylvania Senate. PPL Electric is working with other stakeholders to support passage of this legislation but cannot predict the outcome of this process.

Results of Operations

The results for interim periods can be disproportionately influenced by various factors and developments and by seasonal variations. As such, the results of operations for interim periods do not necessarily indicate results or trends for the year or for future periods.

Earnings

Net Income Available to PPL Corporation for the periods ended September 30 was:

	Three Months			Nine Months		
	2011	2010	% Change	2011	2010	% Change
Operating revenue	$ 455	$ 571	(20)	$ 1,453	$ 1,906	(24)
Energy purchases	171	229	(25)	591	848	(30)
Energy purchases from affiliate	5	71	(93)	15	250	(94)
Other operation and maintenance	146	126	16	402	377	7
Depreciation	38	34	12	108	101	7
Taxes, other than income	26	32	(19)	83	108	(23)
Total operating expenses	386	492	(22)	1,199	1,684	(29)
Other Income (Expense) - net	2		n/a	3	3	
Interest Income from Affiliate	1		n/a	1	1	
Interest Expense	26	24	8	74	74	
Income Taxes	14	15	(7)	56	47	19
Net Income	32	40	(20)	128	105	22
Distributions on Preferred Securities	4	4		12	16	(25)
Net Income Available to PPL Corporation	$ 28	$ 36	(22)	$ 116	$ 89	30

The changes in the components of Net Income Available to PPL Corporation between the periods ended September 30, 2011 and 2010 were due to the following factors. See "Statement of Income Analysis - Margins" for component details.

	Three Months	Nine Months
Pennsylvania gross delivery margins	$ 8	$ 56
Other operation and maintenance	(15)	(18)
Depreciation	(4)	(7)
Other	2	1
Income taxes	1	(9)
Distributions on Preferred Securities		4
Total	$ (8)	$ 27

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of gross margins from the Pennsylvania regulated electric delivery operations.

- Other operation and maintenance expenses were $14 million and $17 million higher for the three and nine-month periods due to storm costs exceeding insurance policy limits in 2011.

- Income taxes were $12 million higher for the nine-month period due to higher pre-tax income. This increase was partially offset by a $5 million tax benefit related to the impact of flow-through regulated tax depreciation that is primarily related to the Pennsylvania Department of Revenue interpretive guidance regarding 100% bonus depreciation.

Outlook

Excluding special items, earnings are expected to be slightly higher in 2011, compared with 2010, as a result of higher distribution revenues from a January 1, 2011 distribution base rate increase, partially offset by higher operation and maintenance expenses.

Earnings in 2011 are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2 and Notes 6 and 10 to the Financial Statements in this Form 10-Q and "Item 1. Business," and "Item 1A. Risk Factors" in PPL Electric's 2010 Form 10-K for a discussion of the risks, uncertainties and factors that may impact future earnings. Among these uncertainties are the ultimate regulatory recovery of storm costs, transmission service charges and other regulatory assets.

Statement of Income Analysis --

Margins

Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Pennsylvania Gross Delivery Margins." "Pennsylvania Gross Delivery Margins" is a single financial performance measure of PPL Electric's Pennsylvania regulated electric delivery operations, which includes transmission and distribution activities. In calculating this measure, utility revenues and expenses associated with approved recovery mechanisms, including energy provided as a PLR, are offset with minimal impact on earnings. Costs associated with these mechanisms are recorded in "Energy purchases," "Energy purchases from affiliate," "Other operation and maintenance" expense, which is primarily Act 129 costs, and "Taxes, other than income", which is primarily gross receipts tax. As a result, this measure represents the net revenues from PPL Electric's Pennsylvania regulated electric delivery operations. This measure is not intended to replace "Operating Income," which is determined in accordance with GAAP, as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. PPL Electric believes that "Pennsylvania Gross Delivery Margins" provides another criterion to make investment decisions. This performance measure is used, in conjunction with other information, internally by senior management and PPL's Board of Directors to manage PPL Electric's operations and analyze actual results to budget.

Reconciliation of Non-GAAP Financial Measures

The following tables reconcile "Operating Income" to "Pennsylvania Gross Delivery Margins" as defined by PPL Electric for the periods ended September 30. Footnotes to the reconciliations are included at the end of the nine month reconciliation tables.

	2011 Three Months			2010 Three Months		
	PA Gross Delivery Margins	Other (a)	Operating Income (b)	PA Gross Delivery Margins	Other (a)	Operating Income (b)
Operating Revenues						
Retail electric	$ 454		$ 454	$ 570		$ 570
Electric revenue from affiliate	1		1	1		1
Total Operating Revenues	455		455	571		571
Operating Expenses						
Energy purchases	171		171	229		229
Energy purchases from affiliate	5		5	71		71
Other operation and maintenance	30	$ 116	146	25	$ 101	126
Depreciation		38	38		34	34
Taxes, other than income	24	2	26	29	3	32
Total Operating Expenses	230	156	386	354	138	492
Total	$ 225	$ (156)	$ 69	$ 217	$ (138)	$ 79

	2011 Nine Months			2010 Nine Months		
	PA Gross Delivery Margins	Other (a)	Operating Income (b)	PA Gross Delivery Margins	Other (a)	Operating Income (b)
Operating Revenues						
Retail electric	$ 1,444		$ 1,444	$ 1,901		$ 1,901
Electric revenue from affiliate	9		9	5		5
Total Operating Revenues	1,453		1,453	1,906		1,906
Operating Expenses						
Energy purchases	591		591	848		848
Energy purchases from affiliate	15		15	250		250
Other operation and maintenance	77	$ 325	402	70	$ 307	377
Depreciation		108	108		101	101
Taxes, other than income	77	6	83	101	7	108
Total Operating Expenses	760	439	1,199	1,269	415	1,684
Total	$ 693	$ (439)	$ 254	$ 637	$ (415)	$ 222

(a) Represents amounts that are excluded from Margins.
(b) As reported on the Statement of Income.

Changes in Non-GAAP Financial Measures

The following table shows PPL Electric's non-GAAP financial measure, "Pennsylvania Gross Delivery Margins" for the periods ended September 30, as well as the change between periods. The factors that gave rise to the change are described below the table.

	Three Months			Nine Months		
	2011	2010	Change	2011	2010	Change
PA Gross Delivery Margins by Component						
Distribution	$ 179	$ 170	$ 9	$ 560	$ 506	$ 54
Transmission	46	47	(1)	133	131	2
Total	$ 225	$ 217	$ 8	$ 693	$ 637	$ 56

Distribution

The approved distribution rate case increased rates approximately 1.6% effective January 1, 2011, which improved distribution margins by $15 million and $50 million for the three and nine months ended September 30, 2011, compared with the same periods in 2010. Weather also had a $5 million favorable impact on the nine months ended September 30, 2011, compared with the same period in 2010. Weather-related variances for PPL Electric are calculated based on a ten-year historical average.

The three and nine months ended September 30, 2011 also reflect a $7 million charge to reduce a portion of the transmission service charge regulatory asset associated with a 2005 undercollection that was not included in any subsequent rate reconciliations filed with the PUC. PPL Electric plans to seek PUC approval to recover this amount. However, management cannot assert at the present time that it is probable that the previously recorded regulatory asset will be recovered. The regulatory asset will be reinstated should the PUC approve recovery of these costs.

Other Operation and Maintenance

Changes in other operation and maintenance expense for the periods ended September 30, 2011 compared with 2010 were due to:

	Three Months	Nine Months
Payroll-related costs	$ (4)	$ (1)
Contractor-related expenses (a)		7
Vegetation management (b)	2	(6)
PUC-reportable storm costs, net of insurance recovery (c)	14	17
Uncollectible accounts	5	4
Other	3	4
Total	$ 20	$ 25

(a) Primarily related to increased utilization of contractors for system reliability and asset optimization programs.
(b) Higher expenses for the nine months ended 2010 as a result of an increased focus on vegetation management primarily due to the Wire zone - Border zone program to safeguard system reliability and to comply with recently enacted legislation.
(c) During the third quarter 2011, PPL Electric reached its maximum coverage under its storm insurance, therefore a larger amount of storm costs were not offset by storm insurance in 2011 when compared to 2010.

Depreciation

Depreciation increased by $7 million for the nine months ended September 30, 2011 compared with the same period in 2010, primarily due to additions to PP&E as part of ongoing efforts to replace aging infrastructure.

Taxes, Other Than Income

Taxes, other than income decreased by $6 million and $25 million during the three and nine months ended September 30, 2011, compared with the same periods in 2010. This decrease was primarily the result of lower Pennsylvania gross receipts tax expense due to a decrease in retail electricity revenue as customers continue to select alternative suppliers in 2011. The decrease was also impacted by the amortization of a PURTA refund of $3 million and $8 million for the three and nine months ended September 30, 2011. Pennsylvania gross receipts tax and the PURTA refund are included in "Pennsylvania Gross Delivery Margins."

Other Income (Expense) - net

See Note 12 to the Financial Statements for details.

Income Taxes

Changes in income taxes for the periods ended September 30, 2011 compared to 2010 were due to:

	Three Months	Nine Months
(Lower) higher pre-tax book income	$ (4)	$ 13
Federal and state tax reserve adjustments (a)	4	4
Federal and state tax return adjustments		(2)
Depreciation not normalized (b)		(5)
Other	(1)	(1)
Total	$ (1)	$ 9

(a) In July 2010, the U.S. Tax Court ruled in PPL Electric's favor in a pending dispute with the IRS, concluding that street lighting assets are depreciable for tax purposes over seven years. As a result, PPL Electric recorded a $7 million tax benefit to federal and state income tax reserves and related deferred income taxes in the third quarter of 2010.
(b) In February 2011, the Pennsylvania Department of Revenue issued interpretive guidance on the treatment of bonus depreciation for Pennsylvania income tax purposes. In accordance with Corporation Tax Bulletin 2011-01, Pennsylvania allows 100% bonus depreciation for qualifying assets in the same year bonus depreciation is allowed for Federal income tax purposes. The 100% Pennsylvania bonus depreciation deduction created a current state income tax benefit for the flow-through impact of Pennsylvania regulated state tax depreciation.

Financial Condition

Liquidity and Capital Resources

PPL Electric had the following at:

	September 30, 2011	December 31, 2010
Cash and cash equivalents	$ 261	$ 204

The $57 million increase in PPL Electric's cash and cash equivalents position was primarily the net result of:

- proceeds of $645 million from the issuance of long-term debt;
- cash provided by operating activities of $261 million;
- the retirement of $458 million of long-term debt;
- capital expenditures of $357 million; and
- the payment of $76 million of common stock dividends to PPL.

PPL Electric's cash provided by operating activities improved by $134 million for the nine months ended September 30, 2011, compared with the same period in 2010, due to a $195 million increase from changes in working capital (including gross receipts tax payments, a federal income tax refund and collections of the generation supply charge). These sources of cash were partially offset by an increase in defined benefit plan contributions of $53 million.

Credit Facilities

At September 30, 2011, PPL Electric's total committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	Committed Capacity	Borrowed	Letters of Credit Issued	Unused Capacity
Syndicated Credit Facility (a)	$ 200		$ 13	$ 187
Asset-backed Credit Facility (b)	150		n/a	150
Total PPL Electric Credit Facilities	$ 350		$ 13	$ 337

(a) In October 2011, PPL Electric amended its Syndicated Credit Facility. The amendment included extending the expiration date from December 2014 to October 2016. Under this facility, PPL Electric continues to have the ability to make cash borrowings and to request the lenders to issue letters of credit.

The commitments under this credit facility are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 6% of the total committed capacity.

(b) PPL Electric obtains financing by selling and contributing its eligible accounts receivable and unbilled revenue to a special purpose, wholly owned subsidiary on an ongoing basis. The subsidiary pledges these assets to secure loans of up to an aggregate of $150 million from a commercial paper conduit sponsored by a financial institution. At September 30, 2011, based on accounts receivable and unbilled revenue pledged, the amount available for borrowing under this facility was limited to $86 million. In July 2011, PPL Electric and the subsidiary extended the expiration date of the credit agreement related to the asset-backed commercial paper program to July 2012.

See Note 7 to the Financial Statements for further discussion of PPL Electric's credit facilities.

Commercial Paper

PPL Electric maintains a commercial paper program for up to $200 million to provide an additional financing source to fund its short-term liquidity needs, if and when necessary. Commercial paper issuances are supported by PPL Electric's Syndicated Credit Facility. PPL Electric had no commercial paper outstanding at September 30, 2011.

Long-term Debt Securities

In July 2011, PPL Electric entered into a supplemental indenture that contains prospective amendments to its 2001 Mortgage Indenture, including amendments to reduce the amount of first mortgage bonds issuable on the basis of property additions from 100% of the cost or fair value (whichever is less, as determined in accordance with the terms of the indenture) of such property additions to 66-2/3% of such cost or fair value. The amendments became effective in the third quarter 2011.

Subsequently in July 2011, PPL Electric issued $250 million of 5.20% First Mortgage Bonds due 2041. PPL Electric received proceeds of $246 million, net of discounts and underwriting fees. The net proceeds have been or will be used for capital expenditures and other general corporate purposes.

Also in July 2011, PPL Electric redeemed the entire $400 million aggregate principal amount of its 7.125% Senior Secured Bonds due 2013 for $458 million, plus accrued interest.

In August 2011, PPL Electric issued $400 million of 3.00% First Mortgage Bonds due 2021. PPL Electric received proceeds of $394 million, net of discounts and underwriting fees. A portion of the net proceeds have been used to repay short-term debt. The balance of the net proceeds replenished cash used to redeem the 7.125% Senior Secured Bonds due 2013 in July 2011, as discussed above.

See Note 7 to the Financial Statements for additional information about long-term debt securities.

Rating Agency Decisions

Moody's, S&P and Fitch periodically review the credit ratings on the debt and preferred securities of PPL Electric. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of PPL Electric are based on information provided by PPL Electric and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of PPL Electric. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. A downgrade in PPL Electric's credit ratings could result in higher borrowing costs and reduced access to capital markets.

In prior periodic reports, PPL Electric described its then-current credit ratings in connection with, and to facilitate, an understanding of its liquidity position. As a result of the passage of the Dodd-Frank Act and the attendant uncertainties relating to the extent to which issuers of non-asset backed securities may disclose credit ratings without being required to obtain rating agency consent to the inclusion of such disclosure, or incorporation by reference of such disclosure, in a registrant's registration statement or section 10(a) prospectus, PPL Electric is limiting its credit rating disclosure to a description of the actions taken by the rating agencies with respect to PPL Electric's ratings, but without stating what ratings have been assigned to PPL Electric or its securities. The ratings assigned by the rating agencies to PPL Electric and its respective securities may be found, without charge, on each of the respective rating agencies' websites, which ratings together with all other information contained on such rating agency websites is, hereby, explicitly not incorporated by reference in this report.

Following the announcement of the then-pending acquisition of WPD Midlands in March 2011, the rating agencies took the following actions:

- Moody's affirmed its ratings for PPL Electric;
- S&P revised the outlook and lowered the issuer, senior secured, preference stock and commercial paper ratings of PPL Electric; and
- Fitch affirmed its ratings for PPL Electric.

In April 2011, following the completion of PPL's acquisition of WPD Midlands, S&P revised the outlook for PPL Electric, raised its commercial paper rating and affirmed its issuer, senior secured and preference stock ratings.

In July 2011, S&P upgraded the senior secured rating for PPL Electric's first mortgage bonds following the execution of a supplemental indenture that provided for prospective amendments to PPL Electric's 2001 Mortgage Indenture, as discussed in "Long-term Debt Securities" above.

For additional information on PPL Electric's liquidity and capital resources, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," in PPL Electric's 2010 Form 10-K.

Risk Management

Market Risk and Credit Risk

PPL Electric has issued debt to finance its operations, which exposes it to interest rate risk. PPL Electric had no potential annual exposure to increased interest expense, based on a 10% increase in interest rates, at September 30, 2011. PPL Electric estimated that a 10% decrease in interest rates at September 30, 2011 would increase the fair value of its debt portfolio by $88 million.

See Notes 13 and 14 to the Financial Statements in this Form 10-Q and "Risk Management" in PPL Electric's 2010 Form 10-K for additional information on market and credit risk.

Related Party Transactions

PPL Electric is not aware of any material ownership interests or operating responsibility by senior management in outside partnerships, including leasing transactions with variable interest entities or other entities doing business with PPL Electric. See Note 11 to the Financial Statements for additional information on related party transactions between PPL Electric and affiliates.

Environmental Matters

Protection of the environment is a priority for PPL Electric and a significant element of its business activities. See "Item 1. Business - Environmental Matters" in PPL Electric's 2010 Form 10-K and Note 10 to the Financial Statements for a discussion of environmental matters.

