Kentucky Commission has established a procedural schedule that allowed for data discovery and testimony through July 2009. A public hearing has not been scheduled in this matter. In October 2009, the Kentucky Commission held an informal conference for the purpose of discussing issues related to the standard regarding the consideration of Smart Grid investments.

Market-Based Rate Authority. In July 2006, the FERC issued an Order in LG&E's market-based rate proceeding accepting the Company's further proposal to address certain market power issues the FERC had claimed would arise upon an exit from the MISO. In particular, the Company received permission to sell power at market-based rates at the interface of control areas in which it may be deemed to have market power, subject to a restriction that such power not be collusively re-sold back into such control areas. However, restrictions exist on sales by LG&E of power at market-based rates in the LG&E/KU and Big Rivers Electric Corporation control areas. In June 2007, the FERC issued Order No. 697 implementing certain reforms to market-based rate regulations, including restrictions similar to those previously in place for the Company's power sales at control area interfaces. In December 2008, the FERC issued Order No. 697-B potentially placing additional restrictions on certain power sales involving areas where market power is deemed to exist. As a condition of receiving and retaining market-based rate authority, LG&E must comply with applicable affiliate restrictions set forth in the FERC's regulation. During September 2008, the Company submitted a regular tri-annual update filing under market-based rate regulations.

In June 2009, the FERC issued Order No. 697-C which generally clarified certain interpretations relating to power sales and purchases at control area interfaces or into control areas involving market power. In July 2009, the FERC issued an order approving the Company's September 2008 application for market-based rate authority. During July 2009, affiliates of LG&E completed a transaction terminating certain prior generation and power marketing activities in the Big Rivers Electric Corporation control area, which termination should ultimately allow a filing to request a determination that the Company no longer is deemed to have market power in such control area.

LG&E conducts certain of its wholesale power sales activities in accordance with existing market-based rate authority principles and interpretations. Future FERC proceedings relating to Orders 697 or market-based rate authority could alter the amount of sales made at market-based versus cost-based rates. The Company's sales under market-based rate authority totaled $20 million for the nine months ended September 30, 2009.

Note 3 - Financial Instruments

The cost and estimated fair values of LG&E's non-trading financial instruments as of September 30 follow:

(in millions)	September 30, 2009 Carrying Value	September 30, 2009 Fair Value	December 31, 2008 Carrying Value	December 31, 2008 Fair Value
Long-term debt (including current portion of $120 million as of September 30, 2009 and December 31, 2008)	$ 411	$ 416	$ 411	$ 392
Long-term debt from affiliate	$ 485	$ 537	$ 485	$ 458
Interest-rate swaps - liability	$ 38	$ 38	$ 55	$ 55

The long-term debt valuations reflect prices quoted by dealers. The fair value of the long-term debt from affiliate is determined using an internal valuation model that discounts the future cash flows of each loan at current market rates. The current market values are determined based on quotes from investment banks that are actively involved in capital markets for utilities and factor in LG&E's credit ratings and default risk. The fair values of the swaps reflect price quotes from dealers, consistent with the Fair Value Measurements and Disclosures topic of the FASB ASC. The fair values of cash and cash equivalents, accounts receivable, accounts payable and notes payable are substantially the same as their carrying values.

LG&E is subject to the risk of fluctuating interest rates in the normal course of business. The Company's policies allow for the interest rate risk to be managed through the use of fixed rate debt, floating rate debt and interest rate swaps. At September 30, 2009, a 100 basis point change in the benchmark rate on LG&E's variable rate debt, not effectively hedged by an interest rate swap, would impact pre-tax interest expense by $2 million annually.

The Company is subject to interest rate and commodity price risk related to on-going business operations. It currently manages these risks using derivative financial instruments, including swaps and forward contracts.

LG&E has classified the applicable financial assets and liabilities that are accounted for at fair value into the three levels of the fair value hierarchy, as defined by the Fair Value Measurements and Disclosures topic of the FASB ASC, as follows:

- Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 - Include other inputs that are directly or indirectly observable in the marketplace.
- Level 3 - Unobservable inputs which are supported by little or no market activity.

Interest Rate Swaps. LG&E uses over-the-counter interest rate swaps to hedge exposure to market fluctuations in certain of its debt instruments. Pursuant to Company policy, use of these financial instruments is intended to mitigate risk, earnings and cash flow volatility and is not speculative in nature.

The fair value of the interest rate swaps is determined by a quote from the counterparty. This value is verified monthly by LG&E using a model that calculates the present value of future payments under the swap utilizing current swap market rates obtained from another dealer active in the swap market and validated by market transactions. Market liquidity is considered, however the valuation does not require an adjustment for market liquidity as the market is very active for the type of swaps used by the Company. LG&E considered the impact of counterparty credit risk by evaluating credit ratings and financial information. All counterparties had strong investment grade ratings at September 30, 2009. LG&E did not have any credit exposure to the swap counterparties, as it was in a liability position at September 30, 2009, therefore, the market valuation required no adjustment for counterparty credit risk. In addition, the Company and the counterparties have agreed to post margin if the credit exposure exceeds certain thresholds. Using these valuation methodologies, the swap contracts are considered level 2 based on measurement criteria in the Fair Value Measurements and Disclosures topic of the FASB ASC. Cash collateral for interest rate swaps is classified as a collateral deposit which is a long-term asset and is a level 1 measurement based on the funds being held in a demand deposit account.

LG&E was party to various interest rate swap agreements with aggregate notional amounts of $179 million as of September 30, 2009 and December 31, 2008. Under these swap agreements, LG&E paid fixed rates averaging 4.52% and received variable rates based on LIBOR or the Securities Industry and Financial Markets Association's municipal swap index averaging 0.28% and 1.27% at September 30, 2009 and December 31, 2008, respectively. One swap hedging the Company's $83 million Trimble County 2000 Series A bond has been designated as a cash flow hedge and continues to be highly effective. One swap designated to hedge the Company's $128 million Jefferson County 2003 Series A bond with a notional value of $32 million was terminated in December 2008. See Note 6, Short-Term and Long-Term Debt. The remaining three interest rate swaps designated to hedge the same bond became ineffective during 2008 as a result of the impact of downgrades of the underlying debt associated with issues involving the bond insurers.

The interest rate swaps are accounted for on a mark-to-market basis in accordance with the Derivatives and Hedging topic of the FASB ASC. Financial instruments designated as effective cash flow hedges have resulting gains and losses recorded within other comprehensive income and common equity. The ineffective portion of financial instruments designated as cash flow hedges is recorded to earnings monthly as is the entire change in the market value of the ineffective swaps. The table below shows the pre-tax amount and income statement location of gains and losses from interest rate swaps for the three months and nine months ended September 30, 2009:

(in millions)	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives: Three Months Ended September 30, 2009	Amount of Gain (Loss) Recognized in Income on Derivatives: Nine Months Ended September 30, 2009
Interest rate swaps – change in the mark-to-market of ineffective swaps	Other income (expense) - net	(3)	14
Interest rate swaps – change in the ineffective portion of swaps deemed highly effective	Interest Expense	$ -	$ 1
Total		$ (3)	$ 15

For the nine months ended September 30, 2008, LG&E recorded a pre-tax loss of $1 million in interest expense to reflect the ineffective portion of the hedge. Amounts recorded in accumulated other comprehensive income will be reclassified into earnings in the same period during which the hedged forecasted transaction affects earnings. The amount amortized from other comprehensive income to income in the three and nine month periods ended September 30, 2009 was less than $1 million. The amount expected to be reclassified from other comprehensive income to earnings in the next twelve months is less than $1 million. A deposit in the amount of $16 million, used as collateral for one of the interest rate swaps, is classified as a collateral deposit which is a long-term asset on the balance sheet. The amount of the deposit required is tied to the market value of the swap.

A decline of 100 basis points in the current market interest rates would reduce the fair value of LG&E's interest rate swaps by approximately $30 million. Such a change could affect other comprehensive income if the hedge is effective, or the income statement if the hedge is ineffective.

Energy Trading and Risk Management Activities. LG&E conducts energy trading and risk management activities to maximize the value of power sales from physical assets it owns. Energy trading activities are principally forward financial transactions to manage price risk and are accounted for as non-hedging derivatives on a mark-to-market basis in accordance with the Derivatives and Hedging topic of the FASB ASC.