New Accounting Guidance

See Note 18 to the Financial Statements for a discussion of new accounting guidance pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations, and require estimates or other judgments of matters inherently uncertain: defined benefits, loss accruals, income taxes and regulatory assets and liabilities. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in PPL Electric's 2010 Form 10-K for a discussion of each critical accounting policy.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following information should be read in conjunction with LKE's Condensed Financial Statements and the accompanying Notes and LKE's 2011 Registration Statement. Capitalized terms and abbreviations are explained in the glossary. Dollars are in millions, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides an overview of LKE's business strategy, financial and operational highlights and key regulatory matters.
- "Results of Operations" provides a summary of LKE's earnings and a description of key factors that are expected to impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of significant changes in principal items on LKE's Statements of Income, comparing the three and nine months ended September 30, 2011 with the same periods in 2010.
- "Financial Condition - Liquidity and Capital Resources" provides an analysis of LKE's liquidity position and credit profile. This section also includes a discussion of rating agency decisions and capital expenditure projections.
- "Financial Condition - Risk Management" provides an explanation of LKE's risk management programs relating to market and credit risk.

Overview

Introduction

LKE, headquartered in Louisville, Kentucky, is a holding company with utility operations through its subsidiaries, LG&E and KU. LG&E and KU, which constitute substantially all of LKE's operations, are regulated utilities engaged in the generation, transmission, distribution and sale of electricity, in Kentucky, Virginia and Tennessee. LG&E also engages in the distribution and sale of natural gas in Kentucky.

Successor and Predecessor Financial Presentation

LKE's Condensed Financial Statements and related financial and operating data include the periods before and after PPL's acquisition of LKE on November 1, 2010, and have been segregated to present pre-acquisition activity as the Predecessor and post-acquisition activity as the Successor. Predecessor activity covers the time period prior to November 1, 2010. Successor activity covers the time period after October 31, 2010. Certain accounting and presentation methods were changed to acceptable alternatives to conform to PPL's accounting policies, which are discussed in the Financial Statements in LKE's 2011 Registration Statement. The cost basis of certain assets and liabilities were changed as of November 1, 2010, as a result of the application of push-down accounting. Consequently, the financial position, results of operations and cash flows for the Successor periods are not comparable to the Predecessor periods; however, the core operations of LKE have not changed as a result of the acquisition.

Business Strategy

LKE's overall strategy is to provide reliable, safe and competitively priced energy to its customers.

Financial and Operational Highlights

Net Income

The three and nine months ended September 30, 2011, includes the effect of LG&E's and KU's base rate increases, which became effective August 1, 2010, partially offset by net cost increases, which have not yet been reflected in the rates charged by LG&E and KU. The three and nine months ended September 30, 2010, also included $29 million and $19 million of other income associated with the establishment of regulatory assets for previously recorded losses on interest rate swaps.

See "Results of Operations" below for further discussion and analysis of the results of operations.

TC2 Construction

LG&E and KU constructed a 760 MW capacity baseload, coal-fired unit, TC2, which is jointly owned by LG&E (14.25%) and KU (60.75%), together with the Illinois Municipal Electric Agency and the Indiana Municipal Power Agency (combined 25%). With limited exceptions, LG&E and KU took care, custody and control of TC2 in January 2011. LG&E and KU and the contractor have agreed to certain amendments to the construction agreement whereby the contractor will complete certain actions relating to identifying and completing any necessary modifications to allow operation of TC2 on all fuels in accordance with initial specifications prior to certain dates, and amending the provisions relating to liquidated damages. A number of remaining issues regarding these matters are still under discussion with the contractors. See Note 10 to the Financial Statements for additional information.

Registered Debt Exchange Offer by LKE, LG&E and KU

In April 2011, LKE, LG&E and KU each filed a Registration Statement with the SEC, related to an offer to exchange certain first mortgage bonds and senior notes issued in November 2010, in transactions not subject to registration under the Securities Act of 1933, with similar but registered securities. The 2011 Registration Statements became effective in June 2011, and the exchanges were completed in July 2011, with substantially all of the senior notes and first mortgage bonds being exchanged. See Note 7 to the Financial Statements and the 2011 Registration Statements for additional information.

Legal and Regulatory Matters

Federal

CSAPR

In July 2011, the EPA signed the CSAPR which finalizes and renames the Clean Air Transport Rule (Transport Rule) proposed in August 2010. This rule applies to the Kentucky plants. The CSAPR is meant to facilitate attainment of ambient air quality standards for ozone and fine particulates by requiring reductions in sulfur dioxide and nitrogen oxide emissions. In October 2011, the EPA proposed technical adjustments to the CSAPR to account for updated data submitted to the agency. Several states and a number of companies have filed petitions for review with the U.S. Court of Appeals for the District of Columbia Circuit challenging various provisions of the CSAPR. LG&E's and KU's initial review of the allocations under the CSAPR indicates that greater reductions in sulfur dioxide emissions will be required beginning in 2012 under the CSAPR than were required under the CAIR.

For the initial phase of the rule beginning in 2012, sulfur dioxide allowance allocations are expected to be greater than the forecasted emissions based on present operations of existing sulfur dioxide scrubbers and coal supply. However, for the second phase beginning in 2014, LG&E and KU will likely have to modify operations and dispatch of their generating fleet, including upgrades or installation of new sulfur dioxide scrubbers for certain generating units or retirement of certain other units.

With respect to nitrogen oxide emissions, the CSAPR provides a slightly lower amount of allowances compared to those under the CAIR. With uncertainty surrounding the trading program, other compliance options are being analyzed for the Kentucky fleet, such as the installation of new technology or modifications of plant operations as well as the retirement and replacement of certain coal-fired generating units. LG&E and KU are seeking recovery of their expected costs to comply with the CSAPR and certain other EPA requirements through the ECR plan filed with the KPSC in June 2011.

Additionally, the Kentucky plants may face further reductions in sulfur dioxide and nitrogen oxide emissions as a result of more stringent national ambient air quality standards for ozone, nitrogen oxide, sulfur dioxide and/or fine particulates. LG&E and KU anticipate that some of the measures required for compliance with the CSAPR such as upgraded or new sulfur dioxide scrubbers at some of their plants and retirement of certain units may also be necessary to achieve compliance with the new sulfur dioxide standard. If additional reductions were to be required, the economic impact to LKE could be significant. See Notes 6 and 10 to the Financial Statements for additional information on the CSAPR and the regulatory proceeding.

Kentucky and Virginia

CPCN Filing

In September 2011, LG&E and KU filed a CPCN with the KPSC requesting approval to build a 640 MW NGCC at the existing Cane Run station site. LG&E and KU also requested approval to purchase three additional natural gas combustion turbines from Bluegrass Generation Company, L.L.C. (Bluegrass Plant) that are expected to provide up to 495 MW of peak generation supply. LG&E and KU anticipate that the NGCC construction and Bluegrass Plant acquisition could require up to

$800 million (comprised of up to $300 million for LG&E and up to $500 million for KU) in capital costs including related transmission projects. Formal requests for recovery of the costs associated with the NGCC and Bluegrass Plant acquisition were not included in the CPCN filing with the KPSC but are expected to be included in a future base rate case filing. The KPSC issued an Order on the procedural schedule in the CPCN filing that has discovery, but no hearing, scheduled through early February 2012. A KPSC order on the CPCN filing is anticipated in the second quarter of 2012. See Note 6 to the Financial Statements for additional information.

ECR Filing - Environmental Upgrades

In June 2011, in order to achieve compliance with new and pending mandated federal EPA regulations, LG&E and KU filed ECR plans with the KPSC requesting approval to install environmental upgrades for certain of their coal-fired plants along with the recovery of their expected $1.4 billion and $1.1 billion in associated capital costs, as well as operating expenses as incurred. The ECR plans included upgrades that will be made to certain of their coal-fired generating stations to continue to be compliant with EPA regulations. See Notes 6 and 10 to the Financial Statements for additional information.

Virginia Rate Case

In April 2011, KU filed an application with the VSCC requesting an annual increase in electric base rates for its Virginia jurisdictional customers of $9 million, or 14%. The proposed increase reflected a rate of return on rate base of 8%, based on a return on equity of 11%, inclusive of expenditures to complete TC2, all new sulfur dioxide scrubbers, recovery over five years of a 2009 storm regulatory asset and various other adjustments to revenue and expenses for the test year ended December 31, 2010. In September 2011, a settlement stipulation was reached between KU and the VSCC Staff and filed with the VSCC for consideration. In October 2011, the VSCC approved the stipulation with two modifications that were accepted by KU. The VSCC issued an Order closing the proceeding in October 2011. The approved annual revenue increase is $7 million with new base rates effective November 1, 2011.

Results of Operations

As previously noted, LKE's results for the three and nine months ended September 30, 2011 are on a basis of accounting different from its results for the three and nine months ended September 30, 2010. When discussing LKE's results of operations for 2011 compared with 2010 material differences resulting from the different bases of accounting will be isolated for purposes of comparability. See "Overview - Successor and Predecessor Financial Presentation" for further information.

The results for interim periods can be disproportionately influenced by various factors and developments and by seasonal variations. As such, the results of operations for interim periods do not necessarily indicate results or trends for the year or for future periods. Due to weather, revenue and earnings are generally highest during the first and third quarters and lowest during the second quarter.

Earnings

Net Income for the periods ended September 30 was:

	Three Months			Nine Months		
	2011 Successor	2010 Predecessor	% Change	2011 Successor	2010 Predecessor	% Change
Operating Revenues	$ 736	$ 719	2	$ 2,140	$ 2,035	5
Fuel	245	250	(2)	666	668	
Energy purchases	32	39	(18)	179	200	(11)
Other operation and maintenance	187	177	6	566	509	11
Depreciation	84	73	15	249	211	18
Taxes, other than income	10	5	100	28	19	47
Total Operating Expenses	558	544	3	1,688	1,607	5
Other Income (Expense) - net		31	(100)	(1)	17	(106)
Interest Expense	36	45	(20)	108	137	(21)
Income Taxes	52	59	(12)	125	112	12
Loss from Discontinued Operations (net of income taxes)	(1)			(1)	(2)	(50)
Net Income	$ 89	$ 102	(13)	$ 217	$ 194	12

The changes in the components of Net Income for the periods ended September 30, 2011 and 2010 were due to the following factors as provided in the table below.

	Three Months	Nine Months
Margin	$ 19	$ 107
Other operation and maintenance	(4)	(42)
Depreciation	(10)	(32)
Taxes, other than income	(5)	(9)
Other Income (Expense) - net	(31)	(18)
Interest Expense	9	29
Income Taxes	9	(14)
Special items		2
Total	$ (13)	$ 23

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of margins.

- Higher other operation and maintenance expense resulted from higher steam and distribution maintenance costs. Higher steam costs for the three and nine-month periods of $3 million and $22 million were due to increased scope of scheduled outages and higher variable expenses from increased generation. Higher distribution maintenance costs for the three and nine-month periods of $3 million and $14 million resulted from higher storm costs, increased amortization of wind and ice storms restoration-related costs together with a hazardous tree removal project initiated in August 2010. The nine-month period was partially offset by $6 million of 2009 winter storm restoration expenses being reclassified to a regulatory asset in 2011, as these costs are expected to be recovered in rates.

- Higher depreciation was primarily due to TC2 commencing dispatch in January 2011 resulting in increases of $8 million and $23 million for the three and nine-month periods. In addition, the E.W. Brown sulfur dioxide scrubber was placed in-service in June 2010 resulting in a $7 million increase for the nine-month period.

- Higher other expense - net was primarily due to $29 million and $19 million of other income for the three and nine months ended September 30, 2010, the result of previously recorded losses on interest rate swaps being reclassified as regulatory assets during the three-month period ended September 30, 2010.

- Lower interest expense of $4 million and $14 million for the three and nine-month periods was due to decreases in interest rates and decreases of $5 million and $19 million for the three and nine-month periods were due to lower long-term debt balances.

- Lower pre-tax income resulted in lower income tax of $7 million for the three-month period and higher pre-tax book income resulted in higher income tax of $14 million for the for the nine-month period.

Management considers energy marketing of expected economic generation capacity in excess of expected load requirements and a terminated lease with The Big Rivers Electric Corporation (BREC) to be special items. See Note 14 to the Financial Statements for additional information on energy marketing of expected economic generation capacity in excess of expected load requirements and LKE's 2011 Registration Statement for information about BREC. The following are the special items for the periods ended September 30:

	Income Statement Line Item	Three Months 2011 Successor	Three Months 2010 Predecessor	Nine Months 2011 Successor	Nine Months 2010 Predecessor
Special Items, net of tax benefit (expense):					
Energy-related economic activity ($1), $0, $0, $0	Operating revenues	$ 1		$ 1	
BREC terminated lease $1, $0, $1, $1	Discontinued operations	(1)		(1)	$ (2)
Total		$		$	$ (2)

Outlook

Excluding special items, in 2011 compared with 2010, LKE expects higher retail revenues and lower financing costs partially offset by higher depreciation and other operating costs. Retail revenues are expected to increase as a result of the Kentucky rate cases and recoveries associated with environmental investments. Lower financing costs are expected from lower debt balances resulting from an equity contribution provided by PPL at acquisition and the issuance in late 2010 of first mortgage bonds, which LKE used to repay higher cost debt. Depreciation and other operating costs are expected to increase resulting from increases in regulated utility plant including commencing dispatch of TC2 in January 2011 to serve customer demand.

Earnings in 2011 are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, Notes 6 and 10 to the Financial Statements in this Form 10-Q and "Business," and "Risk Factors" in LKE's 2011 Registration Statement for a discussion of the risks, uncertainties and factors that may impact future earnings.

Statement of Income Analysis --

Margin

Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Margin." Margin is not intended to replace "Operating Income," which is determined in accordance with GAAP as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. Margin is a single financial performance measure of LKE's operations. In calculating this measure, utility revenues and expenses associated with approved cost recovery tracking mechanisms are offset. These mechanisms allow for recovery of certain expenses, returns on capital investments associated with environmental regulations and performance incentives. Certain costs associated with these mechanisms, primarily ECR and DSM, are recorded as "Other operation and maintenance" expenses and the depreciation associated with ECR equipment is recorded as "Depreciation" expense. As a result, this measure represents the net revenues from LKE's operations. LKE believes that Margin provides another criterion to make investment decisions. This performance measure is used, in conjunction with other information, internally by senior management to manage LKE's operations and analyze actual results compared to budget.

Reconciliation of Non-GAAP Financial Measures

The following tables reconcile "Operating Income" to "Margin" as defined by LKE for the periods ended September 30.

	2011 Three Months - Successor			2010 Three Months - Predecessor		
	Margin	Other (a)	Operating Income (b)	Margin	Other (a)	Operating Income (b)
Operating Revenues	$ 734	$ 2	$ 736	$ 720	$ (1)	$ 719
Operating Expenses						
Fuel	245		245	250		250
Energy purchases	32		32	39		39
Other operation and maintenance	26	161	187	20	157	177
Depreciation	12	72	84	11	62	73
Taxes, other than income		10	10		5	5
Total Operating Expenses	315	243	558	320	224	544
Total	$ 419	$ (241)	$ 178	$ 400	$ (225)	$ 175

	2011 Nine Months - Successor			2010 Nine Months - Predecessor		
	Margin	Other (a)	Operating Income (b)	Margin	Other (a)	Operating Income (b)
Operating Revenues	$ 2,139	$ 1	$ 2,140	$ 2,034	$ 1	$ 2,035
Operating Expenses						
Fuel	666		666	668		668
Energy purchases	179		179	200		200
Other operation and maintenance	67	499	566	52	457	509
Depreciation	37	212	249	31	180	211
Taxes, other than income		28	28		19	19
Total Operating Expenses	949	739	1,688	951	656	1,607
Total	$ 1,190	$ (738)	$ 452	$ 1,083	$ (655)	$ 428

(a) Represents amounts that are excluded from Margin.
(b) As reported on the Statements of Income.

Changes in Non-GAAP Financial Measures

Margins were higher by $19 million and $107 million during the three and nine months ended September 30, 2011, compared with the same periods in 2010. The positive impact mainly resulted from a rate increase, which became effective in August 2010.

Other Operation and Maintenance

Changes in other operation and maintenance expense for the periods ended September 30, 2011, compared with the same periods in 2010, were due to the following.

	Three Months	Nine Months
Steam maintenance (a)		$ 11
PPL support charges	$ 3	12
Steam operations (b)	3	11
Distribution maintenance (c)	3	8
Fuel for generation (d)	3	10
Other	(2)	5
Total	$ 10	$ 57

(a) Primarily due to increased scope of scheduled outages including those at Ghent and Green River.
(b) Variable expenses increased due to increased generation, the result of TC2 commencing dispatch in 2011.
(c) The nine months ended September 30, 2011, resulted from higher storm costs along with increased amortization of wind and ice storms restoration-related costs and a hazardous tree removal project initiated in August 2010. This increase was partially offset by $6 million of 2009 winter storm restoration expenses being reclassified to a regulatory asset in 2011, as these costs are expected to be recovered in rates.
(d) Fuel handling costs are included in fuel for electric generation on the Statements of Income for the three and nine months ended September 30, 2010, and are in other operation and maintenance expense on the Statements of Income for the three and nine months ended September 30, 2011.

Depreciation

Changes in depreciation for the periods ended September 30, 2011, compared with the same periods in 2010, were due to the following:

	Three Months	Nine Months
TC2 (dispatch began in January 2011)	$ 8	$ 23
E.W. Brown sulfur dioxide scrubber (placed in-service in June 2010)		7
Other	3	8
Total	$ 11	$ 38

Other Income (Expense) - net

Changes in other income (expense) - net for the periods ended September 30, 2011, compared with the same periods in 2010, were due to the following:

	Three Months	Nine Months
Other income included in the periods ending September 30, 2010, resulted from the establishment of regulatory assets for previously recorded losses on interest rate swaps	$ (29)	$ (19)
Other	(2)	1
Total	$ (31)	$ (18)

Interest Expense

Changes in interest expense for the periods ended September 30, 2011, compared with the same periods in 2010, were due to the following:

	Three Months	Nine Months
Interest rates (a)	$ (4)	$ (14)
Long-term debt balances (b)	(5)	(19)
Other		4
Total	$ (9)	$ (29)

(a) Interest rates on the first mortgage bonds and senior notes were lower than the rates on the loans from Fidelia Corporation and other E.ON AG affiliates, which were replaced.
(b) LKE's long-term debt principal balance was $886 million lower as of September 30, 2011 compared to 2010, primarily due to an equity contribution from PPL of $1.6 billion at the time of acquisition.

Income Taxes

Changes in income taxes for the periods ended September 30, 2011, compared with the same periods in 2010, were due to the following:

	Three Months		Nine Months	
Higher (lower) pre-tax book income	$	(7)	$	14
Other				(1)
Total	$	(7)	$	13

Financial Condition

Liquidity and Capital Resources

LKE had the following at:

	September 30, 2011		December 31, 2010	
Cash and cash equivalents	$	170	$	11
Short-term investments (a)				163
	$	170	$	174
Short-term debt (b)			$	163

(a) Represents tax-exempt bonds issued by Louisville/Jefferson County, Kentucky, on behalf of LG&E that were purchased from the remarketing agent in 2008. Such bonds were remarketed to unaffiliated investors in January 2011. See Note 17 to the Financial Statements for additional information.
(b) Represents borrowings under LG&E's $400 million syndicated credit facility. See Note 7 to the Financial Statements for additional information.

The $159 million increase in LKE's cash and cash equivalents position was primarily the net result of:

- cash provided by operating activities of $674 million;
- proceeds of $250 million from the issuance of long-term debt;
- capital expenditures of $287 million; and
- the payment of $469 million of distributions to PPL.

LKE's cash provided by operating activities increased by $264 million for the nine months ended September 30, 2011, compared with the same period in 2010, primarily due to:

- an increase in net income of $23 million adjusted for non-cash effects of $145 million (depreciation of $38 million, deferred income taxes and investment tax credits of $123 million and the recording of a regulatory asset for previously recorded losses on interest rate swaps of $22 million, partially offset by defined benefit plans - expense of $17 million, unrealized (gains) losses on derivatives of $14 million and other noncash items of $7 million);
- a net decrease in working capital from accounts receivable, accounts payable and unbilled revenue of $74 million due to the timing of cash receipts and payments, an increase in base rates effective August 2010, colder weather (more heating degree days) in December 2010 as compared with December 2009, and milder weather (fewer cooling degree days) in September 2011 as compared with September 2010;
- a decrease in backstop energy and aluminum production credit payments of $45 million made in 2010 under the smelter contract; and
- a decrease in fuel of $44 million, which was driven by higher volumes purchased in 2010 in preparation for the commercial operation of TC2 originally expected in mid-2010, along with an increase in fuel consumption due to the dispatch of TC2 beginning in January 2011; partially offset by
- an increase in discretionary defined benefit plan contributions of $105 million made in order to achieve LKE's long-term funding requirements.

Credit Facilities

At September 30, 2011, LKE's total committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	Committed Capacity	Borrowed	Letters of Credit Issued	Unused Capacity
LKE Credit Facility with a subsidiary of PPL Energy Supply	$ 300			$ 300
LG&E Credit Facility (a) (d)	400			400
KU Credit Facilities (a) (b) (d)	598		$ 198	400
Total Credit Facilities (c)	$ 1,298		$ 198	$ 1,100

(a) In June 2011, LG&E and KU each amended its respective Syndicated Credit Facility such that the fees and the spread to benchmark interest rates for borrowings depend upon the respective company's senior secured long-term debt rating rather than the senior unsecured debt rating.
(b) In April 2011, KU entered into a new $198 million letter of credit facility that has been used to issue letters of credit to support outstanding tax exempt bonds. The facility matures in April 2014. In August 2011, KU amended its letter of credit facility such that the fees depend upon KU's senior secured long-term debt rating rather than the senior unsecured debt rating.
(c) Total borrowings outstanding under LKE's credit facilities decreased on a net basis by $163 million since December 31, 2010.
(d) In October 2011, LG&E and KU each amended its respective syndicated credit facilities. The amendments included extending the expiration dates from December 2014 to October 2016. Under these facilities, LG&E and KU each continue to have the ability to make cash borrowings and to request the lenders to issue letters of credit.

The commitments under LKE's Syndicated Credit Facilities are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 9% of the total committed capacity; however, the PPL affiliate provides a commitment of approximately 23% of the total facilities listed above.

See Note 7 to the Financial Statements for further discussion of LKE's credit facilities.

Long-term Debt Securities

In January 2011, LG&E remarketed $163 million of variable rate tax-exempt revenue bonds, which were issued on its behalf by Louisville/Jefferson County, Kentucky to unaffiliated investors in a term rate mode, bearing interest at 1.90% into 2012. The proceeds from the remarketing were used to repay a $163 million borrowing under LG&E's Syndicated Credit Facility.

At September 30, 2011, LKE's tax-exempt revenue bonds that are in the form of auction rate securities and total $231 million continue to experience failed auctions. Therefore, the interest rate continues to be set by a formula pursuant to the relevant indentures. For the nine months ended September 30, 2011, the weighted-average rate on LG&E's and KU's auction rate bonds in total was 0.27%.

LKE's long-term debt securities activity through September 30, 2011 was:

	Debt	
	Issuances	Retirement
LKE Senior Notes	$ 250	
Total Cash Flow Impact	$ 250	
Non-cash Exchanges		
LKE Senior Notes (a)	$ 875	$ (875)
LG&E First Mortgage Bonds (a)	535	(535)
KU First Mortgage Bonds (a)	1,500	(1,500)
Total Exchanged	$ 2,910	$ (2,910)
Net Increase	$ 250	

(a) In April 2011, LKE, LG&E and KU each filed a 2011 Registration Statement with the SEC related to offers to exchange securities issued in November 2010 in transactions not registered under the Securities Act of 1933 with similar but registered securities. The 2011 Registration Statements became effective in June 2011, and the exchanges were completed in July 2011, with substantially all securities being exchanged.

LKE's long-term debt securities activity since September 30, 2011 consists of the retirement of the $2 million LG&E and KU Capital LLC Medium Term Note which matured on November 1, 2011.

See Note 7 to the Financial Statements for additional information about long-term debt securities.

Rating Agency Decisions

Moody's, S&P and Fitch periodically review the credit ratings on the debt securities of LKE and its subsidiaries. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of LKE and its subsidiaries are based on information provided by LKE and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of LKE or its subsidiaries. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. A downgrade in LKE's or its subsidiaries' credit ratings could result in higher borrowing costs and reduced access to capital markets.

In LKE's 2011 Registration Statement, LKE described its then-current credit ratings in connection with, and to facilitate, an understanding of its liquidity position. As a result of the passage of the Dodd-Frank Act and the attendant uncertainties relating to the extent to which issuers of non-asset backed securities may disclose credit ratings without being required to obtain rating agency consent to the inclusion of such disclosure, or incorporation by reference of such disclosure, in a registrant's registration statement or section 10(a) prospectus, LKE is limiting its credit rating disclosure to a description of the actions taken by the rating agencies with respect to LKE's ratings, but without stating what ratings have been assigned to LKE or its subsidiaries, or their securities. The ratings assigned by the rating agencies to LKE and its subsidiaries and their respective securities may be found, without charge, on each of the respective ratings agencies' websites, which ratings together with all other information contained on such rating agency websites is, hereby, explicitly not incorporated by reference in this report.

Following the announcement of PPL's then-pending acquisition of WPD Midlands in March 2011, the rating agencies took the following actions:

- Moody's affirmed all of the ratings for LKE and all of its rated subsidiaries;
- S&P revised the outlook for LKE, LG&E and KU and lowered the issuer and senior unsecured ratings of LKE and the issuer, senior secured and short-term ratings of LG&E and KU; and
- Fitch affirmed all of the ratings for LKE and all of its rated subsidiaries.

In April 2011, S&P took the following actions following the completion of PPL's acquisition of WPD Midlands:

- revised the outlook for LKE and all of its rated subsidiaries;
- raised the short-term ratings of LG&E and KU; and
- affirmed all of the long-term ratings for LKE and its rated subsidiaries.

In May 2011, S&P downgraded the long-term rating of four series of pollution control bonds issued on behalf of KU by one notch in connection with the substitution of the letters of credit enhancing these four bonds.

In September 2011, Moody's affirmed the issuer ratings for LG&E and KU and all of the ratings for LKE.

Ratings Triggers

LKE and its subsidiaries have various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity, fuel, commodity transportation and storage and interest rate instruments, which contain provisions requiring LKE and its subsidiaries to post additional collateral, or permitting the counterparty to terminate the contract, if LKE's or its subsidiaries' credit ratings were to fall below investment grade. See Note 14 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at September 30, 2011. At September 30, 2011, if LKE's or its subsidiaries' credit ratings had been below investment grade, the maximum amount that LKE would have been required to post as additional collateral to counterparties was $92 million for both derivative and non-derivative commodity and commodity-related contracts used in its generation, gas supply, marketing and trading operations and interest rate contracts.

Capital Expenditures

The table below shows LKE's capital expenditure projections at September 30, 2011.

	Projected				
	2011	2012	2013	2014	2015
Construction expenditures (a)					
Generating facilities	$ 137	$ 128	$ 155	$ 158	$ 126
Transmission and distribution facilities	219	266	303	289	294
Environmental (b)	163	711	1,140	1,065	824
Other	26	52	48	42	67
Total Construction Expenditures	$ 545	$ 1,157	$ 1,646	$ 1,554	$ 1,311

(a) Construction expenditures include AFUDC, which is not expected to be significant for the years 2011 through 2015.
(b) Includes approximately $700 million of currently estimable costs related to replacement generation units due to EPA regulations not recoverable through the ECR mechanism. LKE expects to recover these costs over a period equivalent to the related depreciable lives of the assets through base rates established by future rate cases.

LKE's capital expenditure projections for the years 2011 through 2015 total approximately $6.2 billion. Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. This table includes current estimates for LKE's environmental projects related to new and anticipated EPA compliance standards. Actual costs may be significantly lower or higher depending on the final requirements. Certain environmental compliance costs incurred by LG&E and KU in serving KPSC jurisdictional customers are generally eligible for recovery through the ECR mechanism.

For additional information, see "Liquidity and Capital Resources" in LKE's 2011 Registration Statement.

Risk Management

Market Risk

See Notes 13 and 14 to the Financial Statements for information about LKE's risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of possible losses under normal market conditions at a given confidence level.

Commodity Price Risk

LG&E's and KU's rates are set by regulatory commissions and the fuel costs incurred are directly recoverable from customers. As a result, LG&E and KU are subject to commodity price risk for only a small portion of on-going business operations. LKE conducts energy trading and risk management activities to maximize the value of the physical assets at times when the assets are not required to serve LG&E's and KU's customers, and LKE manages energy commodity risk using derivative instruments, including swaps and forward contracts.

The balances and changes in the net fair value of LKE's commodity derivative contracts for the three and nine months ended September 30, 2011 and 2010 were not significant. See Note 14 to the Financial Statements for additional information.

Interest Rate Risk

LKE and its subsidiaries have issued debt to finance their operations, which exposes them to interest rate risk. LKE utilizes various financial derivative instruments to adjust the mix of fixed and floating interest rates in its debt portfolio when appropriate. Risk limits under PPL's risk management program are designed to balance risk, exposure to volatility in interest expense and changes in the fair value of LKE's debt portfolio due to changes in the absolute level of interest rates.

At September 30, 2011, LKE's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

LKE is also exposed to changes in the fair value of its debt portfolio. LKE estimated that a 10% decrease in interest rates at September 30, 2011, would increase the fair value of its debt portfolio by $121 million.

At September 30, 2011, LKE had the following interest rate hedges outstanding:

	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates
Economic hedges			
Interest rate swaps (b)	$ 179	$ (58)	$ (4)

(a) Includes accrued interest.
(b) LKE utilizes various risk management instruments to reduce its exposure to the expected future cash flow variability of its debt instruments. These risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financing. While LKE is exposed to changes in the fair value of these instruments, any changes in the fair value of such economic hedges are recorded in regulatory assets and liabilities. The changes in fair value of these instruments are then reclassified into earnings in the same period during which the item being hedged affects earnings. Sensitivities represent a 10% adverse movement in interest rates.

Credit Risk

LKE is exposed to potential losses as a result of nonperformance by counterparties of their contractual obligations. LKE maintains credit policies and procedures to limit counterparty credit risk including evaluating credit ratings and financial information along with having certain counterparties post margin if the credit exposure exceeds certain thresholds. LKE is exposed to potential losses as a result of nonpayment by customers. LKE maintains an allowance for doubtful accounts primarily composed of accounts aged more than four months. Accounts are written off as management determines them uncollectible.

Certain of LKE's derivative instruments contain provisions that require it to provide immediate and on-going collateralization of derivative instruments in net liability positions based upon LKE's credit ratings from each of the major credit rating agencies. See Notes 13 and 14 to the Financial Statements for information regarding exposure and the risk management activities.

Related Party Transactions

LKE is not aware of any material ownership interest or operating responsibility by senior management of LKE, LG&E or KU in outside partnerships, including leasing transactions with variable interest entities or other entities doing business with LKE. See Note 11 to the Financial Statements for additional information on related party transactions between LKE and its affiliates.

Environmental Matters

Protection of the environment is a major priority for LKE and a significant element of its business activities. Extensive federal, state and local environmental laws and regulations are applicable to LKE'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 but could be material. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed from prior versions by the relevant agencies. Costs may take the form of increased capital or operating and maintenance expenses; monetary fines, penalties or forfeitures; or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers, industrial power users, etc. and may impact the costs for their products or their demand for LKE's services. See "Business - Environmental Matters" in LKE's 2011 Registration Statement and Note 10 to the Financial Statements for a discussion of environmental matters.

New Accounting Guidance

See Note 18 to the Financial Statements for a discussion of new accounting guidance pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations and require estimates or other judgments of matters inherently uncertain: price risk management, regulatory mechanisms, defined benefits, asset impairment, loss accruals, AROs, income taxes, regulatory assets and liabilities and business combinations - purchase price allocation. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" in LKE's 2011 Registration Statement for a discussion of each critical accounting policy.

LOUISVILLE GAS AND ELECTRIC COMPANY

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following information should be read in conjunction with LG&E's Condensed Financial Statements and the accompanying Notes and LG&E's 2011 Registration Statement. Capitalized terms and abbreviations are explained in the glossary. Dollars are in millions, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides an overview of LG&E's business strategy, financial and operational highlights and key regulatory matters.
- "Results of Operations" provides a summary of LG&E's earnings and a description of key factors that are expected to impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of significant changes in principal items on LG&E's Statements of Income, comparing the three and nine months ended September 30, 2011 with the same periods in 2010.
- "Financial Condition - Liquidity and Capital Resources" provides an analysis of LG&E's liquidity position and credit profile. This section also includes a discussion of rating agency decisions and capital expenditure projections.
- "Financial Condition - Risk Management" provides an explanation of LG&E's risk management programs relating to market and credit risk.

Overview

Introduction

LG&E, headquartered in Louisville, Kentucky, is a regulated utility engaged in the generation, transmission, distribution and sale of electricity and the distribution and sale of natural gas in Kentucky.