Energy trading and risk management contracts are valued using prices based on active trades from Intercontinental Exchange Inc. In the absence of a traded price, midpoints of the best bids and offers are the primary determinants of valuation. When sufficient trading activity is unavailable, other inputs include prices quoted by brokers or observable inputs other than quoted prices, such as one-sided bids or offers as of the balance sheet date. Using these valuation methodologies, these contracts are considered level 2 based on measurement criteria in the Fair Value Measurements and Disclosures topic of the FASB ASC. Quotes are verified quarterly using an independent pricing source of actual transactions. Quotes for combined off-peak and weekend timeframes are allocated between the two timeframes based on their historical proportional ratios to the integrated cost. No other adjustments are made to the forward prices. No changes to valuation techniques for energy trading and risk management activities occurred during 2009 or 2008. Changes in market pricing, interest rate and volatility assumptions were made during both years.

The Company maintains credit policies intended to minimize credit risk in wholesale marketing and trading activities by assessing the creditworthiness of potential counterparties prior to entering into transactions with them and continuing to evaluate their creditworthiness once transactions have been initiated. To further mitigate credit risk, LG&E seeks to enter into netting agreements or require cash deposits, letters of credit and parental company guarantees as security from counterparties. The Company uses S&P, Moody's and definitive qualitative and quantitative data to assess the financial strength of counterparties on an on-going basis. If no external rating exists, LG&E assigns an internally generated rating for which it sets appropriate risk parameters. As risk management contracts are valued based on changes in market prices of the related commodities, credit exposures are revalued and monitored on a daily basis. At September 30, 2009, 100% of the trading and risk management commitments were with counterparties rated BBB-/Baa3 equivalent or better. The Company has reserved against counterparty credit risk based on the counterparty's credit rating and applying historical default rates within varying credit ratings over time provided by S&P or Moody's. At September 30, 2009 no credit reserve related to the energy trading and risk management contracts was required. At December 31, 2008, counterparty credit reserves were less than $1 million.

The volume of electricity based financial derivatives outstanding at September 30, 2009 and December 31, 2008, was 457,600 Mwhs and 146,000 Mwhs, respectively. Of the volume outstanding at September 30, 2009, 68,800 Mwhs will settle in 2009 and 388,800 Mwhs will settle in 2010. As of September 30, 2009, estimated peak wholesale sales are hedged 100% for both 2009 and 2010. Off-peak and weekend wholesale positions are not hedged.

The following tables set forth by level within the fair value hierarchy, LG&E's financial assets and liabilities that were accounted for at fair value on a recurring basis as of September 30, 2009 and December 31, 2008. Cash collateral related to the energy trading and risk management contracts was less than $1 million at December 31, 2008. Cash collateral is categorized as other accounts receivable and is a level 1 measurement based on the funds being held in liquid accounts. Energy trading and risk management contracts are considered level 2 based on measurement criteria in the Fair Value Measurements and Disclosures topic of the FASB ASC. Liabilities arising from energy trading and risk management contracts accounted for at fair value at December 31, 2008 total less than $1 million and use level 2 measurements. There are no level 3 measurements for the periods ending September 30, 2009 and December 31, 2008.

September 30, 2009

Recurring Fair Value Measurements (in millions)	Level 1	Level 2	Total
Financial Assets:			
Energy trading and risk management contract cash collateral	$ 1	$ -	$ 1
Energy trading and risk management contracts	-	1	1
Interest rate swap cash collateral	16	-	16
Total Financial Assets	$ 17	$ 1	$ 18
Financial Liabilities:			
Energy trading and risk management contracts	$ -	$ 1	$ 1
Interest rate swaps	-	38	38
Total Financial Liabilities	$ -	$ 39	$ 39

December 31, 2008

Recurring Fair Value Measurements (in millions)	Level 1	Level 2	Total
Financial Assets:			
Energy trading and risk management contracts	$ -	$ 1	$ 1
Interest rate swap cash collateral	22	-	22
Total Financial Assets	$ 22	$ 1	$ 23
Financial Liabilities:			
Interest rate swaps	$ -	$ 55	$ 55
Total Financial Liabilities	$ -	$ 55	$ 55

The Company does not net collateral against derivative instruments.

Certain of the Company's derivative instruments contain provisions that require the Company to provide immediate and on-going collateralization on derivative instruments in net liability positions based upon the Company's credit ratings from each of the major credit rating agencies. At September 30, 2009, there are no energy trading and risk management contracts with credit risk related contingent features that are in a liability position, and no collateral posted in the normal course of business. The aggregate mark-to-market value of all interest rate swaps with credit risk related contingent features that are in a liability position on September 30, 2009 is $26 million, for which the Company has posted collateral of $16 million in the normal course of business. If the credit risk related contingent features underlying these agreements were triggered on September 30, 2009, due to a one notch downgrade in the Company's credit rating, the Company would be required to post an additional $5 million of collateral to its counterparties for the interest rate swaps and there would be no effect on the energy trading and risk management contracts or collateral required as a result of these contracts.

The table below shows the fair value and balance sheet location of derivatives designated as hedging instruments as of September 30, 2009:

(in millions)	Asset Derivatives Balance Sheet Location	Asset Derivatives Fair Value	Liability Derivatives Balance Sheet Location	Liability Derivatives Fair Value
Interest rate swaps	Other assets	$ -	Long-term derivative liability	$ 21
Total		$ -		$ 21

The table below shows the fair value and balance sheet location of derivatives not designated as hedging instruments as of September 30, 2009:

(in millions)	Asset Derivatives Balance Sheet Location	Asset Derivatives Fair Value	Liability Derivatives Balance Sheet Location	Liability Derivatives Fair Value
Interest rate swaps	Other assets	$ -	Long-term derivative liability	$ 17
Energy trading and risk management contracts (current)	Other current assets	1	Other current liabilities	1
Total		$ 1		$ 18

At September 30, 2009, the fair value of long-term liabilities for energy trading and risk management contracts not designated as hedging instruments was less than $1 million.

The gain (loss) on hedging interest rate swaps recognized in OCI for the three and nine month periods ended September 30, 2009, was $(3) million and $3 million, respectively. For the three and nine month periods ended September 30, 2009, the gain on derivatives reclassified from accumulated OCI to income was less than $1 million, and was recorded in other income (expense) – net.

LG&E manages the price volatility of its forecasted electric wholesale sales with the sales of market-traded electric forward contracts. Hedge accounting treatment has not been elected for these transactions, and therefore gains and losses are shown in the statements of income.

The following table presents the effect of derivatives not designated as hedging instruments on income for the three months and nine months ended September 30, 2009:

(in millions)	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
Energy trading and risk management contracts (realized)	Electric revenues	$ 5	$ 8
Energy trading and risk management contracts (unrealized)	Electric revenues	(3)	(1)
Interest rate swaps (realized)	Other income (expense) – net	(3)	14
Total		$ (1)	$ 21

(in millions)	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives Three Months Ended September 30, 2008	Nine Months Ended September 30, 2008
Energy trading and risk management contracts (unrealized)	Electric revenues	$ 1	$ 1
Interest rate swaps (realized)	Other income (expense) – net	(4)	(5)
Total		$ (3)	$ (4)

Net realized gains and losses on energy trading and risk management contracts were less than $1 million for the three and nine month periods ended September 30, 2008.

Note 4 - Pension and Other Postretirement Benefit Plans

The following tables provide the components of net periodic benefit cost for pension and other postretirement benefit plans for the three and nine months ended September 30. The tables include the costs associated with both LG&E employees and E.ON U.S. Services employees who are providing services to the Company. The E.ON U.S. Services costs that are allocated to LG&E are approximately 44% and 42% of E.ON U.S. Services costs for September 30, 2009 and 2008, respectively.