Successor and Predecessor Financial Presentation

LG&E's Condensed Financial Statements and related financial and operating data include the periods before and after PPL's acquisition of LKE on November 1, 2010, and have been segregated to present pre-acquisition activity as the Predecessor and post-acquisition activity as the Successor. Predecessor activity covers the time period prior to November 1, 2010. Successor activity covers the time period after October 31, 2010. Certain accounting and presentation methods were changed to acceptable alternatives to conform to PPL's accounting policies, which are discussed in the Financial Statements in LG&E's 2011 Registration Statement. The cost basis of certain assets and liabilities were changed as of November 1, 2010, as a result of the application of push-down accounting. Consequently, the financial position, results of operations and cash flows for the Successor periods are not comparable to the Predecessor periods; however, the core operations of LG&E have not changed as a result of the acquisition.

Business Strategy

LG&E's overall strategy is to provide reliable, safe and competitively priced energy to its customers.

Financial and Operational Highlights

Net Income

The three and nine months ended September 30, 2011, includes the effect of LG&E's base rate increase, which became effective August 1, 2010, partially offset by net cost increases, which have not yet been reflected in the rates charged by LG&E. The three and nine months ended September 30, 2010, also included $29 million and $19 million of other income associated with the establishment of regulatory assets for previously recorded losses on interest rate swaps.

See "Results of Operations" below for further discussion and analysis of the results of operations.

TC2 Construction

LG&E and KU constructed a 760 MW capacity baseload, coal-fired unit, TC2, which is jointly owned by LG&E (14.25%) and KU (60.75%), together with the Illinois Municipal Electric Agency and the Indiana Municipal Power Agency (combined 25%). With limited exceptions, LG&E and KU took care, custody and control of TC2 in January 2011. LG&E and KU and the contractor have agreed to certain amendments to the construction agreement whereby the contractor will complete certain actions relating to identifying and completing any necessary modifications to allow operation of TC2 on all fuels in accordance with initial specifications prior to certain dates, and amending the provisions relating to liquidated damages. A number of remaining issues regarding these matters are still under discussion with the contractors. See Note 10 to the Financial Statements for additional information.

Registered Debt Exchange Offer by LG&E

In April 2011, LG&E filed a Registration Statement with the SEC, related to an offer to exchange certain first mortgage bonds issued in November 2010, in transactions not subject to registration under the Securities Act of 1933, with similar but registered securities. The 2011 Registration Statement became effective in June 2011, and the exchange was completed in July 2011 with all of the first mortgage bonds being exchanged. See Note 7 to the Financial Statements and LG&E's 2011 Registration Statement for additional information.

Legal and Regulatory Matters

Federal

CSAPR

In July 2011, the EPA signed the CSAPR which finalizes and renames the Clean Air Transport Rule (Transport Rule) proposed in August 2010. This rule applies to the Kentucky plants. The CSAPR is meant to facilitate attainment of ambient air quality standards for ozone and fine particulates by requiring reductions in sulfur dioxide and nitrogen oxide emissions. In October 2011, the EPA proposed technical adjustments to the CSAPR to account for updated data submitted to the agency. Several states and a number of companies have filed petitions for review with the U.S. Court of Appeals for the District of Columbia Circuit challenging various provisions of the CSAPR. LG&E's initial review of the allocations under the CSAPR indicates that greater reductions in sulfur dioxide emissions will be required beginning in 2012 under the CSAPR than were required under the CAIR.

For the initial phase of the rule beginning in 2012, sulfur dioxide allowance allocations are expected to be greater than the forecasted emissions based on present operations of existing scrubbers and coal supply. However, for the second phase beginning in 2014, LG&E will likely have to modify operations and dispatch of its generating fleet, including upgrades or installation of new sulfur dioxide scrubbers for certain generating units or retirement of certain other units.

With respect to nitrogen oxide emissions, the CSAPR provides a slightly lower amount of allowances compared to those under the CAIR. With uncertainty surrounding the trading program, other compliance options are being analyzed for the Kentucky plants, such as the installation of new technology or modifications of plant operations as well as the retirement and replacement of certain coal-fired generating units. LG&E is seeking recovery of its expected costs to comply with the CSAPR and certain other EPA requirements through the ECR plan filed with the KPSC in June 2011.

Additionally, LG&E's plants may face further reductions in sulfur dioxide and nitrogen oxide emissions as a result of more stringent national ambient air quality standards for ozone, nitrogen oxide, sulfur dioxide and/or fine particulates. LG&E anticipates that some of the measures required for compliance with the CSAPR such as upgraded or new sulfur dioxide scrubbers at some of its plants and retirement of certain units may also be necessary to achieve compliance with the new sulfur dioxide standard. If additional reductions were to be required, the economic impact to LG&E could be significant. See Notes 6 and 10 to the Financial Statements for additional information on the CSAPR and the regulatory proceeding.

Kentucky

CPCN Filing

In September 2011, LG&E and KU filed a CPCN with the KPSC requesting approval to build a 640 MW NGCC at the existing Cane Run station site. LG&E and KU also requested approval to purchase three additional natural gas combustion turbines from Bluegrass Generation Company, L.L.C. (Bluegrass Plant) that are expected to provide up to 495 MW of peak generation supply. LG&E and KU anticipate that the NGCC construction and Bluegrass Plant acquisition could require up to $800 million (comprised of up to $300 million for LG&E and up to $500 million for KU) in capital costs including related transmission projects. Formal requests for recovery of the costs associated with the NGCC and Bluegrass Plant acquisition were not included in the CPCN filing with the KPSC but are expected to be included in a future base rate case filing. A KPSC order on the CPCN filing is anticipated in the second quarter of 2012. The KPSC issued an Order on the procedural schedule in the CPCN filing that has discovery, but no hearing, scheduled through early February 2012. See Note 6 to the Financial Statements for additional information.

ECR Filing - Environmental Upgrades

In June 2011, in order to achieve compliance with new and pending mandated federal EPA regulations, LG&E filed an ECR plan with the KPSC requesting approval to install environmental upgrades for certain of its coal-fired plants along with the recovery of the expected $1.4 billion in associated capital costs as well as operating expenses as incurred. The ECR plan included upgrades that will be made to certain of LG&E's coal-fired generating stations to continue to be compliant with EPA regulations. See Notes 6 and 10 to the Financial Statements for additional information.

Results of Operations

As previously noted, LG&E's results for the three and nine months ended September 30, 2011 are on a basis of accounting different from its results for the three and nine months ended September 30, 2010. When discussing LG&E's results of operations for 2011 compared with 2010 material differences resulting from the different bases of accounting will be isolated for purposes of comparability. See "Overview - Successor and Predecessor Financial Presentation" for further information.

The results for interim periods can be disproportionately influenced by various factors and developments and by seasonal variations. As such, the results of operations for interim periods do not necessarily indicate results or trends for the year or for future periods. Due to weather, revenue and earnings are generally highest during the first and third quarters and lowest during the second quarter.

Earnings

Net Income for the periods ended September 30 was:

	Three Months			Nine Months		
	2011 Successor	2010 Predecessor	% Change	2011 Successor	2010 Predecessor	% Change
Operating Revenues	$ 340	$ 327	4	$ 1,035	$ 972	6
Fuel	98	104	(6)	265	277	(4)
Energy purchases	31	23	35	180	146	23
Other operation and maintenance	91	85	7	272	250	9
Depreciation	37	35	6	110	104	6
Taxes, other than income	5	3	67	14	11	27
Total Operating Expenses	262	250	5	841	788	7
Other Income (Expense) - net		29	(100)		17	(100)
Interest Expense	11	11		34	34	
Income Taxes	24	35	(31)	58	60	(3)
Net Income	$ 43	$ 60	(28)	$ 102	$ 107	(5)

The changes in the components of Net Income for the periods ended September 30, 2011 and 2010 were due to the following factors as provided in the table below.

	Three Months	Nine Months
Margin	$ 7	$ 39
Other operation and maintenance	(4)	(16)
Depreciation	(2)	(10)
Taxes, other than income	(2)	(3)
Other Income (Expense) - net	(29)	(17)
Income Taxes	13	2
Total	$ (17)	$ (5)

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of margins.

- Higher other operation and maintenance expense resulted from higher distribution maintenance costs of $2 million and $8 million for the three and nine-month periods due to amortization of storm restoration related costs, together with a hazardous tree removal project initiated in August 2010.

- Higher other expense - net was primarily due to $29 million and $19 million of other income for the three and nine months ended September 30, 2010, the result of previously recorded losses on interest rate swaps being reclassified as regulatory assets during the three-month period ended September 30, 2010.

- Lower pre-tax income resulted in lower income taxes of $11 million and $3 million for the three and nine-month periods.

Outlook

LG&E expects higher retail revenues and lower financing costs in 2011 compared to 2010 due to the issuance in late 2010 of first mortgage bonds that LG&E used to repay higher cost debt, offset by lower other income and higher depreciation. Retail revenues are expected to increase as a result of the Kentucky rate case. The reduction in other income (expense) - net is the result of the recognition of regulatory assets associated with the interest rate swaps in 2010 while higher depreciation is projected due to commencing dispatch of TC2 in January 2011 to serve customer demand.

Earnings in 2011 are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, Notes 6 and 10 to the Financial Statements in this Form 10-Q and "Business," and "Risk Factors" in LG&E's 2011 Registration Statement for a discussion of the risks, uncertainties and factors that may impact future earnings.

Statement of Income Analysis --

Margin

Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Margin." Margin is not intended to replace "Operating Income," which is determined in accordance with GAAP as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. Margin is a single financial performance measure of LG&E's operations. In calculating this measure, utility revenues and expenses associated with approved cost recovery tracking mechanisms are offset. These mechanisms allow for recovery of certain expenses, returns on capital investments associated with environmental regulations and performance incentives. Certain costs associated with these mechanisms, primarily ECR and DSM, are recorded as "Other operation and maintenance" expenses and the depreciation associated with ECR equipment is recorded as "Depreciation" expense. As a result, this measure represents the net revenues from LG&E's operations. LG&E believes that Margin provides another criterion to make investment decisions. This performance measure is used, in conjunction with other information, internally by senior management to manage operations and analyze actual results compared to budget.

Reconciliation of Non-GAAP Financial Measures

The following tables reconcile "Operating Income" to "Margin" as defined by LG&E for the periods ended September 30.

	2011 Three Months - Successor			2010 Three Months - Predecessor		
	Margin	Other (a)	Operating Income (b)	Margin	Other (a)	Operating Income (b)
Operating Revenues	$ 339	$ 1	$ 340	$ 328	$ (1)	$ 327
Operating Expenses						
Fuel	98		98	104		104
Energy purchases	31		31	23		23
Other operation and maintenance	10	81	91	8	77	85
Depreciation	1	36	37	1	34	35
Taxes, other than income		5	5		3	3
Total Operating Expenses	140	122	262	136	114	250
Total	$ 199	$ (121)	$ 78	$ 192	$ (115)	$ 77

	2011 Nine Months - Successor						2010 Nine Months - Predecessor					
	Margin		Other (a)		Operating Income (b)		Margin		Other (a)		Operating Income (b)	
Operating Revenues	$	1,034	$	1	$	1,035	$	971	$	1	$	972
Operating Expenses												
Fuel		265				265		277				277
Energy purchases		180				180		146				146
Other operation and maintenance		30		242		272		24		226		250
Depreciation		2		108		110		6		98		104
Taxes, other than income				14		14				11		11
Total Operating Expenses		477		364		841		453		335		788
Total	$	557	$	(363)	$	194	$	518	$	(334)	$	184

(a) Represents amounts that are excluded from Margin.
(b) As reported on the Statements of Income.

Changes in Non-GAAP Financial Measures

Margins were higher by $7 million and $39 million during the three and nine months ended September 30, 2011, compared with the same periods in 2010. The positive impact mainly resulted from a rate increase, which became effective in August 2010.

Other Operation and Maintenance

Changes in other operation and maintenance expense for the periods ended September 30, 2011, compared with the same periods in 2010, were due to the following.

	Three Months		Nine Months	
Distribution maintenance (a)	$	2	$	8
Administrative and general				5
Fuel for generation (b)		2		5
Other		2		4
Total	$	6	$	22

(a) The three and nine-month periods increased due to amortization of storm restoration-related costs along with a hazardous tree removal project initiated in August 2010.
(b) Fuel handling costs are included in fuel for electric generation on the Statements of Income for the three and nine months ended September 30, 2010, and are in other operation and maintenance expense on the Statements of Income for the three and nine months ended September 30, 2011.

Depreciation

Depreciation increased by $2 million and $6 million for the three and nine months ended September 30, 2011, compared with the same periods in 2010. The increase was primarily due to commencing dispatch of TC2 to serve customer demands beginning in January 2011.

Other Income (Expense) - net

Changes in other income (expense) - net for the periods ended September 30, 2011, compared with the same periods in 2010, were due to the following:

	Three Months		Nine Months	
Other income included in the periods ending September 30, 2010, resulted from the establishment of regulatory assets for previously recorded losses on interest rate swaps	$	(29)	$	(19)
Other				2
Total	$	(29)	$	(17)

Income Taxes

Changes in income taxes for the periods ended September 30, 2011, compared with the same periods in 2010, were due to the following:

	Three Months		Nine Months	
Lower pre-tax book income	$	(11)	$	(3)
Other				1
Total	$	(11)	$	(2)

Financial Condition

Liquidity and Capital Resources

LG&E had the following at:

	September 30, 2011		December 31, 2010	
Cash and cash equivalents	$	75	$	2
Short-term investments (a)				163
	$	75	$	165
Short-term debt (b)			$	163

(a) Represents tax-exempt bonds issued by Louisville/Jefferson County, Kentucky, on behalf of LG&E that were purchased from the remarketing agent in 2008. Such bonds were remarketed to unaffiliated investors in January 2011. See Note 17 to the Financial Statements for additional information.
(b) Represents borrowings under LG&E's $400 million syndicated credit facility. See Note 7 to the Financial Statements for additional information.

The $73 million increase in LG&E's cash and cash equivalents position was primarily the net result of:

- cash provided by operating activities of $274 million;
- capital expenditures of $122 million; and
- the payment of $55 million of common stock dividends.

LG&E's cash provided by operating activities increased by $112 million for the nine months ended September 30, 2011, compared with the same period in 2010, primarily due to:

- a decrease in net income of $5 million adjusted for non-cash effects of $31 million (depreciation of $6 million, defined benefit plans - expense of $7 million, deferred income taxes and investment tax credits of $8 million, the recording of a regulatory asset for previously recorded losses on interest rate swaps of $22 million and other noncash items of $2 million, partially offset by unrealized (gains) losses on derivatives of $14 million);
- a net decrease in working capital from accounts receivable, accounts payable and unbilled revenue of $38 million due to the timing of cash receipts and payments, an increase in base rates effective August 2010, colder weather (more heating degree days) in December 2010 as compared with December 2009, and milder weather (fewer cooling degree days) in September 2011 as compared with September 2010;
- a decrease in fuel of $27 million, which was driven by higher volumes purchased in 2010 in preparation for the commercial operation of TC2 originally expected in mid-2010; and
- a decrease in cash refunded to customers of $26 million due to prior period over recoveries related to the gas supply clause filings in 2009; partially offset by
- an increase in discretionary defined benefit plan contributions of $44 million made in order to achieve LG&E's long-term funding requirements.

Credit Facilities

At September 30, 2011, LG&E's committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	Capacity		Borrowed	Letters of Credit Issued	Unused Capacity	
Syndicated Credit Facility (a) (b)	$	400			$	400

(a) In June 2011, LG&E amended its Syndicated Credit Facility such that the fees and the spread to benchmark interest rates for borrowings depend upon LG&E's senior secured long-term debt rating rather than the senior unsecured debt rating. Total borrowings outstanding under this facility decreased on a net basis by $163 million since December 31, 2010.

(b) In October 2011, LG&E amended its Syndicated Credit Facility. The amendment included extending the expiration date from December 2014 to October 2016. Under this facility LG&E continues to have the ability to make cash borrowings and to request the lenders to issue letters of credit.

The commitments under LG&E's Syndicated Credit Facility are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 6% of the total committed capacity available to LG&E.

LG&E participates in an intercompany money pool agreement whereby LKE and/or KU make available to LG&E funds up to $400 million at market-based rates (based on highly rated commercial paper issues). At September 30, 2011, there was no balance outstanding. At December 31, 2010, $12 million was outstanding. The interest rate for the period ended December 31, 2010 was 0.25%.

See Note 7 to the Financial Statements for further discussion of LG&E's credit facilities.

Long-term Debt Securities

In January 2011, LG&E remarketed $163 million of variable rate tax-exempt revenue bonds, which were issued on its behalf by Louisville/Jefferson County, Kentucky to unaffiliated investors in a term rate mode, bearing interest at 1.90% into 2012. The proceeds from the remarketing were used to repay a $163 million borrowing under LG&E's Syndicated Credit Facility.

At September 30, 2011, LG&E's tax-exempt revenue bonds that are in the form of auction rate securities and total $135 million continue to experience failed auctions. Therefore, the interest rate continues to be set by a formula pursuant to the relevant indentures. For the nine months ended September 30, 2011, the weighted-average rate on LG&E's auction rate bonds in total was 0.26%.