(in millions)	Pension Benefits Three Months Ended September 30, 2009			2008		
	LG&E	E.ON U.S. Services Allocation to LG&E	Total LG&E	LG&E	E.ON U.S. Services Allocation to LG&E	Total LG&E
Service cost	$ 1	$ 1	$ 2	$ 1	$ 1	$ 2
Interest cost	7	2	9	7	1	8
Expected return on plan assets	(6)	(1)	(7)	(8)	(1)	(9)
Amortization of prior service costs	1	-	1	1	-	1
Amortization of actuarial loss	3	-	3	-	-	-
Benefit cost	$ 6	$ 2	$ 8	$ 1	$ 1	$ 2

(in millions)	Other Postretirement Benefits Three Months Ended September 30, 2009			2008		
	LG&E	E.ON U.S. Services Allocation to LG&E	Total LG&E	LG&E	E.ON U.S. Services Allocation to LG&E	Total LG&E
Interest cost	$ 1	$ -	$ 1	$ 1	$ -	$ 1
Amortization of prior service costs	1	-	1	1	-	1
Benefit cost	$ 2	$ -	$ 2	$ 2	$ -	$ 2

(in millions)	Pension Benefits Nine Months Ended September 30, 2009			2008		
	LG&E	E.ON U.S. Services Allocation to LG&E	Total LG&E	LG&E	E.ON U.S. Services Allocation to LG&E	Total LG&E
Service cost	$ 3	$ 3	$ 6	$ 3	$ 3	$ 6
Interest cost	19	5	24	19	4	23
Expected return on plan assets	(16)	(4)	(20)	(23)	(4)	(27)
Amortization of prior service costs	4	1	5	4	1	5
Amortization of actuarial loss	9	2	11	1	-	1
Benefit cost	$ 19	$ 7	$ 26	$ 4	$ 4	$ 8

(in millions)	Other Postretirement Benefits Nine Months Ended September 30, 2009			2008		
	LG&E	E.ON U.S. Services Allocation to LG&E	Total LG&E	LG&E	E.ON U.S. Services Allocation to LG&E	Total LG&E
Service cost	$ 1	$ 1	$ 2	$ 1	$ 1	$ 2
Interest cost	4	-	4	4	-	4
Amortization of prior service costs	1	-	1	1	-	1
Benefit cost	$ 6	$ 1	$ 7	$ 6	$ 1	$ 7

In 2009, LG&E has made contributions to other postretirement benefit plans totaling $5 million. In April 2009, LG&E made a contribution to a pension plan covering its employees of $8 million. In addition, E.ON U.S. Services made a pension plan contribution of $8 million. LG&E's intent is to fund the pension plan in a manner consistent with the requirements of the Pension Protection Act of 2006. The Company also anticipates making further voluntary contributions to fund Voluntary Employee Beneficiary Association trusts to match the annual postretirement expense and funding the 401(h) plan up to the maximum amount allowed by law.

Note 5 - Income Taxes

A United States consolidated income tax return is filed by E.ON U.S.'s direct parent, E.ON US Investments Corp., for each tax period. Each subsidiary of the consolidated tax group, including LG&E, calculates its separate income tax for each period. The resulting separate-return tax cost or benefit is paid to or received from the parent company or its designee. The Company also files income tax returns in various state jurisdictions. While the federal statute of limitations related to 2006 and later years are open, Revenue Agent Reports for 2006-2007 have been received from the IRS, effectively closing these years to additional audit adjustments. Adjustments made by the

IRS for the 2006 year were recorded in the 2008 financial statements. The tax year 2007 return was examined under an IRS pilot program named "Compliance Assurance Process" ("CAP"). This program accelerates the IRS's review to begin during the year applicable to the return and ends 90 days after the return is filed. Preliminary adjustments for 2007 were agreed to in January 2009, were comprised of $5 million of depreciable temporary differences, and were recorded in the first quarter of 2009. The tax year 2008 return is also included in the CAP program. Areas remaining under examination include bonus depreciation, capitalized interest, the Company's application for a change in repair deductions, and eligible construction expenditures for the TC2 investment tax credit. No net material adverse impact is expected from this examination.

Additions and reductions of uncertain tax positions during 2009 and 2008 were less than $1 million. Possible amounts of uncertain tax positions for LG&E that may decrease within the next 12 months total less than $1 million and are based on the expiration of the audit periods as defined in the statutes.

The amount LG&E recognized as interest expense and interest accrued related to unrecognized tax benefits was less than $1 million as of September 30, 2009 and December 31, 2008. The interest expense and interest accrued is based on IRS and Kentucky Department of Revenue large corporate interest rates for underpayment of taxes. At the date of adoption, the Company accrued less than $1 million in interest expense on uncertain tax positions. No penalties were accrued by the Company through September 30, 2009.

In June 2006, LG&E and KU filed a joint application with the U.S. Department of Energy ("DOE") requesting certification to be eligible for investment tax credits applicable to the construction of TC2. In November 2006, the DOE and the IRS announced that LG&E and KU were selected to receive the tax credit. A final IRS certification required to obtain the investment tax credit was received in August 2007. In September 2007, LG&E received an Order from the Kentucky Commission approving the accounting of the investment tax credit. LG&E's portion of the TC2 tax credit will be approximately $25 million over the construction period and will be amortized to income over the life of the related property beginning when the facility is placed in service. Based on eligible construction expenditures incurred, LG&E recorded investment tax credits of $1 million and $3 million during the three months ended September 30, 2009 and 2008, respectively, and $3 million and $6 million during the nine months ended September 30, 2009 and 2008, respectively, decreasing current federal income taxes. In addition, a full depreciation basis adjustment is required for the amount of the credit. The income tax expense impact of this adjustment will begin when the facility is placed in service.

In March 2008, certain environmental and preservation groups filed suit in federal court in North Carolina against the DOE and IRS claiming the investment tax credit program was in violation of certain environmental laws and demanded relief, including suspension or termination of the program. In August 2008, the plaintiffs submitted an amended complaint alleging additional claims for relief. In November 2008, the Court dismissed the suit; however, in January and April 2009, additional motions were filed for consideration for which pleadings are still before the Court. The Company is not currently a party to this proceeding and is not able to predict the ultimate outcome of this matter.

Note 6 - Short-Term and Long-Term Debt

LG&E's long-term debt includes $120 million of pollution control bonds that are classified as current liabilities because these bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events. These bonds include Jefferson County 2001 Series A and B and Trimble County 2001 Series A and B. Maturity dates for these bonds range from 2026 to 2027. The average annualized interest rate for these bonds during the nine months ended September 30, 2009 was 1.11%.

Pollution control bonds are obligations of LG&E issued in connection with tax-exempt pollution control revenue bonds issued by various governmental entities, principally counties in Kentucky. A loan agreement obligates the Company to make debt service payments to the county that equate to the debt service due from the county on the related pollution control revenue bonds. The loan agreement is an unsecured obligation of the Company.

Several of the LG&E pollution control bonds are insured by monoline bond insurers whose ratings have been reduced due to exposures relating to insurance of sub-prime mortgages. At September 30, 2009, LG&E had an aggregate $574 million (including $163 million of reacquired bonds) of outstanding pollution control indebtedness, of which $135 million is in the form of insured auction rate securities wherein interest rates are reset either weekly or every 35 days via an auction process. Beginning in late 2007, the interest rates on these insured bonds began to increase due to investor concerns about the creditworthiness of the bond insurers. During 2008, interest rates increased, and the Company experienced "failed auctions" when there were insufficient bids for the bonds. When a failed auction occurs, the interest rate is set pursuant to a formula stipulated in the indenture. During the nine months ended September 30, 2009 and 2008, the average rate on the auction rate bonds was 0.42% and 4.58%, respectively. The instruments governing these auction rate bonds permit LG&E to convert the bonds to other interest rate modes, such as various short-term variable rates, long-term fixed rates or intermediate-term fixed rates that are reset infrequently. In June 2009, S&P downgraded the credit rating of Ambac from "A" to "BBB". As a result, S&P downgraded the ratings on the Trimble County 2000 Series A, 2002 Series A and 2007 Series A; Jefferson County 2001 Series A and Louisville Metro 2007 Series B bonds from "A" to "BBB+" in June 2009. The S&P ratings of these bonds are now based on the rating of the Company rather than the rating of Ambac since the Company's rating is higher.

During 2008, LG&E converted several series of its pollution control bonds from the auction rate mode to a weekly interest rate mode, as permitted under the loan documents. In connection with these conversions, the Company purchased the bonds from the remarketing agent. As of September 30, 2009, the Company continued to hold repurchased bonds in the amount of $163 million. The other repurchased bonds were remarketed during 2008 in an intermediate-term fixed rate mode wherein the interest rate is reset periodically (every three to five years). LG&E will hold some or all of such repurchased bonds until a later date, at which time it may refinance, remarket or further convert such bonds. Uncertainty in markets relating to auction rate securities or steps the Company has taken or may take to mitigate such uncertainty, such as additional conversion, subsequent restructuring or redemption and refinancing, could result in increased interest expense, transaction expenses or other costs and fees or experiencing reduced liquidity relating to existing or future pollution control financing structures.