Since June 30, 2011, there have been $535 million of issuances and $535 million of retirements of LG&E's First Mortgage Bonds related to the non-cash exchange of bonds. In April 2011, LG&E filed a 2011 Registration Statement with the SEC related to offers to exchange securities issued in November 2010 in transactions not registered under the Securities Act of 1933 with similar but registered securities. The 2011 Registration Statement became effective in June 2011 and the exchanges were completed in July 2011, with all securities being exchanged.

See Note 7 to the Financial Statements for additional information about long-term debt securities.

Rating Agency Decisions

Moody's, S&P and Fitch periodically review the credit ratings on the debt securities of LG&E. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of LG&E are based on information provided by LG&E and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of LG&E. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. A downgrade in LG&E's credit ratings could result in higher borrowing costs and reduced access to capital markets.

In LG&E's 2011 Registration Statement, LG&E described its then-current credit ratings in connection with, and to facilitate, an understanding of its liquidity position. As a result of the passage of the Dodd-Frank Act and the attendant uncertainties relating to the extent to which issuers of non-asset backed securities may disclose credit ratings without being required to obtain rating agency consent to the inclusion of such disclosure, or incorporation by reference of such disclosure, in a registrant's registration statement or section 10(a) prospectus, LG&E is limiting its credit rating disclosure to a description of the actions taken by the rating agencies with respect to LG&E's ratings, but without stating what ratings have been assigned to LG&E's securities. The ratings assigned by the rating agencies to LG&E and its securities may be found, without charge, on each of the respective ratings agencies' websites, which ratings together with all other information contained on such rating agency websites is, hereby, explicitly not incorporated by reference in this report.

Following the announcement of PPL's then-pending acquisition of WPD Midlands in March 2011, the rating agencies took the following actions:

- Moody's affirmed the ratings for LG&E;
- S&P revised the outlook for LG&E and lowered the issuer, senior secured and short-term ratings of LG&E; and
- Fitch affirmed the ratings for LG&E.

In April 2011, S&P took the following actions following the completion of PPL's acquisition of WPD Midlands:

- revised the outlook for LG&E;
- raised the short-term ratings of LG&E; and
- affirmed the long-term ratings for LG&E.

In September 2011, Moody's affirmed the issuer rating for LG&E.

Ratings Triggers

LG&E has various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity, fuel, commodity transportation and storage and interest rate instruments, which contain provisions requiring LG&E to post additional collateral, or permitting the counterparty to terminate the contract, if LG&E's credit rating were to fall below investment grade. See Note 14 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at September 30, 2011. At September 30, 2011, if LG&E's credit ratings had been below investment grade, the maximum amount that LG&E would have been required to post as additional collateral to counterparties was $79 million for both derivative and non-derivative commodity and commodity-related contracts used in its generation, gas supply, marketing and trading operations and interest rate contracts.

Capital Expenditures

The table below shows LG&E's capital expenditure projections at September 30, 2011.

	Projected				
	2011	2012	2013	2014	2015
Construction expenditures					
Generating facilities	$ 71	$ 56	$ 95	$ 97	$ 47
Transmission and distribution facilities	114	147	153	146	155
Environmental (a)	24	271	586	501	396
Other	6	26	25	21	34
Total Construction Expenditures	$ 215	$ 500	$ 859	$ 765	$ 632

(a) Includes approximately $200 million of currently estimable costs related to replacement generation units due to EPA regulations not recoverable through the ECR mechanism. LG&E expects to recover these costs over a period equivalent to the related depreciable lives of the assets through base rates established by future rate cases.

LG&E's capital expenditure projections for the years 2011 through 2015 total approximately $3 billion. Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. This table includes current estimates for LG&E's environmental projects related to new and anticipated EPA compliance standards. Actual costs may be significantly lower or higher depending on the final requirements. Certain environmental compliance costs incurred by LG&E in serving KPSC jurisdictional customers are generally eligible for recovery through the ECR mechanism.

For additional information, see "Liquidity and Capital Resources" in LG&E's 2011 Registration Statement.

Risk Management

Market Risk

See Notes 13 and 14 to the Financial Statements for information about LG&E's risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of possible losses under normal market conditions at a given confidence level.

Commodity Price Risk

LG&E's rates are set by regulatory commissions and the fuel costs incurred are directly recoverable from customers. As a result, LG&E is subject to commodity price risk for only a small portion of on-going business operations. LG&E conducts energy trading and risk management activities to maximize the value of the physical assets at times when the assets are not required to serve its customers, and LG&E manages energy commodity risk using derivative instruments, including swaps and forward contracts.

The balances and changes in the net fair value of LG&E's commodity derivative contracts for the three and nine months ended September 30, 2011 and 2010 were not significant. See Note 14 to the Financial Statements for additional information.

Interest Rate Risk

LG&E has issued debt to finance its operations, which exposes it to interest rate risk. LG&E utilizes various financial derivative instruments to adjust the mix of fixed and floating interest rates in its debt portfolio when appropriate. Risk limits under PPL's risk management program are designed to balance risk, exposure to volatility in interest expense and changes in the fair value of LG&E's debt portfolio due to changes in the absolute level of interest rates.

At September 30, 2011, LG&E's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant.

LG&E is also exposed to changes in the fair value of its debt portfolio. LG&E estimated that a 10% decrease in interest rates at September 30, 2011, would increase the fair value of its debt portfolio by $27 million.

At September 30, 2011, LG&E had the following interest rate hedges outstanding:

	Exposure Hedged	Fair Value, Net - Asset (Liability) (a)	Effect of a 10% Adverse Movement in Rates
Economic hedges			
Interest rate swaps (b)	$ 179	$ (58)	$ (4)

(a) Includes accrued interest.
(b) LG&E utilizes various risk management instruments to reduce its exposure to the expected future cash flow variability of its debt instruments. These risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financing. While LG&E is exposed to changes in the fair value of these instruments, any changes in the fair value of such economic hedges are recorded in regulatory assets and liabilities. The changes in fair value of these instruments are then reclassified into earnings in the same period during which the item being hedged affects earnings. Sensitivities represent a 10% adverse movement in interest rates.

Credit Risk

LG&E is exposed to potential losses as a result of nonperformance by counterparties of their contractual obligations. LG&E maintains credit policies and procedures to limit counterparty credit risk including evaluating credit ratings and financial information along with having certain counterparties post margin if the credit exposure exceeds certain thresholds.
LG&E is exposed to potential losses as a result of nonpayment by customers. LG&E maintains an allowance for doubtful accounts primarily composed of accounts aged more than four months. Accounts are written off as management determines them uncollectible.

Certain of LG&E's derivative instruments contain provisions that require it to provide immediate and on-going collateralization of derivative instruments in net liability positions based upon LG&E's credit ratings from each of the major credit rating agencies. See Notes 13 and 14 to the Financial Statements for information regarding exposure and the risk management activities.

Related Party Transactions

LG&E is not aware of any material ownership interest or operating responsibility by senior management in outside partnerships, including leasing transactions with variable interest entities or other entities doing business with LG&E. See Note 11 to the Financial Statements for additional information on related party transactions between LG&E and its affiliates.

Environmental Matters

Protection of the environment is a major priority for LG&E and a significant element of its business activities. Extensive federal, state and local environmental laws and regulations are applicable to LG&E'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 but could be material. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed from prior versions by the relevant agencies. Costs may take the form of increased capital or operating and maintenance expenses; monetary fines, penalties or forfeitures; or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers, industrial power users, etc. and may impact the costs for their products or their demand for LG&E's services. See "Business - Environmental Matters" in LG&E's 2011 Registration Statement and Note 10 to the Financial Statements for a discussion of environmental matters.

New Accounting Guidance

See Note 18 to the Financial Statements for a discussion of new accounting guidance pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations and require estimates or other judgments of matters inherently uncertain: price risk management, regulatory mechanisms, defined benefits, asset impairment, loss accruals, AROs, income taxes, regulatory assets and liabilities and business combinations - purchase price allocation. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" in LG&E's 2011 Registration Statement for a discussion of each critical accounting policy.

KENTUCKY UTILITIES COMPANY

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following information should be read in conjunction with KU's Condensed Financial Statements and the accompanying Notes and KU's 2011 Registration Statement. Capitalized terms and abbreviations are explained in the glossary. Dollars are in millions, unless otherwise noted.

"Management's Discussion and Analysis of Financial Condition and Results of Operations" includes the following information:

- "Overview" provides an overview of KU's business strategy, financial and operational highlights and key regulatory matters.
- "Results of Operations" provides a summary of KU's earnings and a description of key factors that are expected to impact future earnings. This section ends with "Statement of Income Analysis," which includes explanations of significant changes in principal items on KU's Statements of Income, comparing the three and nine months ended September 30, 2011 with the same periods in 2010.
- "Financial Condition - Liquidity and Capital Resources" provides an analysis of KU's liquidity position and credit profile. This section also includes a discussion of rating agency decisions and capital expenditure projections.
- "Financial Condition - Risk Management" provides an explanation of KU's risk management programs relating to market and credit risk.

Overview

Introduction

KU, headquartered in Lexington, Kentucky, is a regulated utility engaged in the generation, transmission, distribution and sale of electricity, in Kentucky, Virginia and Tennessee.

Successor and Predecessor Financial Presentation

KU's Condensed Financial Statements and related financial and operating data include the periods before and after PPL's acquisition of LKE on November 1, 2010, and have been segregated to present pre-acquisition activity as the Predecessor and post-acquisition activity as the Successor. Predecessor activity covers the time period prior to November 1, 2010. Successor activity covers the time period after October 31, 2010. Certain accounting and presentation methods were changed to acceptable alternatives to conform to PPL's accounting policies, which are discussed in the Financial Statements in KU's 2011 Registration Statement. The cost basis of certain assets and liabilities were changed as of November 1, 2010, as a result of the application of push-down accounting. Consequently, the financial position, results of operations and cash flows for the Successor periods are not comparable to the Predecessor periods; however, the core operations of KU have not changed as a result of the acquisition.

Business Strategy

KU's overall strategy is to provide reliable, safe and competitively priced energy to its customers.

Financial and Operational Highlights

Net Income

The three and nine months ended September 30, 2011, includes the effect of KU's base rate increase, which became effective August 1, 2010, partially offset by net cost increases, which have not yet been reflected in the rates charged by KU.

See "Results of Operations" below for further discussion and analysis of the results of operations.

TC2 Construction

KU and LG&E constructed a 760 MW capacity baseload, coal-fired unit, TC2, which is jointly owned by KU (60.75%) and LG&E (14.25%), together with the Illinois Municipal Electric Agency and the Indiana Municipal Power Agency (combined 25%). With limited exceptions, KU and LG&E took care, custody and control of TC2 in January 2011. KU and LG&E and the contractor have agreed to certain amendments to the construction agreement whereby the contractor will complete certain actions relating to identifying and completing any necessary modifications to allow operation of TC2 on all fuels in accordance with initial specifications prior to certain dates, and amending the provisions relating to liquidated damages. A number of remaining issues regarding these matters are still under discussion with the contractors. See Note 10 to the Financial Statements for additional information.

Registered Debt Exchange Offer by KU

In April 2011, KU filed a Registration Statement with the SEC, related to an offer to exchange certain first mortgage bonds issued in November 2010, in transactions not subject to registration under the Securities Act of 1933, with similar but registered securities. The 2011 Registration Statement became effective in June 2011, and the exchange was completed in July 2011 with substantially all of the first mortgage bonds being exchanged. See Note 7 to the Financial Statements and KU's 2011 Registration Statement for additional information.

Legal and Regulatory Matters

Federal

CSAPR

In July 2011, the EPA signed the CSAPR which finalizes and renames the Clean Air Transport Rule (Transport Rule) proposed in August 2010. This rule applies to the Kentucky plants. The CSAPR is meant to facilitate attainment of ambient air quality standards for ozone and fine particulates by requiring reductions in sulfur dioxide and nitrogen oxide emissions. In October 2011, the EPA proposed technical adjustments to the CSAPR to account for updated data submitted to the agency. Several states and a number of companies have filed petitions for review with the U.S. Court of Appeals for the District of Columbia Circuit challenging various provisions of the CSAPR. KU's initial review of the allocations under the CSAPR indicates that greater reductions in sulfur dioxide emissions will be required beginning in 2012 under the CSAPR than were required under the CAIR.

For the initial phase of the rule beginning in 2012, sulfur dioxide allowance allocations are expected to greater than the forecasted emissions based on present operations of existing scrubbers and coal supply. However, for the second phase beginning in 2014, KU will likely have to modify operations and dispatch of its generating fleet, including upgrades or installation of new sulfur dioxide scrubbers for certain generating units or retirement of certain other units.

With respect to nitrogen oxide emissions, the CSAPR provides a slightly lower amount of allowances compared to those under the CAIR. With uncertainty surrounding the trading program, other compliance options are being analyzed for KU's fleet, such as the installation of new technology or modifications of plant operations as well as the retirement and replacement of certain coal-fired generating units. KU is seeking recovery of its expected costs to comply with the CSAPR and certain other EPA requirements through the ECR plan filed with the KPSC in June 2011.

Additionally, KU's plants may face further reductions in sulfur dioxide and nitrogen oxide emissions as a result of more stringent national ambient air quality standards for ozone, nitrogen oxide, sulfur dioxide and/or fine particulates. KU anticipates that some of the measures required for compliance with the CSAPR such as upgraded or new sulfur dioxide scrubbers at some of its plants and retirement of certain units may also be necessary to achieve compliance with the new sulfur dioxide standard. If additional reductions were to be required, the economic impact to KU could be significant. See Notes 6 and 10 to the Financial Statements for additional information on the CSAPR and the regulatory proceeding.

Kentucky and Virginia

CPCN Filing

In September 2011, KU and LG&E filed a CPCN with the KPSC requesting approval to build a 640 MW NGCC at the existing Cane Run station site. KU and LG&E also requested approval to purchase three additional natural gas combustion turbines from Bluegrass Generation Company, L.L.C. (Bluegrass Plant) that are expected to provide up to 495 MW of peak generation supply. KU and LG&E anticipate that the NGCC construction and Bluegrass Plant acquisition could require up to $800 million (comprised of up to $500 million for KU and up to $300 million for LG&E) in capital costs including related transmission projects. Formal requests for recovery of the costs associated with the NGCC and Bluegrass Plant acquisition were not included in the CPCN filing with the KPSC but are expected to be included in a future base rate case filing. The KPSC issued an Order on the procedural schedule in the CPCN filing that has discovery, but no hearing, scheduled through early February 2012. A KPSC order on the CPCN filing is anticipated in the second quarter of 2012. See Note 6 to the Financial Statements for additional information.

ECR Filing - Environmental Upgrades

In June 2011, in order to achieve compliance with new and pending mandated federal EPA regulations, KU filed an ECR plan with the KPSC requesting approval to install environmental upgrades for certain of its coal-fired plants along with the recovery of the expected $1.1 billion in associated capital costs as well as operating expenses as incurred. The ECR plan included upgrades that will be made to certain of KU's coal-fired generating stations to continue to be compliant with EPA regulations. See Notes 6 and 10 to the Financial Statements for additional information.

Virginia Rate Case

In April 2011, KU filed an application with the VSCC requesting an annual increase in electric base rates for its Virginia jurisdictional customers of $9 million, or 14%. The proposed increase reflected a rate of return on rate base of 8%, based on a return on equity of 11%, inclusive of expenditures to complete TC2, all new sulfur dioxide scrubbers, recovery over five years of a 2009 storm regulatory asset and various other adjustments to revenue and expenses for the test year ended December 31, 2010. In September 2011, a settlement stipulation was reached between KU and the VSCC Staff and filed with the VSCC for consideration. In October 2011, the VSCC approved the stipulation with two modifications that were accepted by KU. The VSCC issued an Order closing the proceeding in October 2011. The approved annual revenue increase is $7 million with new base rates effective November 1, 2011.

Results of Operations

As previously noted, KU's results for the three and nine months ended September 30, 2011 are on a basis of accounting different from its results for the three and nine months ended September 30, 2010. When discussing KU's results of operations for 2011 compared with 2010 material differences resulting from the different bases of accounting will be isolated for purposes of comparability. See "Overview - Successor and Predecessor Financial Presentation" for further information.

The results for interim periods can be disproportionately influenced by various factors and developments and by seasonal variations. As such, the results of operations for interim periods do not necessarily indicate results or trends for the year or for future periods. Due to weather, revenue and earnings are generally highest during the first and third quarters and lowest during the second quarter.