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

($ in millions)	Total Money Pool Available	Amount Outstanding	Balance Available	Average Interest Rate
September 30, 2009	$ 400	$ 149	$ 251	0.25%
December 31, 2008	$ 400	$ 222	$ 178	1.49%

E.ON U.S. maintains revolving credit facilities totaling $313 million at September 30, 2009 and December 31, 2008, to ensure funding availability for the money pool. At September 30, 2009, one facility, totaling $150 million, is with E.ON North America, Inc., while the remaining line, totaling $163 million, is with Fidelia; both are affiliated companies. The balances are as follows:

($ in millions)	Total Available	Amount Outstanding	Balance Available	Average Interest Rate
September 30, 2009	$ 313	$ 246	$ 67	1.66%
December 31, 2008	$ 313	$ 299	$ 14	2.05%

As of September 30, 2009, the Company maintained bilateral lines of credit, with unaffiliated financial institutions, totaling $125 million which mature in June 2012. At September 30, 2009, there was no balance outstanding under any of these facilities.

There were no redemptions or issuances of long-term debt year-to-date through September 30, 2009.

Note 7 - Commitments and Contingencies

Except as may be discussed in this quarterly report (including Note 2), material changes have not occurred in the current status of various commitments or contingent liabilities from that discussed in the Company's Annual Report for the year ended December 31, 2008 (including, but not limited to Notes 2, 9 and 14 to the financial statements of LG&E contained therein). See the Company's Annual Report regarding such commitments or contingencies.

Construction Program. LG&E had $33 million of commitments in connection with its construction program at September 30, 2009.

In June 2006, LG&E and KU entered into a construction contract regarding the TC2 project. The contract is generally in the form of a lump-sum, turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may serve to increase or decrease the ultimate construction price paid or payable to the contractor. The contract also contains standard representations, covenants, indemnities, termination and other provisions for arrangements of this type, including termination for convenience or for cause rights. In March 2009, the parties completed an agreement resolving certain construction cost increases due to higher labor and per diem costs above an established baseline, and certain safety and compliance costs resulting from a change in law. The Company's share of additional costs from inception of the contract through the expected project completion in 2010 is estimated to be approximately $5 million.

TC2 Air Permit. The Sierra Club and other environmental groups filed a petition challenging the air permit issued for the TC2 baseload generating unit which was issued by the KDAQ in November 2005. The filing of the challenge did not stay the permit, so the Company was free to proceed with construction during the pendency of the action. In June 2007, the state hearing officer assigned to the matter recommended upholding the air permit with minor revisions. In September 2007, the Secretary of the Kentucky Environmental and Public Protection Cabinet issued a final Order approving the hearing officer's recommendation and upholding the permit. In September 2007, LG&E administratively applied for a permit revision to reflect minor design changes. In October 2007, the environmental groups submitted comments objecting to the draft permit revisions and, in part, attempting to reassert general objections to the generating unit. In January 2008, the KDAQ issued a final permit revision. The environmental groups did not appeal the final Order upholding the permit or file a petition challenging the permit revision by the applicable deadlines. However, in October 2007, the environmental groups filed a lawsuit in federal court seeking an order for the EPA to grant or deny their pending petition for the EPA to object to the state air permit and in April 2008, they filed a petition seeking an EPA objection to the permit revision. In September 2008, the EPA issued an Order denying nine of eleven claims alleged in one of the petitions, but finding deficiencies in two areas of the permit. As part of a routine permit renewal, the KDAQ revised the permit to address the issues identified in the EPA's Order. In June 2009, the EPA objected to the permit renewal on the grounds that it failed to include a case by case Maximum Achievable Control Technology analysis and required additional changes to language addressing startup and shutdown operations. In August 2009, the EPA issued an order relating to all existing current issues in the TC2 air permit proceeding. The EPA supported the Company's positions on all but two issues. The EPA directed the KDAQ to correct deficiencies concerning matters relating to an auxiliary boiler and the appropriate particulate standard to apply. In October 2009, the KDAQ proposed an additional permit revision to address the two EPA objections. The Company generally believes that the proposed permit revisions should not have a material adverse effect on its financial condition or results of operations. Pending issuance of final permit revisions or other actions of the parties, the Company cannot predict the final outcome of this proceeding.

Reserve Sharing Developments. LG&E and KU are currently members of the Midwest Contingency Reserve Sharing Group which is currently scheduled to terminate on December 31, 2009. The Companies are negotiating potential alternative arrangements for sharing contingency reserves, which involve the formation and participation in a new reserve sharing group. In addition, certain third parties have applied to the FERC requesting a further extension of the Midwest Contingency Reserve Sharing Group arrangements, which extension, if granted, may also be available to the Companies. Contingency reserves, including spinning reserves and supplemental reserves, relate to power or capacity requirements that the Companies must have available for certain reliability purposes. The determination of whether to self supply or contract for such reserve sharing may have certain operational or financial impacts. While the Companies do not currently anticipate that the outcome of these reserve sharing developments will have a material adverse effect on their prospective operations or financial condition, the Companies cannot currently predict the ultimate outcome of this matter.

Environmental Matters. LG&E's operations are subject to a number of environmental laws and regulations, governing, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety.

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

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

In 1997, the EPA established new NAAQS for ozone and fine particulates that required additional reductions in SO_2 and NOx emissions from power plants. In 1998, the EPA issued its final "NOx SIP Call" rule requiring reductions in NOx emissions of approximately 85% from 1990 levels in order to mitigate ozone transport from the midwestern U.S. to the northeastern U.S. To implement the new federal requirements, Kentucky amended its SIP in 2002 to require electric generating units to reduce their NOx emissions to 0.15 pounds weight per MMBtu on a company-wide basis. In 2005, the EPA issued the CAIR which required additional SO_2 emission reductions of 70% and NOx emission reductions of 65% from 2003 levels. The CAIR provided for a two-phase cap and trade program, with initial reductions of NOx and SO_2 emissions due by 2009 and 2010, respectively, and final reductions due by 2015. In 2006, Kentucky proposed to amend its SIP to adopt state requirements similar to those under the federal CAIR. Depending on the level of action determined necessary to bring local nonattainment areas into compliance with the new ozone and fine particulate standards, LG&E's power plants are potentially subject to additional reductions in SO_2 and NOx emissions. In March 2008, the EPA issued a revised NAAQS for ozone, which contains a more stringent standard than that contained in the previous regulation. At present, the Company is unable to determine what, if any, additional requirements may be imposed to achieve compliance with the new ozone standard.

In July 2008, a federal appeals court issued a ruling finding deficiencies in the CAIR and vacating it. In December 2008, the Court amended its previous Order, directing the EPA to promulgate a new regulation, but leaving the CAIR in place in the interim. Depending upon the course of such matters, the CAIR could be superseded by new or revised NOx or SO_2 regulations with different or more stringent requirements and SIPs which incorporate CAIR requirements could be subject to revision. LG&E is also reviewing aspects of its compliance plan relating to the CAIR, including scheduled or contracted pollution control construction programs. Finally, as discussed below, the remand of the CAIR results in some uncertainty with respect to certain other EPA or state programs and proceedings and the Companies' compliance plans relating thereto, due to the interconnection of the CAIR with such associated programs. At present, LG&E is not able to predict the outcomes of the legal and regulatory proceedings related to the CAIR and whether such outcomes could have a material effect on the Company's financial or operational conditions.

Hazardous Air Pollutants. As provided in the 1990 amendments to the Clean Air Act, the EPA investigated hazardous air pollutant emissions from electric utilities and submitted a report to Congress identifying mercury emissions from coal-fired power plants as warranting further study. In 2005, the EPA issued the CAMR establishing mercury standards for new power plants and requiring all states to issue new SIPs including mercury requirements for existing power plants. The EPA issued a model rule which provides for a two-phase cap and trade program with initial reductions due by 2010 and final reductions due by 2018. The CAMR provided for reductions of 70% from 2003 levels. The EPA closely integrated the CAMR and CAIR programs to ensure that the 2010 mercury reduction targets would be achieved as a "co-benefit" of the controls installed for purposes of compliance with the CAIR. In addition, in 2006, the Metro Louisville Air Pollution Control District adopted rules aimed at regulating additional hazardous air pollutants from sources including power plants.

In February 2008, a federal appellate court issued a decision vacating the CAMR. The EPA has announced that it intends to promulgate a new rule to replace the CAMR. Depending on the final outcome of the rulemaking, the CAMR could be replaced by new mercury reduction rules with different or more stringent requirements. Kentucky has also repealed its corresponding state mercury regulations. At present, LG&E is not able to predict the outcomes of the legal and regulatory proceedings related to the CAMR and whether such outcomes could have a material effect on the Company's financial or operational conditions.