Earnings

Net Income for the periods ended September 30 was:

	Three Months			Nine Months		
	2011	2010	% Change	2011	2010	% Change
	Successor	Predecessor		Successor	Predecessor	
Operating Revenues	$ 420	$ 416	1	$ 1,191	$ 1,146	4
Fuel	147	146	1	401	391	3
Energy purchases	25	42	(40)	85	138	(38)
Other operation and maintenance	90	83	8	274	240	14
Depreciation	47	38	24	139	106	31
Taxes, other than income	5	2	150	14	8	75
Total Operating Expenses	314	311	1	913	883	3
Other Income (Expense) - net		1	(100)	1	2	(50)
Interest Expense	18	20	(10)	53	60	(12)
Income Taxes	32	32		82	76	8
Net Income	$ 56	$ 54	4	$ 144	$ 129	12

The changes in the components of Net Income for the periods ended September 30, 2011 and 2010 were due to the following factors as provided in the table below.

	Three Months	Nine Months
Margin	$ 13	$ 68
Other operation and maintenance	(3)	(23)
Depreciation	(7)	(24)
Taxes, other than income	(3)	(6)
Other Income (Expense) - net	(1)	(1)
Interest Expense	3	7
Income Taxes		(6)
Total	$ 2	$ 15

- See "Statement of Income Analysis - Margins - Changes in Non-GAAP Financial Measures" for an explanation of margins.

- Higher other operation and maintenance resulted from higher steam expenses of $4 million and $24 million for the three and nine-month periods, resulting from scheduled maintenance outages at the Ghent and Green River plants, along with higher variable expenses from increased generation.

- TC2 commenced dispatched in January 2011, resulting in a higher depreciation of $7 million and $19 million for the three and nine-month periods. In addition, the E.W. Brown sulfur dioxide scrubber was placed in-service in June 2010 resulting in a $7 million increase for the nine-month period.

- Higher pre-tax income resulted in higher income tax of $8 million for the nine-month period.

Outlook

KU expects higher retail revenues and lower financing costs in 2011 compared to 2010 due to the issuance in late 2010 of first mortgage bonds that KU used to repay higher cost debt, partially offset by higher depreciation. Retail revenues are expected to increase as a result of the Kentucky rate case and recoveries associated with environmental investments. Depreciation is expected to increase due to commencing dispatch of TC2 in January 2011 to serve customer demand.

Earnings in 2011 are subject to various risks and uncertainties. See "Forward-Looking Information," the rest of this Item 2, Notes 6 and 10 to the Financial Statements in this Form 10-Q and "Business," and "Risk Factors" in KU's 2011 Registration Statement for a discussion of the risks, uncertainties and factors that may impact future earnings.

Statement of Income Analysis --

Margin

Non-GAAP Financial Measure

The following discussion includes financial information prepared in accordance with GAAP, as well as a non-GAAP financial measure, "Margin." Margin is not intended to replace "Operating Income," which is determined in accordance with GAAP as an indicator of overall operating performance. Other companies may use different measures to analyze and to report on the results of their operations. Margin is a single financial performance measure of KU's operations. In calculating this measure, utility revenues and expenses associated with approved cost recovery tracking mechanisms are offset. These mechanisms allow for recovery of certain expenses, returns on capital investments associated with environmental regulations and performance incentives. Certain costs associated with these mechanisms, primarily ECR and DSM, are recorded as "Other operation and maintenance" expenses and the depreciation associated with ECR equipment is recorded as "Depreciation" expense. As a result, this measure represents the net revenues from KU's operations. KU believes that Margin provides another criterion to make investment decisions. This performance measure is used, in conjunction with other information, internally by senior management to manage operations and analyze actual results compared to budget.

Reconciliation of Non-GAAP Financial Measures

The following tables reconcile "Operating Income" to "Margin" as defined by KU for the periods ended September 30.

	2011 Three Months - Successor			2010 Three Months - Predecessor		
	Margin	Other (a)	Operating Income (b)	Margin	Other (a)	Operating Income (b)
Operating Revenues	$ 419	$ 1	$ 420	$ 416		$ 416
Operating Expenses						
Fuel	147		147	146		146
Energy purchases	25		25	42		42
Other operation and maintenance	14	76	90	10	$ 73	83
Depreciation	12	35	47	10	28	38
Taxes, other than income		5	5		2	2
Total Operating Expenses	198	116	314	208	103	311
Total	$ 221	$ (115)	$ 106	$ 208	$ (103)	$ 105

	2011 Nine Months - Successor			2010 Nine Months - Predecessor		
	Margin	Other (a)	Operating Income (b)	Margin	Other (a)	Operating Income (b)
Operating Revenues	$ 1,191		$ 1,191	$ 1,146		$ 1,146
Operating Expenses						
Fuel	401		401	391		391
Energy purchases	85		85	138		138
Other operation and maintenance	37	$ 237	274	26	$ 214	240
Depreciation	35	104	139	26	80	106
Taxes, other than income		14	14		8	8
Total Operating Expenses	558	355	913	581	302	883
Total	$ 633	$ (355)	$ 278	$ 565	$ (302)	$ 263

(a) Represents amounts that are excluded from Margin.
(b) As reported on the Statements of Income.

Changes in Non-GAAP Financial Measures

Margins were higher by $13 million and $68 million during the three and nine months ended September 30, 2011, compared with the same periods in 2010. The positive impact mainly resulted from a rate increase, which became effective in August 2010.

Other Operation and Maintenance

Changes in other operation and maintenance expense for the periods ended September 30, 2011, compared with the same periods in 2010, were due to the following:

	Three Months	Nine Months
Steam maintenance (a)	$ 1	$ 15
Steam operations (b)	3	9
Fuel for generation (c)	2	5
Administrative and general	3	6
Other	(2)	(1)
Total	$ 7	$ 34

(a) Primarily due to increased scope of scheduled outages including those at Ghent and Green River.
(b) Variable expenses increased due to increased generation, the result of TC2 commencing dispatch in 2011.
(c) Fuel handling costs are included in fuel for electric generation on the Statements of Income for the three and nine months ended September 30, 2010, and are in other operation and maintenance expense on the Statements of Income for the three and nine months ended September 30, 2011.

Depreciation

Changes in depreciation for the periods ended September 30, 2011, compared with the same periods in 2010, were due to the following:

	Three Months	Nine Months
TC2 (dispatch began in January 2011)	$ 7	$ 19
E.W. Brown sulfur dioxide scrubber (placed in-service in June 2010)		7
Other	2	7
Total	$ 9	$ 33

Interest Expense

Changes in interest expense for the periods ended September 30, 2011, compared with the same periods in 2010, were due to the following:

	Three Months	Nine Months
Interest rates (a)	$ (5)	$ (14)
Long-term debt balances (b)	2	5
Other	1	2
Total	$ (2)	$ (7)

(a) Interest rates on the first mortgage bonds were lower than the rates on the loans from Fidelia Corporation, which were replaced.
(b) KU's long-term debt principal balance was $169 million higher as of September 30, 2011 compared to 2010.

Income Taxes

There were no changes in income taxes for the three months ended September 30, 2011, compared with the same period in 2010. Changes in income taxes for the nine months ended September 30, 2011, compared with the same period in 2010, were due to:

	Nine Months
Higher pre-tax book income	$ 8
Other	(2)
Total	$ 6

Financial Condition

Liquidity and Capital Resources

KU had the following at:

	September 30, 2011	December 31, 2010
Cash and cash equivalents	$ 94	$ 3

The $91 million increase in KU's cash and cash equivalents position was primarily the net result of:

- cash provided by operating activities of $352 million;
- a net decrease in short-term debt of $10 million;
- capital expenditures of $161 million; and
- the payment of $88 million of common stock dividends.

KU's cash provided by operating activities increased by $52 million for the nine months ended September 30, 2011, compared with the same period in 2010, primarily due to:

- an increase in net income of $15 million adjusted for non-cash effects of $66 million (depreciation of $33 million, defined benefit plans - expense of $8 million and deferred income taxes and investment tax credits of $36 million, partially offset by other noncash items of $11 million) and
- a decrease in fuel of $17 million, which was driven by higher volumes purchased in 2010 in preparation for the commercial operation of TC2 originally expected in mid-2010, along with an increase in fuel consumption due to the dispatch of TC2 beginning in January 2011; partially offset by
- the timing of ECR collections of $28 million; and
- an increase in discretionary defined benefit plan contributions of $29 million made in order to achieve KU's long-term funding requirements.

Credit Facilities

At September 30, 2011, KU's committed borrowing capacity under its credit facilities and the use of this borrowing capacity were:

	Capacity	Borrowed	Letters of Credit Issued	Unused Capacity
Syndicated Credit Facility (a) (c)	$ 400			$ 400
Letter of Credit Facility (b)	198		$ 198	

(a) In June 2011, KU amended its Syndicated Credit Facility such that the fees and the spread to benchmark interest rates for borrowings depend upon KU's senior secured long-term debt rating rather than the senior unsecured debt rating.

(b) In April 2011, KU entered into a new $198 million letter of credit facility that has been used to issue letters of credit to support outstanding tax-exempt bonds. The facility matures in April 2014. In August 2011, KU amended its letter of credit facility such that the fees depend upon KU's senior secured long-term debt rating rather than the senior unsecured debt rating.

(c) In October 2011, KU amended its Syndicated Credit Facility. The amendment included extending the expiration date from December 2014 to October 2016. Under this facility KU continues to have the ability to make cash borrowings and to request the lenders to issue letters of credit.

The commitments under KU's Syndicated Credit Facility are provided by a diverse bank group, with no one bank and its affiliates providing an aggregate commitment of more than 19% of the total committed capacity available to KU.

KU participates in an intercompany money pool agreement whereby LKE and/or LG&E make available to KU funds up to $400 million at market-based rates (based on highly rated commercial paper issues). At September 30, 2011, there was no balance outstanding. At December 31, 2010, $10 million was outstanding. The interest rate for the period ended December 31, 2010 was 0.25%.

See Note 7 to the Financial Statements for further discussion of KU's credit facilities.

Long-term Debt Securities

At September 30, 2011, KU's tax-exempt revenue bonds that are in the form of auction rate securities and total $96 million continue to experience failed auctions. Therefore, the interest rate continues to be set by a formula pursuant to the relevant indentures. For the nine months ended September 30, 2011, the weighted-average rate on KU's auction rate bonds in total was 0.29%.

Since June 30, 2011, there have been $1.5 billion of issuances and $1.5 billion of retirements of KU's First Mortgage Bonds related to the non-cash exchange of bonds. In April 2011, KU filed a 2011 Registration Statement with the SEC related to offers to exchange securities issued in November 2010 in transactions not registered under the Securities Act of 1933 with similar but registered securities. The 2011 Registration Statement became effective in June 2011 and the exchanges were completed in July 2011, with substantially all securities being exchanged.

See Note 7 to the Financial Statements for additional information about long-term debt securities.

Rating Agency Decisions

Moody's, S&P and Fitch periodically review the credit ratings on the debt securities of KU. Based on their respective independent reviews, the rating agencies may make certain ratings revisions or ratings affirmations.

A credit rating reflects an assessment by the rating agency of the creditworthiness associated with an issuer and particular securities that it issues. The credit ratings of KU are based on information provided by KU and other sources. The ratings of Moody's, S&P and Fitch are not a recommendation to buy, sell or hold any securities of KU. Such ratings may be subject to revisions or withdrawal by the agencies at any time and should be evaluated independently of each other and any other rating that may be assigned to the securities. A downgrade in KU's credit ratings could result in higher borrowing costs and reduced access to capital markets.

In KU's 2011 Registration Statement, KU described its then-current credit ratings in connection with, and to facilitate, an understanding of its liquidity position. As a result of the passage of the Dodd-Frank Act and the attendant uncertainties relating to the extent to which issuers of non-asset backed securities may disclose credit ratings without being required to obtain rating agency consent to the inclusion of such disclosure, or incorporation by reference of such disclosure, in a registrant's registration statement or section 10(a) prospectus, KU is limiting its credit rating disclosure to a description of the actions taken by the rating agencies with respect to KU's ratings, but without stating what ratings have been assigned to KU's securities. The ratings assigned by the rating agencies to KU and its securities may be found, without charge, on each of the respective ratings agencies' websites, which ratings together with all other information contained on such rating agency websites is, hereby, explicitly not incorporated by reference in this report.

Following the announcement of PPL's then-pending acquisition of WPD Midlands in March 2011, the rating agencies took the following actions:

- Moody's affirmed the ratings for KU;
- S&P revised the outlook for KU and lowered the issuer, senior secured and short-term ratings of KU; and
- Fitch affirmed the ratings for KU.

In April 2011, S&P took the following actions following the completion of PPL's acquisition of WPD Midlands:

- revised the outlook for KU;
- raised the short-term ratings of KU; and
- affirmed the long-term ratings for KU.

In May 2011, S&P downgraded the long-term rating of four series of pollution control bonds issued on behalf of KU by one notch in connection with the substitution of the letters of credit enhancing these four bonds.

In September 2011, Moody's affirmed the issuer rating for KU.

Ratings Triggers

KU has various derivative and non-derivative contracts, including contracts for the sale and purchase of electricity, fuel, and commodity transportation and storage, which contain provisions requiring KU to post additional collateral, or permitting the counterparty to terminate the contract, if KU's credit rating were to fall below investment grade. See Note 14 to the Financial Statements for a discussion of "Credit Risk-Related Contingent Features," including a discussion of the potential additional collateral that would have been required for derivative contracts in a net liability position at September 30, 2011. At September 30, 2011, if KU's credit ratings had been below investment grade, the maximum amount that KU would have been required to post as additional collateral to counterparties was $13 million for both derivative and non-derivative commodity and commodity-related contracts used in its generation, marketing and trading operations.

Capital Expenditures

The table below shows KU's capital expenditure projections at September 30, 2011.

	Projected				
	2011	2012	2013	2014	2015
Construction expenditures (a)					
Generating facilities	$ 67	$ 72	$ 60	$ 61	$ 79
Transmission and distribution facilities	105	119	150	143	139
Environmental (b)	139	440	554	564	428
Other	19	26	23	21	33
Total Construction Expenditures	$ 330	$ 657	$ 787	$ 789	$ 679

(a) Construction expenditures include AFUDC, which is not expected to be significant for the years 2011 through 2015.
(b) Includes approximately $500 million of currently estimable costs related to replacement generation units due to EPA regulations not recoverable through the ECR mechanism. KU expects to recover these costs over a period equivalent to the related depreciable lives of the assets through base rates established by future rate cases.

KU's capital expenditure projections for the years 2011 through 2015 total approximately $3.2 billion. Capital expenditure plans are revised periodically to reflect changes in operational, market and regulatory conditions. This table includes current estimates for KU's environmental projects related to new and anticipated EPA compliance standards. Actual costs may be significantly lower or higher depending on the final requirements. Certain environmental compliance costs incurred by KU in serving KPSC jurisdictional customers are generally eligible for recovery through the ECR mechanism.

For additional information, see "Liquidity and Capital Resources" in KU's 2011 Registration Statement.

Risk Management

Market Risk

See Notes 13 and 14 to the Financial Statements for information about KU's risk management objectives, valuation techniques and accounting designations.

The forward-looking information presented below provides estimates of what may occur in the future, assuming certain adverse market conditions and model assumptions. Actual future results may differ materially from those presented. These disclosures are not precise indicators of expected future losses, but only indicators of possible losses under normal market conditions at a given confidence level.

Commodity Price Risk

KU's rates are set by regulatory commissions and the fuel costs incurred are directly recoverable from customers. As a result, KU is subject to commodity price risk for only a small portion of on-going business operations. KU conducts energy trading and risk management activities to maximize the value of the physical assets at times when the assets are not required to serve its customers, and KU manages energy commodity risk using derivative instruments, including swaps and forward contracts.

The balances and changes in the net fair value of KU's commodity derivative contracts for the three and nine months ended September 30, 2011 and 2010 were not significant.

Interest Rate Risk

KU has issued debt to finance its operations, which exposes it to interest rate risk. At September 30, 2011, KU's potential annual exposure to increased interest expense, based on a 10% increase in interest rates, was not significant. KU is also exposed to changes in the fair value of its debt portfolio. KU estimated that a 10% decrease in interest rates at September 30, 2011, would increase the fair value of its debt portfolio by $70 million.

KU had no interest rate hedges outstanding as of September 30, 2011.

Credit Risk

KU is exposed to potential losses as a result of nonperformance by counterparties of their contractual obligations. KU maintains credit policies and procedures to limit counterparty credit risk including evaluating credit ratings and financial information along with having certain counterparties post margin if the credit exposure exceeds certain thresholds.
KU is exposed to potential losses as a result of nonpayment by customers. KU maintains an allowance for doubtful accounts primarily composed of accounts aged more than four months. Accounts are written off as management determines them uncollectible.

Certain of KU's derivative instruments contain provisions that require it to provide immediate and on-going collateralization of derivative instruments in net liability positions based upon KU's credit ratings from each of the major credit rating agencies. See Notes 13 and 14 to the Financial Statements for information regarding exposure and the risk management activities.

Related Party Transactions

KU is not aware of any material ownership interest or operating responsibility by senior management in outside partnerships, including leasing transactions with variable interest entities or other entities doing business with KU. See Note 11 to the Financial Statements for additional information on related party transactions between KU and its affiliates.

Environmental Matters

Protection of the environment is a major priority for KU and a significant element of its business activities. Extensive federal, state and local environmental laws and 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 but could be material. In addition, costs may increase significantly if the requirements or scope of environmental laws or regulations, or similar rules, are expanded or changed from prior versions by the relevant agencies. Costs may take the form of increased capital or operating and maintenance expenses; monetary fines, penalties or forfeitures; or other restrictions. Many of these environmental law considerations are also applicable to the operations of key suppliers, or customers, such as coal producers, industrial power users, etc. and may impact the costs for their products or their demand for KU's services. See "Business - Environmental Matters" in KU's 2011 Registration Statement and Note 10 to the Financial Statements for a discussion of environmental matters.

New Accounting Guidance

See Note 18 to the Financial Statements for a discussion of new accounting guidance pending adoption.

Application of Critical Accounting Policies

Financial condition and results of operations are impacted by the methods, assumptions and estimates used in the application of critical accounting policies. The following accounting policies are particularly important to the financial condition or results of operations and require estimates or other judgments of matters inherently uncertain: price risk management, regulatory mechanisms, defined benefits, asset impairment, loss accruals, AROs, income taxes, regulatory assets and liabilities and business combinations - purchase price allocation. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" in KU's 2011 Registration Statement for a discussion of each critical accounting policy.

PPL Corporation
PPL Energy Supply, LLC
PPL Electric Utilities Corporation
LG&E and KU Energy LLC
Louisville Gas and Electric Company
Kentucky Utilities Company

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Reference is made to "Risk Management" in each Registrant's "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 4. Controls and Procedures

PPL Corporation; PPL Energy Supply, LLC; PPL Electric Utilities Corporation; LG&E and KU Energy LLC; Louisville Gas and Electric Company; and Kentucky Utilities Company

(a) Evaluation of disclosure controls and procedures.

The registrants' principal executive officers and principal financial officers, based on their evaluation of the registrants' disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) have concluded that, as of September 30, 2011, the registrants' disclosure controls and procedures are effective to ensure that material information relating to the registrants and their consolidated subsidiaries is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, particularly during the period for which this quarterly report has been prepared. The aforementioned principal officers have concluded that the disclosure controls and procedures are also effective to ensure that information required to be disclosed in reports filed under the Exchange Act is accumulated and communicated to management, including the principal executive and principal financial officers, to allow for timely decisions regarding required disclosure.

PPL Corporation

PPL acquired Western Power Distribution (East Midlands) plc and Western Power Distribution (West Midlands) plc ("WPD Midlands") on April 1, 2011. These companies are included in PPL's 2011 financial statements as of the date of the acquisition, on a one-month lag. On a pro forma basis, WPD Midlands would have accounted for approximately 22% of PPL's net income for both the three and nine months ended September 30, 2011. WPD Midlands represented 21% and 27% of PPL's total assets and net assets at September 30, 2011. The internal controls over financial reporting of WPD Midlands were excluded from a formal evaluation of effectiveness of PPL's disclosure controls and procedures. This decision was based upon the significance of these companies to PPL, and the timing of integration efforts underway to transition WPD Midlands' processes, information technology systems and other components of internal control over financial reporting to the internal control structure of PPL. PPL has expanded its consolidation and disclosure controls and procedures to include the acquired companies, and PPL continues to assess the current internal control over financial reporting at WPD Midlands. Risks related to the increased account balances are partially mitigated by PPL's expanded controls and PPL's existing policy of consolidating foreign subsidiaries on a one-month lag, which provides management additional time for review and analysis of WPD Midlands' results and their incorporation into PPL's consolidated financial statements.

(b) Change in internal control over financial reporting.

PPL Corporation; PPL Energy Supply, LLC; PPL Electric Utilities Corporation; LG&E and KU Energy LLC; Louisville Gas and Electric Company; and Kentucky Utilities Company

The registrants' principal executive officers and principal financial officers have concluded that there were no changes in the registrants' internal control over financial reporting during the registrants' third fiscal quarter that have materially affected, or are reasonably likely to materially affect the registrants' internal control over financial reporting.

- Under current regulation by Ofgem, our U.K. regulated businesses' allowed revenue is determined by the distribution price controls set out under the terms of their respective distribution licenses, and is typically set by Ofgem every five years. The current price control period runs from April 1, 2010 to March 31, 2015. Furthermore, our ability to earn additional revenue under Ofgem regulations is highly dependent on our ability to achieve certain operational efficiency, customer service and other incentives, and we can provide no assurance that we will be able to achieve such incentives.

- There are various changes being contemplated by Ofgem to the current electricity distribution, gas transmission and gas distribution regulatory frameworks in the U.K. and there can be no assurance as to the effects such changes will have on our U.K. regulated businesses in the future, including the acquired businesses. In particular, in October 2010, Ofgem announced a new regulatory framework that is expected to become effective in April 2015 for the electricity distribution sector in the U.K. The framework, known as RIIO (Revenues = Incentives + Innovation + Outputs), focuses on sustainability, environmental-focused output measures, promotion of low carbon energy networks and financing of new investments. The new regulatory framework is expected to have a wide-ranging effect on electricity distribution companies operating in the U.K., including changes to price controls and price review periods. Our U.K. regulated businesses' compliance with this new regulatory framework may result in significant additional capital expenditures, increases in operating and compliance costs and adjustments to our pricing models.

- Ofgem has formal powers to propose modifications to each distribution license. We are not currently aware of any planned modification to any of our U.K. regulated businesses distribution licenses that would result in a material adverse effect to the U.K. regulated businesses and PPL. There can, however, be no assurance that a restrictive modification will not be introduced in the future, which could have an adverse effect on the operations and financial condition of the U.K. regulated businesses and PPL.

- A failure to operate our U.K. networks properly could lead to compensation payments or penalties, or a failure to make capital expenditures in line with agreed investment programs could lead to deterioration of the network. While our U.K. regulated businesses' investment programs are targeted to maintain asset conditions over a five-year period and reduce customer interruptions and customer minutes lost over that period, no assurance can be provided that these regulatory requirements will be met.

- A failure by any of our U.K. regulated businesses to comply with the terms of a distribution license may lead to the issuance of an enforcement order by Ofgem that could have an adverse impact on PPL. Ofgem has powers to levy fines of up to 10 percent of revenue for any breach of a distribution license or, in certain circumstances, such as insolvency, the distribution license itself may be revoked. Unless terminated in the circumstances mentioned above, a distribution license continues indefinitely until revoked by Ofgem following no less than 25 years' written notice. Our U.K. regulated businesses have in place policies, systems and processes to help ensure compliance with their distribution licenses and relevant legislation. While none of our U.K. regulated businesses are currently subject to any formal or informal investigation by Ofgem in relation to enforcement matters and we are not aware of any area of material non-compliance, there can be no guarantee that our regulated U.K. businesses will not be subject to investigation or enforcement action in the future.

- We will be subject to increased foreign currency exchange rate risks because a greater portion of our cash flows and reported earnings will be generated by our U.K. business operations. These risks relate primarily to changes in the relative value of the British pound sterling and the U.S. dollar between the time we initially invest U.S. dollars in our U.K. businesses and the time that cash is repatriated to the U.S. from the U.K., including cash flows from our U.K. businesses that may be distributed as future dividends to our shareholders. In addition, our consolidated reported earnings on a U.S. GAAP basis may be subject to increased earnings translation risk, which is the result of the conversion of earnings as reported in our U.K. businesses on a British pound sterling basis to a U.S. dollar basis in accordance with U.S. GAAP requirements.

- Environmental costs and liabilities associated with aspects of the acquired businesses may differ from those of our existing business, including with respect to our electricity distribution, gas transmission and certain former operations, as well as with governmental and other third party proceedings.

We have incurred and will in the future incur significant transaction and acquisition-related costs in connection with financing and integrating the WPD Midlands acquisition.

We have incurred significant non-recurring costs associated with the WPD Midlands acquisition. Significant additional expenses will likely be incurred to complete the restructuring of WPD (East Midlands) and WPD (West Midlands) in order to achieve the operational efficiencies and other benefits expected to result in enhanced financial returns from those businesses.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For additional information regarding various pending administrative and judicial proceedings involving regulatory, environmental and other matters, which information is incorporated by reference into this Part II, see:

- "Item 3. Legal Proceedings" in PPL's, PPL Energy Supply's and PPL Electric's 2010 Form 10-K and "Business - Legal Proceedings" in LKE's, LG&E's and KU's 2011 Registration Statements; and
- Notes 5, 6 and 10 to the Financial Statements.

Item 1A. Risk Factors

PPL Corporation

The risk factors discussed below are related to PPL's April 1, 2011 acquisition of WPD Midlands, as described in Note 8 to the Financial Statements. They should be read in conjunction with and update and supplement the risk factors disclosed in PPL's "Item 1A. Risk Factors" of the 2010 Form 10-K.

We have issued securities that contain provisions that could restrict our payment of dividends.
We and our subsidiaries currently have outstanding $2.6 billion principal amount of junior subordinated notes, and we and our subsidiaries may in the future issue additional junior subordinated notes or similar securities, that in certain circumstances, including the failure to pay current interest, would limit our ability to pay dividends on our common stock. While we currently do not anticipate that any of these circumstances will occur, no assurance can be given that these circumstances will not occur in the future.

Risks Relating to the WPD Midlands Acquisition
The WPD Midlands acquisition may not achieve its intended results, including anticipated cost savings, efficiencies and other benefits.
Although we completed the WPD Midlands acquisition with the expectation that it will result in various benefits, including a significant amount of cost savings and other financial and operational benefits, there can be no assurance regarding when or the extent to which we will be able to realize these cost-savings or other benefits. Achieving the anticipated benefits, including cost savings, is subject to a number of uncertainties, including whether the businesses acquired can be operated in the manner we intend. Events outside of our control, including but not limited to regulatory changes or developments in the U.K., could also adversely affect our ability to realize the anticipated benefits from the WPD Midlands acquisition. Thus, the integration may be unpredictable, subject to delays or changed circumstances, and we can give no assurance that the acquired businesses will perform in accordance with our expectations or that our expectations with respect to integration or cost savings as a result of the acquisition will materialize. In addition, we expect to incur additional costs and charges in connection with integrating the acquired businesses, including severance payments and other restructuring and transitional charges. Additional unanticipated costs may also arise during the integration process. The integration of the WPD (East Midlands) and WPD (West Midlands) businesses may place an additional burden on our management and internal resources, and the diversion of management's attention during the integration and restructuring process could have an adverse effect on our business, financial condition and expected operating results.

The WPD Midlands acquisition exposes us to additional risks and uncertainties with respect to the acquired businesses and their operations.
The WPD Midlands acquisition will rebalance our business mix to a greater percentage of regulated operations. While we believe this should help mitigate our exposure to downturns in the wholesale power markets, it will increase our dependence on rate-of-return regulation. Although we are already exposed to risks relating to rate-of-return regulation, the WPD Midlands acquisition will increase these risks.

The acquired businesses will generally be subject to risks similar to those that we are subject to in our existing U.K. businesses. These include:

PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

Except as noted below for PPL Energy Supply, there have been no material changes in PPL Energy Supply's and PPL Electric's risk factors from those disclosed in "Item 1A. Risk Factors" of each Registrant's 2010 Form 10-K or in "Risk Factors" in LKE's, LG&E's and KU's 2011 Registration Statements.

In January 2011, PPL Energy Supply distributed its membership interest in PPL Global, representing 100% of the outstanding membership interest of PPL Global, to PPL Energy Supply's parent, PPL Energy Funding. As a result, PPL Energy Supply is no longer subject to "Risks Related to International Regulated Segment."

Item 6. Exhibits

The following Exhibits indicated by an asterisk preceding the Exhibit number are filed herewith. The balance of the Exhibits have heretofore been filed with the Commission and pursuant to Rule 12(b)-32 are incorporated herein by reference. Exhibits indicated by a [_] are filed or listed pursuant to Item 601(b)(10)(iii) of Regulation S-K.

4(a)	- Supplemental Indenture No. 13, dated as of August 1, 2011, made and entered into by PPL Electric Utilities Corporation and The Bank of New York Mellon, as Trustee, under the Indenture dated as of August 1, 2001 (Exhibit 4(a) to PPL Corporation Form 8-K Report (File No. 1-11459) dated August 23, 2011)
4(b)	- Supplemental Indenture No. 2, dated as of September 1, 2011, made and entered into by LG&E and KU Energy LLC and The Bank of New York Mellon, as Trustee, under the Indenture dated as of November 1, 2010 (Exhibit 4(a) to PPL Corporation Form 8-K Report (File No. 1-11459) dated September 30, 2011)
4(c)	- Registration Rights Agreement, dated September 29, 2011, between LG&E and KU Energy LLC and the Initial Purchasers (Exhibit 4(b) to PPL Corporation Form 8-K Report (File No. 1-11459) dated September 30, 2011)
10(a)	- Amendment No. 1 to Credit Agreement, dated as of October 19, 2011, to Revolving Credit Agreement dated as of October 19, 2010 among PPL Energy Supply, LLC, the Lenders party thereto and Wells Fargo National Association, as Administrative Agent, Issuing Lender and Swingline Lender (Exhibit 10.1 to PPL Corporation Form 8-K Report (File No. 1-11459) dated October 25, 2011)
10(b)	- Amendment No. 1 to Credit Agreement, dated as of October 19, 2011, to Revolving Credit Agreement dated as of December 31, 2010 among PPL Electric Utilities Corporation, the Lenders party thereto and Wells Fargo National Association, as Administrative Agent, Issuing Lender and Swingline Lender (Exhibit 10.2 to PPL Corporation Form 8-K Report (File No. 1-11459) dated October 25, 2011)
10(c)	- Amendment No. 2 to Credit Agreement, dated as of October 19, 2011, to Revolving Credit Agreement dated as of November 1, 2010 among Louisville Gas and Electric Company, the Lenders party thereto and Wells Fargo National Association, as Administrative Agent, Issuing Lender and Swingline Lender (Exhibit 10.3 to PPL Corporation Form 8-K Report (File No. 1-11459) dated October 25, 2011)
10(d)	- Amendment No. 2 to Credit Agreement, dated as of October 19, 2011, to Revolving Credit Agreement dated as of November 1, 2010 among Kentucky Utilities Company, the Lenders party thereto and Wells Fargo National Association, as Administrative Agent, Issuing Lender and Swingline Lender (Exhibit 10.4 to PPL Corporation Form 8-K Report (File No. 1-11459) dated October 25, 2011)
*12(a)	- PPL Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
*12(b)	- PPL Energy Supply, LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges
*12(c)	- PPL Electric Utilities Corporation and Subsidiaries Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends
*12(d)	- LG&E and KU Energy LLC and Subsidiaries Computation of Ratio of Earnings to Fixed Charges
*12(e)	- Louisville Gas and Electric Company Computation of Ratio of Earnings to Fixed Charges
*12(f)	- Kentucky Utilities Company Computation of Ratio of Earnings to Fixed Charges

<u>Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended September 30, 2011, filed by the following officers for the following companies:</u>

*31(a)	- James H. Miller for PPL Corporation
*31(b)	- Paul A. Farr for PPL Corporation
*31(c)	- James H. Miller for PPL Energy Supply, LLC
*31(d)	- Paul A. Farr for PPL Energy Supply, LLC
*31(e)	- David G. DeCampli for PPL Electric Utilities Corporation
*31(f)	- Vincent Sorgi for PPL Electric Utilities Corporation

*31(g) - Victor A. Staffieri for LG&E and KU Energy LLC

*31(h) - S. Bradford Rives for LG&E and KU Energy LLC

*31(i) - Victor A. Staffieri for Louisville Gas and Electric Company

*31(j) - S. Bradford Rives for Louisville Gas and Electric Company

*31(k) - Victor A. Staffieri for Kentucky Utilities Company

*31(l) - S. Bradford Rives for Kentucky Utilities Company

Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, for the quarterly period ended September 30, 2011, furnished by the following officers for the following companies:

*32(a) - James H. Miller for PPL Corporation

*32(b) - Paul A. Farr for PPL Corporation

*32(c) - James H. Miller for PPL Energy Supply, LLC

*32(d) - Paul A. Farr for PPL Energy Supply, LLC

*32(e) - David G. DeCampli for PPL Electric Utilities Corporation

*32(f) - Vincent Sorgi for PPL Electric Utilities Corporation

*32(g) - Victor A. Staffieri for LG&E and KU Energy LLC

*32(h) - S. Bradford Rives for LG&E and KU Energy LLC

*32(i) - Victor A. Staffieri for Louisville Gas and Electric Company

*32(j) - S. Bradford Rives for Louisville Gas and Electric Company

*32(k) - Victor A. Staffieri for Kentucky Utilities Company

*32(l) - S. Bradford Rives for Kentucky Utilities Company

101.INS - XBRL Instance Document for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

101.SCH - XBRL Taxonomy Extension Schema for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

101.CAL - XBRL Taxonomy Extension Calculation Linkbase for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

101.DEF - XBRL Taxonomy Extension Definition Linkbase for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

101.LAB - XBRL Taxonomy Extension Label Linkbase for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

101.PRE - XBRL Taxonomy Extension Presentation Linkbase for PPL Corporation, PPL Energy Supply, LLC, PPL Electric Utilities Corporation, LG&E and KU Energy LLC, Louisville Gas and Electric Company and Kentucky Utilities Company

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned thereunto duly authorized. The signature for each undersigned company shall be deemed to relate only to matters having reference to such company or its subsidiaries.