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

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

Installation of Pollution Controls. Many of the programs under the Clean Air Act utilize cap and trade mechanisms that require a company to hold sufficient emissions allowances to cover its authorized emissions on a company-wide basis and do not require installation of pollution controls on every generating unit. Under cap and trade programs, companies are free to focus their pollution control efforts on plants where such controls are particularly efficient and utilize the resulting emission allowances for smaller plants where such controls are not cost effective. LG&E had previously installed flue gas desulfurization equipment on all of its generating units prior to the effective date of the acid rain program. LG&E's strategy for its Phase II SO_2 requirements, which commenced in 2000, is to use accumulated emission allowances to defer additional capital expenditures and LG&E will continue to evaluate improvements to further reduce SO_2 emissions. In order to achieve the NOx emission reductions mandated by the NOx SIP Call, LG&E installed additional NOx controls, including selective catalytic reduction technology, during the 2000 through 2008 time period at a cost of $197 million. In 2001, the Kentucky Commission granted approval to recover the costs incurred by LG&E for these projects through the environmental surcharge mechanisms. Such monthly recovery is subject to periodic review by the Kentucky Commission.

In order to achieve mandated emissions reductions, LG&E expects to incur additional capital expenditures totaling approximately $100 million during the 2009 through 2011 time period for pollution control equipment, and additional operating and maintenance costs in operating such controls. In 2005, the Kentucky Commission granted approval to recover the costs incurred by the Company for these projects through the ECR mechanism. Such monthly recovery is subject to periodic review by the Kentucky Commission. LG&E believes its costs in reducing SO_2, NOx and mercury emissions to be comparable to those of similarly situated utilities with like generation assets. LG&E's compliance plans are subject to many factors including developments in the emission allowance and fuels markets, future legislative and regulatory enactments, legal proceedings and advances in clean air technology. LG&E will continue to monitor these developments to ensure that its environmental obligations are met in the most efficient and cost-effective manner. See "Ambient Air Quality" above for a discussion of CAIR-related uncertainties.

GHG Developments. In 2005, the Kyoto Protocol for reducing GHG emissions took effect, obligating 37 industrialized countries to undertake substantial reductions in GHG emissions. The U.S. has not ratified the Kyoto Protocol and there are currently no mandatory GHG emission reduction requirements at the federal level. As discussed below, legislation mandating GHG reductions has been introduced in the Congress, but no federal legislation has been enacted to date. In the absence of a program at the federal level, various states have adopted their own GHG emission reduction programs. Such programs have been adopted in various states including 11 northeastern U.S. states and the District of Columbia under the Regional GHG Initiative program and California. Substantial efforts to pass federal GHG legislation are on-going. The current administration has announced its support for the adoption of mandatory GHG reduction requirements at the federal level. The United States and other countries will meet in Copenhagen, Denmark in December 2009, in an effort to negotiate a GHG reduction treaty to succeed the Kyoto Protocol, which is set to expire in 2013.

GHG Legislation. LG&E is monitoring on-going efforts to enact GHG reduction requirements and requirements governing carbon sequestration at the state and federal level and is assessing potential impacts of such programs and strategies to mitigate those impacts. In June 2009, the U.S. House of Representatives passed the American Clean Energy and Security Act of 2009, (H.R. 2454), which is a comprehensive energy bill containing the first-ever nation-wide GHG cap and trade program. If enacted into law, the bill would provide for reductions in GHG emissions of 3% below 2005 levels by 2012, 17% by 2020, and 83% by 2050. In order to cushion potential rate impacts for utility customers, approximately 43% of emissions allowances would initially be allocated at no cost to the electric utility sector, with this allocation gradually declining to 7% in 2029 and zero thereafter. The bill would also establish a renewable electricity standard requiring utilities to meet 20% of their electricity demand through renewable energy and energy efficiency by 2020. The bill contains additional provisions regarding carbon capture and sequestration, clean transportation, smart grid advancement, nuclear and advanced technologies and energy efficiency. Senate action on similar legislation is not expected until later this year.

In September 2009, the Clean Energy Jobs and American Power Act (S. 1733), which is largely patterned on the House legislation, was introduced in the U.S. Senate. The Senate bill raises the emissions reduction target for 2020 to 20% below 2005 levels and does not include a renewable electricity standard. While the initial bill lacked detailed provisions for the allocation of emissions allowances, a subsequent revision has incorporated allowance allocation provisions similar to the House bill. The Company is closely monitoring the progress of the legislation, although the prospect for passage of comprehensive GHG legislation in 2010 is uncertain.

GHG Regulations. In April 2007, the U.S. Supreme Court ruled that the EPA has the authority to regulate GHG under the Clean Air Act. In April 2009, the EPA issued a proposed endangerment finding concluding that GHGs from motor vehicles endanger public health and welfare, which is an initial rulemaking step under the Clean Air Act. A final endangerment finding is likely in early 2010. In September 2009, the EPA issued a final GHG reporting rule requiring reporting by facilities with annual GHG emissions equivalent to at least 25,000 tons of carbon dioxide. A number of the Company's facilities will be required to submit annual reports commencing with calendar year 2010. Also in September 2009, the EPA proposed to require new or modified sources with GHG emissions equivalent to at least 25,000 tons of carbon dioxide to obtain permits under the Prevention of Significant Deterioration Program. Such new or modified facilities would be required to install Best Available Control Technology. While the Company is unaware of any currently available GHG control technology that might be required for installation on new or modified power plants, it is currently assessing the potential impact of the proposed rule. A final rule is expected in 2010.

The Company is unable to predict whether mandatory GHG reduction requirements will ultimately be enacted through legislation or regulations. As a company with significant coal-fired generating assets, LG&E could be substantially impacted by programs requiring mandatory reductions in GHG emissions, although the precise impact on its operations, including the reduction targets and deadlines that would be applicable, cannot be determined prior to the enactment of such programs. While the Company believes that many costs of complying with mandatory GHG reduction requirements or purchasing emission allowances to meet applicable requirements would likely be recoverable, in whole or in part under the ECR, where such costs are related to the Company's coal-fired generating assets, or other potential cost-recovery mechanisms, this cannot be assured.

GHG Litigation. A number of lawsuits have been filed asserting common law claims including nuisance, trespass and negligence against various companies with GHG emitting facilities. In October 2009, the United States Court of Appeals for the 5th Circuit in the case of Comer v. Murphy Oil reversed a lower court, holding that private plaintiffs have standing to assert certain common law claims against more than 30 utility, oil, coal and chemical companies. The Comer complaint alleges that GHG emissions from the defendants' facilities contributed to global warming which increased the intensity of Hurricane Katrina. E.ON, the parent of LG&E and KU was included as defendant in the complaint, but has not been subject to the proceedings due to the failure of the plaintiffs to pursue service under the applicable international procedures. LG&E and KU are currently unable to predict further developments in the Comer case, including whether the plaintiffs will continue with a previously-dismissed motion seeking to amend their complaint to add the Companies as parties. LG&E and KU continue to monitor relevant GHG litigation to identify judicial developments that may be potentially relevant to their operations.

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

Ash Ponds, Coal-Combustion Byproducts and Water Discharges. The EPA has undertaken various initiatives in response to the December 2008 impoundment failure at the Tennessee Valley Authority's Kingston power plant, which resulted in a major release of coal combustion byproducts into the environment. The EPA issued information requests to utilities throughout the country, including LG&E, to obtain information on their ash ponds and other impoundments. In addition, the EPA inspected a large number of impoundments located at power plants to determine their structural integrity. The inspections included several of the Company's impoundments, which the EPA found to be in satisfactory condition. The EPA and other agencies are currently considering the need to revise applicable standards governing the structural integrity of ash ponds and other impoundments. In addition, the EPA has announced that it is re-evaluating current regulatory requirements applicable to coal combustion byproducts and anticipates proposing new rules by the end of 2009. The EPA is considering a wide range of regulatory options including subjecting ash ponds and landfills handling coal combustion byproducts to regulation under the hazardous waste program. Finally, the EPA has announced plans to develop revised effluent limitations guidelines and standards governing discharges from power plants. The Company is monitoring these ongoing regulatory developments, but will be unable to determine the impact until such time as new rules are finalized.

General Environmental Proceedings. From time to time, LG&E appears before the EPA, various state or local regulatory agencies and state and federal courts regarding matters involving compliance with applicable environmental laws and regulations. Such matters include remediation obligations or activities for former manufactured gas plant sites or elevated polychlorinated biphenyl levels at existing properties; liability under the Comprehensive Environmental Response, Compensation and Liability Act for cleanup at various off-site waste sites; on-going claims regarding alleged particulate emissions from LG&E's Cane Run station and claims regarding GHG emissions from LG&E's generating stations. With respect to the former manufactured gas plant sites, LG&E has estimated that it could incur additional costs of less than $1 million for remaining clean-up activities under existing approved plans or agreements. Based on analysis to date, the resolution of these matters is not expected to have a material impact on the operations of LG&E.

Note 8 - Segments of Business

LG&E's revenues, net income and total assets by business segment follow:

(in millions)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
LG&E Electric				
Revenues	$ 248	$ 284	$ 711	$ 748
Net income	55	37	70	70
Total assets	2,834	2,637	2,834	2,637
LG&E Gas				
Revenues	28	47	270	295
Net income	(5)	(4)	6	3
Total assets	714	774	714	774
Total				
Revenues	276	331	981	1,043
Net income	50	33	76	73
Total assets	3,548	3,411	3,548	3,411

Note 9 - Related Party Transactions

LG&E, subsidiaries of E.ON U.S. and subsidiaries of E.ON engage in related party transactions. Transactions between LG&E and E.ON U.S. subsidiaries are eliminated upon consolidation of E.ON U.S. Transactions between LG&E and E.ON subsidiaries are eliminated upon consolidation of E.ON. These transactions are generally performed at cost and are in accordance with FERC regulations under the Public Utility Holding Company Act of 2005 and the applicable Kentucky Commission regulations. The significant related party transactions are disclosed below.

Electric Purchases

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

(in millions)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Electric operating revenues from KU	$ 21	$ 21	$ 79	$ 73
Purchased power from KU	1	15	15	44

Interest Charges

See Note 6, Short-Term and Long-Term Debt, for details of intercompany borrowing arrangements. Intercompany agreements do not require interest payments for receivables related to services provided when settled within 30 days.

LG&E's intercompany interest expense was as follows:

(in millions)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Interest on money pool loans	$ 1	$ 2	$ 1	$ 4
Interest on Fidelia loans	7	6	20	17

Other Intercompany Billings

E.ON U.S. Services provides the Company with a variety of centralized administrative, management and support services. These charges include payroll taxes paid by E.ON U.S. Services on behalf of LG&E, labor and burdens of E.ON U.S. Services employees performing services for LG&E, coal purchases and other vouchers paid by E.ON U.S. Services on behalf of LG&E. 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 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 E.ON U.S. Services. Billings between LG&E and KU relate to labor and overheads associated with union and hourly employees performing work for the other utility, charges related to jointly-owned generating units and other miscellaneous charges. Billings from LG&E to E.ON U.S. Services include cash received by E.ON U.S. Services on behalf of LG&E, primarily tax settlements, and other payments made by the Company on behalf of other non-regulated businesses which are reimbursed through E.ON U.S. Services.

Intercompany billings to and from LG&E were as follows:

(in millions)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
E.ON U.S. Services billings to LG&E	$ 37	$ 50	$ 132	$ 152
LG&E billings to KU	-	-	-	5
KU billings to LG&E	16	21	63	58
LG&E billings to E.ON U.S. Services	1	1	1	4

In March and June 2009, the Company paid dividends of $35 million and $45 million, respectively, to its common shareholder, E.ON U.S.

Note 10 - Subsequent Events

Subsequent events have been evaluated through November 12, 2009, the date of issuance of these statements and these statements contain all necessary adjustments and disclosures resulting from that evaluation.

On November 6, 2009, in their proceeding applying for approval of and cost recovery for two wind power contracts, LG&E and KU filed a motion for reconsideration of the Kentucky Commission's October 2009 Order denying consideration of the cost recovery aspects of the application until a future base rate case application.

Management's Discussion and Analysis

General

The following discussion and analysis by management focuses on those factors that had a material effect on LG&E's financial results of operations and financial condition during the three and nine month periods ended September 30, 2009, and should be read in connection with the financial statements and notes thereto.

Some of the following discussion may contain forward-looking statements that are subject to certain risks, uncertainties and assumptions. Such forward-looking statements are intended to be identified in this document by the words "anticipate," "expect," "estimate," "objective," "possible," "potential" and similar expressions. Actual results may vary materially. Factors that could cause actual results to differ materially include: general economic conditions; business and competitive conditions in the energy industry; changes in federal or state legislation; unusual weather; actions by state or federal regulatory agencies; and other factors described from time to time in the Company's reports, including the Annual Report for the year ended December 31, 2008.

Executive Summary

Business

LG&E, incorporated in Kentucky in 1913, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy and the storage, distribution and sale of natural gas. LG&E provides electric service to approximately 391,000 customers in Louisville and adjacent areas in Kentucky covering approximately 700 square miles in 9 counties. Natural gas service is provided to approximately 316,000 customers in its electric service area and 8 additional counties in Kentucky. Approximately 98% of the electricity generated by LG&E is produced by its coal-fired electric generating stations, all equipped with systems to reduce SO_2 emissions. The remainder is generated by a hydroelectric power plant and natural gas and oil fueled combustion turbines. Underground natural gas storage fields help LG&E provide economical and reliable natural gas service to customers.

LG&E is a wholly-owned subsidiary of E.ON U.S., an indirect wholly-owned subsidiary of E.ON, a German corporation. LG&E's affiliate, KU, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee.

Regulatory Matters

In January 2009, LG&E, the AG, KIUC and all other parties to electric and gas base rate cases filed a settlement agreement with the Kentucky Commission. Under the terms of the settlement agreement, the Company's base gas rates will increase $22 million annually, and base electric rates will decrease $13 million annually. An Order approving the settlement was received in February 2009, and the new rates were implemented effective February 6, 2009. In connection with the application and effective date of the new rates, the VDT surcredit and merger surcredit terminated, which will result in increased revenues of approximately $21 million annually.

In January 2009, a significant winter ice storm passed through LG&E's service territory causing approximately 205,000 customer outages, followed closely by a severe wind storm in February 2009, causing approximately 37,000 customer outages. LG&E incurred $44 million of incremental operation and maintenance expenses and $10 million of capital expenditures related to the restoration following the two storms. The Company filed an application with the Kentucky Commission in April 2009, requesting approval to establish a regulatory asset, and defer for future recovery, approximately $45 million in incremental operation and maintenance expenses related to the storm restoration. In September 2009, the Kentucky Commission issued an Order allowing the Company to establish a regulatory asset of up to $45 million based on its actual costs for storm damages and service restoration due to the January and February 2009 winter storms. In September 2009, the Company established a regulatory asset of $44 million for actual costs incurred.

In September 2008, high winds from the remnants of Hurricane Ike passed through the service territory causing significant outages and system damage. In October 2008, LG&E filed an application with the Kentucky Commission requesting approval to establish a regulatory asset, and defer for future recovery, approximately $24 million of expenses related to the storm restoration. In December 2008, the Kentucky Commission issued an Order allowing the Company to establish a regulatory asset of up to $24 million based on its actual costs for storm damages and service restoration due to Hurricane Ike. In December 2008, the Company established a regulatory asset of $24 million for actual costs incurred.

Environmental Matters; Climate-Change Developments

Protection of the environment is a major priority for LG&E. Federal, state and local regulatory agencies have issued LG&E permits for various activities subject to air quality, water quality and waste management laws and regulations. Recent developments continue to indicate an increased possibility of significant climate-change or greenhouse gas legislation or regulation, particularly at the federal level. While the final terms and impacts of such initiatives cannot currently be estimated, as a primarily coal-fueled utility, the Company could be highly affected by such proceedings. Ultimately, environmental matters or potential environmental matters can represent an important element of current or future capital requirements, operating and maintenance expenses or compliance risks for the Company. See Note 7 of Notes to Financial Statements for more information.

Results of Operations

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

Three Months Ended September 30, 2009, Compared to Three Months Ended September 30, 2008

Net Income

Net income for the three months ended September 30, 2009, increased $17 million compared to the same period in 2008. The increase was primarily the result of decreased operating expenses ($95 million), partially offset by decreased operating revenues ($55 million), increased income taxes ($16 million) and increased other expense – net ($7 million).