PPL Corporation
(Registrant)

PPL Energy Supply, LLC
(Registrant)

Date: November 8, 2011

/s/ Vincent Sorgi
Vincent Sorgi
Vice President and Controller
(Chief Accounting Officer)

PPL Electric Utilities Corporation
(Registrant)

Date: November 8, 2011

/s/ Vincent Sorgi
Vincent Sorgi
Vice President and
Chief Accounting Officer

LG&E and KU Energy LLC
(Registrant)

Louisville Gas and Electric Company
(Registrant)

Kentucky Utilities Company
(Registrant)

Date: November 8, 2011

/s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer
(Principal Financial Officer)

Exhibit 12(a)

PPL CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

(Millions of Dollars)

	9 Months Ended Sep. 30	Years Ended December 31,				
	2011	2010	2009	2008	2007	2006
Earnings, as defined:						
Income from Continuing Operations Before Income Taxes	$ 1,481	$ 1,239	$ 538	$ 1,273	$ 1,230	$ 1,061
Adjustment to reflect earnings from equity method investments on a cash basis	1	7	1		2	(1)
	1,482	1,246	539	1,273	1,232	1,060
Total fixed charges as below	766	698	513	568	609	559
Less:						
Capitalized interest	36	30	43	57	55	23
Preferred security distributions of subsidiaries on a pre-tax basis	16	21	24	27	23	24
Interest expense and fixed charges related to discontinued operations	3	12	15	16	39	38
Total fixed charges included in Income from Continuing Operations Before Income Taxes	711	635	431	468	492	474
Total earnings	$ 2,193	$ 1,881	$ 970	$ 1,741	$ 1,724	$ 1,534
Fixed charges, as defined:						
Interest charges (a)	$ 720	$ 637	$ 446	$ 518	$ 565	$ 506
Estimated interest component of operating rentals	30	39	42	22	21	29
Preferred security distributions of subsidiaries on a pre-tax basis	16	21	24	27	23	24
Fixed charges of majority-owned share of 50% or less-owned persons		1	1	1		
Total fixed charges (b)	$ 766	$ 698	$ 513	$ 568	$ 609	$ 559
Ratio of earnings to fixed charges	2.9	2.7	1.9	3.1	2.8	2.7
Ratio of earnings to combined fixed charges and preferred stock dividends (c)	2.9	2.7	1.9	3.1	2.8	2.7

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(b) Interest on unrecognized tax benefits is not included in fixed charges.

(c) PPL, the parent holding company, does not have any preferred stock outstanding; therefore, the ratio of earnings to combined fixed charges and preferred stock dividends is the same as the ratio of earnings to fixed charges.

Exhibit 12(b)

PPL ENERGY SUPPLY, LLC AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions of Dollars)

	9 Months Ended Sep. 30 2011	Years Ended December 31, 2010	2009	2008	2007	2006
Earnings, as defined:						
Income (Loss) from Continuing Operations Before Income Taxes	$ **776**	$ 881	$ (13)	$ 671	$ 785	$ 557
Adjustment to reflect earnings from equity method investments on a cash basis	**1**	7	1		2	(2)
	777	888	(12)	671	787	555
Total fixed charges as below	**213**	426	364	390	388	326
Less:						
Capitalized interest	**34**	33	44	57	54	21
Interest expense and fixed charges related to discontinued operations	**3**	147	102	157	217	205
Total fixed charges included in Income from Continuing Operations Before Income Taxes	**176**	246	218	176	117	100
Total earnings	$ **953**	$ 1,134	$ 206	$ 847	$ 904	$ 655
Fixed charges, as defined:						
Interest charges (a)	$ **187**	$ 387	$ 321	$ 374	$ 374	$ 311
Estimated interest component of operating rentals	**26**	38	42	15	14	15
Fixed charges of majority-owned share of 50% or less-owned persons		1	1	1		
Total fixed charges (b)	$ **213**	$ 426	$ 364	$ 390	$ 388	$ 326
Ratio of earnings to fixed charges	**4.5**	2.7	0.6	2.2	2.3	2.0

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.
(b) Interest on unrecognized tax benefits is not included in fixed charges.

Exhibit 12(c)

PPL ELECTRIC UTILITIES CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

(Millions of Dollars)

	9 Months Ended Sep. 30 2011	Years Ended December 31, 2010	2009	2008	2007	2006
Earnings, as defined:						
Income Before Income Taxes	$ **184**	$ 192	$ 221	$ 278	$ 246	$ 298
Total fixed charges as below	**79**	102	121	114	143	159
Total earnings	$ **263**	$ 294	$ 342	$ 392	$ 389	$ 457
Fixed charges, as defined:						
Interest charges (a)	$ **76**	$ 101	$ 120	$ 113	$ 139	$ 152
Estimated interest component of operating rentals	**3**	1	1	1	4	7
Total fixed charges (b)	$ **79**	$ 102	$ 121	$ 114	$ 143	$ 159
Ratio of earnings to fixed charges	**3.3**	2.9	2.8	3.4	2.7	2.9
Preferred stock dividend requirements on a pre-tax basis	$ **17**	$ 23	$ 28	$ 28	$ 27	$ 24
Fixed charges, as above	**79**	102	121	114	143	159
Total fixed charges and preferred stock dividends	$ **96**	$ 125	$ 149	$ 142	$ 170	$ 183
Ratio of earnings to combined fixed charges and preferred stock dividends	**2.7**	2.4	2.3	2.8	2.3	2.5

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.
(b) Interest on unrecognized tax benefits is not included in fixed charges.

Exhibit 12(d)

LG&E AND KU ENERGY LLC AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES

(Millions of Dollars)

	Successor		Predecessor				
	9 Months Ended Sep. 30, 2011	2 Months Ended Dec. 31, 2010	10 Months Ended Oct. 31, 2010	Year Ended December 31, 2009	2008	2007	2006
Earnings, as defined:							
Income from Continuing Operations Before Income Taxes	$ 343	$ 70	$ 300	$ (1,235)	$ (1,536)	$ 332	$ 310
Adjustment to reflect earnings from equity method investments on a cash basis	(1)		(4)	11		(5)	(2)
Loss on impairment of goodwill				1,493	1,806		
Mark to market impact of derivative instruments		2	(20)	(19)	34		
	342	72	276	250	304	327	308
Total fixed charges as below	113	25	158	186	199	170	161
Total earnings	$ 455	$ 97	$ 434	$ 436	$ 503	$ 497	$ 469
Fixed charges, as defined:							
Interest charges (a)	$ 108	$ 24	$ 153	$ 176	$ 184	$ 155	$ 143
Estimated interest component of operating rentals	5	1	5	5	5	4	4
Estimated discontinued operations interest component of rental expense				5	10	10	10
Preferred stock dividends						1	4
Total fixed charges (b)	$ 113	$ 25	$ 158	$ 186	$ 199	$ 170	$ 161
Ratio of earnings to fixed charges	4.0	3.9	2.7	2.3	2.5	2.9	2.9

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.
(b) Interest on unrecognized tax benefits is not included in fixed charges.

Exhibit 12(e)

LOUISVILLE GAS AND ELECTRIC COMPANY

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES

(Millions of Dollars)

	Successor		Predecessor				
	9 Months Ended Sep. 30, 2011	2 Months Ended Dec. 31, 2010	10 Months Ended Oct. 31, 2010	Year Ended December 31, 2009	2008	2007	2006
Earnings, as defined:							
Income Before Income Taxes	$ 160	$ 29	$ 167	$ 142	$ 131	$ 179	$ 179
Mark to market impact of derivative instruments		1	(20)	(20)	35		
	160	30	147	122	166	179	179
Total fixed charges as below	36	8	40	46	60	53	47
Total earnings	$ 196	$ 38	$ 187	$ 168	$ 226	$ 232	$ 226
Fixed charges, as defined:							
Interest charges (a)	$ 34	$ 8	$ 38	$ 44	$ 58	$ 50	$ 41
Estimated interest component of operating rentals	2		2	2	2	2	2
Preferred stock dividends						1	4
Total fixed charges (b)	$ 36	$ 8	$ 40	$ 46	$ 60	$ 53	$ 47
Ratio of earnings to fixed charges	5.4	4.8	4.7	3.7	3.8	4.4	4.8

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net

(b) Interest on unrecognized tax benefits is not included in fixed charges

Exhibit 12(f)

KENTUCKY UTILITIES COMPANY

COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES

(Millions of Dollars)

	Successor		Predecessor				
	9 Months Ended Sep. 30, 2011	2 Months Ended Dec. 31, 2010	10 Months Ended Oct. 31, 2010	Year Ended December 31, 2009	2008	2007	2006
Earnings, as defined:							
Income Before Income Taxes	$ 226	$ 55	$ 218	$ 200	$ 226	$ 244	$ 226
Adjustment to reflect earnings from equity method investments on a cash basis	(1)		(4)	11		(5)	(2)
Mark to market impact of derivative instruments				1	(1)		
	225	55	214	212	225	239	224
Total fixed charges as below	56	11	71	79	77	59	41
Total earnings	$ 281	$ 66	$ 285	$ 291	$ 302	$ 298	$ 265
Fixed charges, as defined:							
Interest charges (a)	$ 53	$ 10	$ 69	$ 76	$ 74	$ 57	$ 39
Estimated interest component of operating rentals	3	1	2	3	3	2	2
Total fixed charges (b)	$ 56	$ 11	$ 71	$ 79	$ 77	$ 59	$ 41
Ratio of earnings to fixed charges	5.0	6.0	4.0	3.7	3.9	5.1	6.5

(a) Includes interest on long-term and short-term debt, as well as amortization of debt discount, expense and premium - net.

(b) Interest on unrecognized tax benefits is not included in fixed charges.

Exhibit 31(a)

CERTIFICATION

I, JAMES H. MILLER, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Corporation (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2011

/s/ James H. Miller
James H. Miller
Chairman and Chief Executive Officer
PPL Corporation

Exhibit 31(b)

CERTIFICATION

I, PAUL A. FARR, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Corporation (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2011

/s/ Paul A. Farr
Paul A. Farr
Executive Vice President and Chief Financial Officer
PPL Corporation

Exhibit 31(c)

CERTIFICATION

I, JAMES H. MILLER, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Energy Supply, LLC (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2011

/s/ James H. Miller
James H. Miller
President
PPL Energy Supply, LLC

Exhibit 31(d)

CERTIFICATION

I, PAUL A. FARR, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Energy Supply, LLC (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2011

/s/ Paul A. Farr
Paul A. Farr
Executive Vice President
PPL Energy Supply, LLC

Exhibit 31(e)

CERTIFICATION

I, DAVID G. DECAMPLI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2011

/s/ David G. DeCampli
David G. DeCampli
President
PPL Electric Utilities Corporation

Exhibit 31(f)

CERTIFICATION

I, VINCENT SORGI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2011

/s/ Vincent Sorgi
Vincent Sorgi
Vice President and Chief Accounting Officer
PPL Electric Utilities Corporation

Exhibit 31(g)

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2011

/s/ Victor A. Staffieri
Victor A. Staffieri
Chairman, President and Chief Executive Officer
LG&E and KU Energy LLC

Exhibit 31(h)

CERTIFICATION

I, S. BRADFORD RIVES, certify that:

1. I have reviewed this quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2011

/s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer
LG&E and KU Energy LLC

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2011

/s/ Victor A. Staffieri
Victor A. Staffieri
Chairman, President and Chief Executive Officer
Louisville Gas and Electric Company

CERTIFICATION

I, S. BRADFORD RIVES, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2011

/s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer
Louisville Gas and Electric Company

Exhibit 31(k)

CERTIFICATION

I, VICTOR A. STAFFIERI, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kentucky Utilities Company (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2011

/s/ Victor A. Staffieri
Victor A. Staffieri
Chairman, President and Chief Executive Officer
Kentucky Utilities Company

Exhibit 31(l)

CERTIFICATION

I, S. BRADFORD RIVES, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Kentucky Utilities Company (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2011

/s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer
Kentucky Utilities Company

Exhibit 32(a)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL CORPORATION'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2011

In connection with the quarterly report on Form 10-Q of PPL Corporation (the "Company") for the quarter ended September 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal executive officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2011

/s/ James H. Miller
James H. Miller
Chairman and Chief Executive Officer
PPL Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(b)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL CORPORATION'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2011

In connection with the quarterly report on Form 10-Q of PPL Corporation (the "Company") for the quarter ended September 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal financial officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2011

/s/ Paul A. Farr
Paul A. Farr
Executive Vice President and Chief Financial Officer
PPL Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(c)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ENERGY SUPPLY, LLC'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2011

In connection with the quarterly report on Form 10-Q of PPL Energy Supply, LLC (the "Company") for the quarter ended September 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal executive officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2011

/s/ James H. Miller
James H. Miller
President
PPL Energy Supply, LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(d)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ENERGY SUPPLY, LLC'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2011

In connection with the quarterly report on Form 10-Q of PPL Energy Supply, LLC (the "Company") for the quarter ended September 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal financial officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2011

/s/ Paul A. Farr
Paul A. Farr
Executive Vice President
PPL Energy Supply, LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(e)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ELECTRIC UTILITIES CORPORATION'S FORM 10-Q FOR THE QUARTER ENDED
SEPTEMBER 30, 2011

In connection with the quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "Company") for the quarter ended September 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal executive officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2011

/s/ David G. DeCampli
David G. DeCampli
President
PPL Electric Utilities Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(f)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR PPL ELECTRIC UTILITIES CORPORATION'S FORM 10-Q FOR THE QUARTER ENDED
SEPTEMBER 30, 2011

In connection with the quarterly report on Form 10-Q of PPL Electric Utilities Corporation (the "Company") for the quarter ended September 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal financial officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2011

/s/ Vincent Sorgi
Vincent Sorgi
Vice President and Chief Accounting Officer
PPL Electric Utilities Corporation

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LG&E AND KU ENERGY LLC'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2011

In connection with the quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "Company") for the quarter ended September 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal executive officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2011

/s/ Victor A. Staffieri
Victor A. Staffieri
Chairman, President and Chief Executive Officer
LG&E and KU Energy LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(h)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LG&E AND KU ENERGY LLC'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2011

In connection with the quarterly report on Form 10-Q of LG&E and KU Energy LLC (the "Company") for the quarter ended September 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal financial officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2011

/s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer
LG&E and KU Energy LLC

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(i)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR LOUISVILLE GAS AND ELECTRIC COMPANY'S FORM 10-Q FOR THE QUARTER ENDED
SEPTEMBER 30, 2011

In connection with the quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "Company") for the quarter ended September 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal executive officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2011

/s/ Victor A. Staffieri
Victor A. Staffieri
Chairman, President and Chief Executive Officer
Louisville Gas and Electric Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(j)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 FOR LOUISVILLE GAS AND ELECTRIC COMPANY'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2011

In connection with the quarterly report on Form 10-Q of Louisville Gas and Electric Company (the "Company") for the quarter ended September 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal financial officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2011

/s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer
Louisville Gas and Electric Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(k)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR KENTUCKY UTILITIES COMPANY'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2011

In connection with the quarterly report on Form 10-Q of Kentucky Utilities Company (the "Company") for the quarter ended September 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal executive officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2011

/s/ Victor A. Staffieri
Victor A. Staffieri
Chairman, President and Chief Executive Officer
Kentucky Utilities Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32(l)

CERTIFICATE PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
FOR KENTUCKY UTILITIES COMPANY'S FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2011

In connection with the quarterly report on Form 10-Q of Kentucky Utilities Company (the "Company") for the quarter ended September 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Covered Report"), I, the principal financial officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify that:

- The Covered Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- The information contained in the Covered Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2011

/s/ S. Bradford Rives
S. Bradford Rives
Chief Financial Officer
Kentucky Utilities Company

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.