Revenues

Electric revenues decreased $36 million in the three months ended September 30, 2009, primarily due to:

- Decreased wholesale sales ($22 million) due to lower sales volumes with third-parties ($27 million) as a result of scheduled coal-fired generation unit outages during July 2009, and lower economic capacity caused by lower spot market pricing in the third quarter of 2009. Gains in energy marketing financial swaps ($5 million) partially offset by decreased wholesale sales.
- Decreased retail sales volumes delivered ($14 million) due to mild weather and weakened economic conditions
- Decreased base rates ($10 million) due to the application of the Kentucky base rate case settlement in February 2009
- Decreased mark-to-market income ($2 million) due to a change in power swaps resulting from increased market prices and higher trading volume
- Decreased fuel costs billed to customers through the FAC ($1 million) due to lower fuel prices
- Increased DSM revenue ($5 million) due to increased recoverable program spending
- Increased ECR surcharge ($4 million) due to increased recoverable capital spending
- Decreased merger surcredit ($3 million) due to the surcredit termination in February 2009
- Decreased VDT surcredit ($1 million) due to its termination in August 2008
- Increased miscellaneous revenue ($1 million) due to late payment charges resulting from weakened economic conditions

Natural gas revenues decreased $19 million in the three months ended September 30, 2009, primarily due to:

- Decreased average cost of gas billed to retail customers through the GSC ($20 million) due to decreased natural gas supply costs
- Decreased retail sales volumes delivered ($2 million) due to weakened economic conditions
- Increased base rates ($2 million) due to application of the base rate case settlement in February 2009
- Increased DSM revenue ($1 million) due to increased recoverable program spending

Expenses

Fuel for electric generation and natural gas supply expense comprise a large component of total operating expenses. Increases or decreases in the costs of fuel and natural gas supply are reflected in retail rates through the FAC and GSC, subject to the approval of the Kentucky Commission.

Fuel for electric generation decreased $13 million in the three months ended September 30, 2009, primarily due to:

- Decreased commodity and transportation costs for gas and coal ($10 million)
- Decreased volumes of fuel usage ($3 million) due to decreased native load and wholesale sales

Power purchased expense decreased $17 million in the three months ended September 30, 2009, primarily due to:

- Decreased purchased volumes from KU ($15 million) as a result of KU's units held in reserve due to low spot market pricing during the third quarter of 2009. Via a mutual agreement, LG&E sells its lower cost electricity to KU to serve KU's native load and purchases KU's excess economic capacity for LG&E to make wholesale sales.
- Decreased prices for third-party purchases ($2 million) due to lower native load prices as a result of lower spot market pricing

Gas supply expenses decreased $22 million in the three months ended September 30, 2009, due to decreased cost of net gas supply billed to customers resulting from lower volumes ($11 million), lower recoveries of expected gas costs ($6 million), compared to actual gas costs incurred during the period and lower cost per Mcf ($5 million).

Other operation and maintenance expense decreased $46 million in the three months ended September 30, 2009, due to decreased maintenance expense ($56 million), partially offset by increased other operation expense ($10 million).

Maintenance expense decreased $56 million in the three months ended September 30, 2009, primarily due to decreased distribution expense ($56 million) due to the reclassification of 2009 wind and ice storm expenses as a regulatory asset ($42 million) and due to 2008 wind storm expenses ($15 million) which were expensed in the third quarter of 2008 and reclassified as a regulatory asset in the fourth quarter of 2008

Other operation expense increased $10 million in the three months ended September 30, 2009, primarily due to:

- Increased administrative and general expense ($12 million) due to timing of DSM expenditures
- Increased pension expense ($6 million) due to lower 2008 pension asset investment performance
- Decreased distribution operation expense ($7 million) due to 2008 wind storm expenses which were expensed in the third quarter of 2008 and reclassified as a regulatory asset in the fourth quarter of 2008
- Decreased distribution expense ($2 million) due to the reclassification of 2009 wind and ice storm restoration expenses to a regulatory asset

Other expense – net increased $7 million in the three months ended September 30, 2009, primarily due to:

- Decreased as a result of a 2008 gain on the sale of company property ($9 million)
- Increased ($1 million) due to the change in the ineffective portion of the effective interest rate swap

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

	Three Months Ended September 30,	
	2009	2008
Statutory federal income tax rate	35.0 %	35.0 %
State income taxes, net of federal benefit	3.3	(1.7)
Qualified production activities deduction	(0.3)	(1.0)
Amortization of investment tax credits	(1.0)	(2.2)
Other differences	(0.3)	(1.8)
Effective income tax rate	36.7 %	28.3 %

The effective income tax rate increased for the three months ended September 30, 2009, compared to the three months ended September 30, 2008, primarily due to increased pretax income. The pretax income increased 72% for the three months ended September 30, 2009, compared to the three months ended September 30, 2008. State income taxes, net of federal benefit increased for the three months ended September 30, 2009 compared to the three months ended September 30, 2008 due to a recycle credit recorded in 2008.

Nine Months Ended September 30, 2009, Compared to Nine Months Ended September 30, 2008

Net Income

Net income for the nine months ended September 30, 2009, increased $3 million compared to the same period in 2008. The increase was primarily the result of decreased operating expense ($56 million), increased other income – net ($11 million) and decreased interest expense ($6 million), partially offset by decreased revenues ($62 million) and increased income taxes ($11 million).

Revenues

Electric revenues decreased $37 million in the nine months ended September 30, 2009, primarily due to:

- Decreased wholesale sales ($40 million) due to lower sales volumes with third-parties ($50 million) as a result of scheduled coal-fired generation unit outages during January through April 2009, and lower economic capacity caused by lower spot market pricing during the majority of 2009. Third-party prices decreased ($5 million) as a result of lower spot market pricing. These decreases were offset by increased sales volumes to KU ($11 million) as a result of excess generation made available by KU. Via a mutual agreement, LG&E sells its lower cost electricity to KU to serve KU's native load and purchases KU's excess economic capacity for LG&E to make wholesale sales. Decreased fuel costs for sales to KU ($4 million) and gains in energy marketing financial swaps ($8 million) also offset decreased wholesale sales.

- Decreased retail sales volumes delivered ($26 million) due to weakened economic conditions, significant 2009 storm outages and mild weather
- Decreased base rates ($10 million) due to the application of the Kentucky base rate case settlement in February 2009
- Decreased mark-to-market income ($2 million) due to a change in power swaps resulting from increased market prices and higher trading volume
- Increased fuel costs billed to customers through the FAC ($12 million) due to increased fuel prices
- Decreased merger surcredit ($11 million) due to a lower rate approved by the Kentucky Commission in June 2008, and the surcredit termination in February 2009
- Increased ECR surcharge ($7 million) due to increased recoverable capital spending
- Increased DSM revenue ($5 million) due to increased recoverable program spending
- Decreased VDT surcredit ($4 million) due to its termination in August 2008
- Increased miscellaneous revenue ($3 million) due to late payment charges resulting from weakened economic conditions

Natural gas revenues decreased $25 million in the nine months ended September 30, 2009, primarily due to:

- Decreased sales volumes ($18 million) due to weakened economic conditions
- Decreased wholesale sales ($7 million) due to lower demand from wholesale customers
- Decreased average cost of gas billed to retail customers through the GSC ($7 million) due to decreased natural gas supply costs
- Increased base rates ($4 million) due to the application of the Kentucky base rate case settlement in February 2009
- Increased miscellaneous revenue ($1 million) due to late payment charges resulting from weakened economic conditions
- Decreased VDT surcredit ($1 million) due to its termination in August 2008

Expenses

Fuel for electric generation and natural gas supply expense comprise a large component of total operating expenses. Increases or decreases in the costs of fuel and natural gas supply are reflected in retail rates through the FAC and GSC, subject to the approval of the Kentucky Commission.

Fuel for electric generation decreased $1 million in the nine months ended September 30, 2009, primarily due to:

- Decreased volumes of fuel usage ($4 million) due to decreased native load and wholesale sales
- Increased commodity and transportation costs for coal ($3 million)

Power purchased expense decreased $32 million in the nine months ended September 30, 2009, primarily due to:

- Decreased purchased volumes from KU ($32 million) as a result of KU's scheduled coal-fired generation unit outages during January through April 2009, and KU's units held in reserve as a result of low spot market pricing for the majority of 2009
- Decreased volumes ($1 million) and prices ($1 million) for third-party purchases due to lower native load requirements and lower spot market pricing, respectively
- Increased demand payments for third-party purchases ($2 million) on long-term contracts

Gas supply expenses decreased $35 million in the nine months ended September 30, 2009, primarily due to:

- Decreased cost of net gas supply billed to customers ($29 million) resulting from lower cost per Mcf ($51 million) and lower volumes ($21 million), partially offset by higher recoveries of expected gas costs ($43 million), compared to actual gas costs incurred during the period
- Decreased expense ($6 million) due to a decline in volume of wholesale sales of purchased gas

Other operation and maintenance expense increased $5 million in the nine months ended September 30, 2009, due to increased other operation expense ($25 million), partially offset by decreased maintenance expense ($20 million).

Other operation expense increased $25 million in the nine months ended September 30, 2009, primarily due to:

- Increased pension expense ($18 million) due to lower 2008 pension asset investment performance
- Increased administrative and general expense ($13 million) due to timing of DSM expenditures, consulting fees for software training and increased labor and benefit costs
- Increased property tax ($1 million) due to higher tax assessment resulting from construction expenditures
- Decreased distribution expense ($7 million) due to repair of overhead lines and miscellaneous distribution expense as a result of 2008 wind storm which were expensed in the third quarter of 2008 and reclassified to regulatory asset in the fourth quarter of 2008
- Decreased transmission expense ($1 million) due to the establishment of regulatory assets approved by the Kentucky Commission for EKPC settlement and MISO refund and lower off-system transmission purchases from KU resulting from units held in reserve as a result of low spot market pricing which reduced excess generation

Maintenance expense decreased $20 million in the nine months ended September 30, 2009, primarily due to:

- Decreased distribution expense ($15 million) due to tree trimming, maintenance of overhead lines and line transformers as a result of 2008 wind storm which were expensed in the third quarter of 2008 and reclassified to regulatory asset in the fourth quarter of 2008
- Decreased steam maintenance expense ($5 million) due to timing of scheduled unit outages and routine maintenance
- Decreased distribution expense ($3 million) as a result of 2008 winter storms

- Increased distribution expense ($1 million) due to increased gas leak repairs
- Increased administrative and general expense ($1 million) due to increased labor and system maintenance contracts resulting from completion of a significant in-house customer information system project

Other income – net increased $10 million in the nine months ended September 30, 2009, primarily due to:

- Increased ($19 million) due to a gain from the change in the mark-to-market value of ineffective interest rate swaps
- Decreased as a result of a 2008 gain on the sale of company property ($9 million)

Interest expense, including interest expense to affiliated companies, decreased $7 million in the nine months ended September 30, 2009, primarily due to:

- Decreased ($5 million) due to lower interest rates on bonds
- Decreased ($2 million) due to the change in the ineffective portion of the effective interest rate swap

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

	Nine Months Ended September 30,	
	2009	2008
Statutory federal income tax rate	35.0 %	35.0 %
State income taxes, net of federal benefit	2.8	0.9
Qualified production activities deduction	(0.4)	(1.2)
Amortization of investment tax credits	(2.0)	(2.8)
Other differences	(0.4)	(0.8)
Effective income tax rate	35.0 %	31.1 %

The effective income tax rate increased for the nine months ended September 30, 2009, compared to the nine months ended September 30, 2008, primarily due to an increase in state income tax, net of federal benefit and a decrease in the qualified production activities deduction due to changes in the level of taxable income. The state income tax increase was primarily due to a recycle credit recorded in 2008.

Liquidity and Capital Resources

LG&E uses net cash generated from its operations, external financing (including financing from affiliates) and/or infusions of capital from its parent to fund construction of plant and equipment and the payment of dividends. As of September 30, 2009, LG&E had a working capital deficiency of $170 million, primarily due to short-term debt from affiliates associated with the repurchase of certain of its tax-exempt bonds totaling $163 million, and $120 million of tax-exempt bonds which allow the investors to put the bonds back to the Company causing them to be classified as current portion of long-term debt. The Company has adequate liquidity facilities to repurchase any bonds put back to the Company. The repurchased bonds are being held until they can be refinanced or restructured. See Note 6 of Notes to Financial Statements. LG&E believes that its sources of funds will be sufficient to meet the needs of its business in the foreseeable future.

Operating Activities

The $114 million increase in net cash provided by operating activities for the nine months ended September 30, 2009 compared to September 30, 2008, was primarily the result of changes in:

- Materials and supplies ($81 million) primarily due to gas price decreases
- Accounts receivable ($65 million) primarily due to timing on collection of accounts
- Gas supply clause receivable, net ($45 million) due to the timing of GSC collections
- Earnings, net of non-cash items ($33 million)
- Fuel adjustment clause receivable ($7 million)
- Collateral deposit – interest rate swap ($7 million) due to decreased collateral required related to decrease in derivative liability
- Other current assets and liabilities ($4 million)

These increases were partially offset by changes in:

- Accounts payable ($52 million) primarily due to accruals relating to Hurricane Ike storm restoration in 2008, higher gas costs in 2008, timing of payments and lower accruals
- Storm restoration costs ($44 million) established as a regulatory asset for the 2009 winter storm restoration expenses
- Accrued income taxes ($14 million)
- Pension and postretirement funding ($9 million)
- Other ($8 million)
- Long-term derivative liability ($1 million) primarily due to market conditions

Investing Activities

Net cash used for investing activities decreased $33 million in the nine months ended September 30, 2009, compared to 2008. The primary use of funds for investing activities continues to be for capital expenditures. Capital expenditures were $127 million and $179 million in the nine months ended September 30, 2009 and 2008, respectively, a net decrease of $52 million. This decrease was partially offset by a decrease in assets transferred to KU for TC2 of $10 million and decreased proceeds from the sale of assets of $9 million.

Financing Activities

Net cash flows used for financing activities were $153 million and $8 million in the nine months ended September 30, 2009 and 2008, respectively, resulting in an increase in net cash used for financing activities of $145 million. The increase in financing cash outflows is due to lower short-term borrowings net of repayments from an affiliated company of $339 million, increased dividend payments of $40 million and lower long-term borrowings from an affiliated company of $25 million, partially offset by decreased reacquisition of long-term bonds of $259 million.

See Note 6 of Notes to Financial Statements for information of redemptions, maturities and issuances of long-term debt.

Future Capital Requirements

LG&E's construction program is designed to ensure that there will be adequate capacity and reliability to meet the electric needs of its service area and to comply with environmental regulations. These needs are continually being reassessed and appropriate revisions are made, when necessary, in construction schedules. LG&E expects its capital expenditures for the three year period ending December 31, 2011, to total approximately $690 million, consisting primarily of on-going construction related to distribution assets totaling approximately $345 million, on-going construction related to generation assets totaling approximately $240 million, construction of TC2 totaling approximately $35 million (including $5 million for environmental controls), redevelopment of the Ohio Falls hydroelectric facility totaling approximately $35 million, and information technology projects of approximately $35 million.

Future capital requirements may be affected in varying degrees by factors such as electric energy demand load growth, changes in construction expenditure levels, rate actions by regulatory agencies, new legislation, changes in commodity prices and labor rates, changes in environmental regulations and other regulatory requirements. Credit market conditions can affect aspects of the availability, terms or methods in which the Company funds its capital requirements. LG&E anticipates funding future capital requirements through operating cash flow, debt and/or infusions of capital from its parent.

LG&E has a variety of funding alternatives available to meet its capital requirements. The Company participates in an intercompany money pool agreement wherein E.ON U.S. and/or KU make funds of up to $400 million available to the Company at market-based rates. See Note 6 of Notes to Financial Statements. Fidelia also provides long-term intercompany funding to LG&E.

Regulatory approvals are required for LG&E to incur additional debt. The FERC authorizes the issuance of short-term debt while the Kentucky Commission authorizes the issuance of long-term debt. In November 2007, LG&E received a two-year authorization from the FERC to borrow up to $400 million in short-term funds. As of September 30, 2009, LG&E has borrowed $149 million of this authorized amount. See Note 6 of Notes to Financial Statements.

A significant portion of LG&E's short-term debt balance ($163 million) is for borrowings incurred to repurchase auction rate tax-exempt bonds. Following the repurchase, the auction rate tax-exempt bonds have been removed from the balance sheet. However, these bonds are being held until they can be refinanced or restructured. Given the uncertainty surrounding the timing of when the bonds could be remarketed to the public due to the current state of the capital markets and the $400 million limit on short-term debt, in October 2008, the Company sought and received authority from the Kentucky Commission to issue up to $100 million of new long-term debt to its affiliate, Fidelia. The Company currently believes this authorization provides the necessary flexibility to address any liquidity needs.

The Company's debt ratings as of September 30, 2009, were:

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

These ratings reflect the views of Moody's and S&P. A security rating is not a recommendation to buy, sell or hold securities and is subject to revision or withdrawal at any time by the rating agency. See Note 6 of Notes to Financial Statements for a discussion of 2008 and 2009 downgrade actions related to the pollution control revenue bonds caused by a change in the rating of the entity insuring those bonds.

Controls and Procedures

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

LG&E is not subject to the internal control and other requirements of the Sarbanes-Oxley Act of 2002 and associated rules (the "Act") and consequently is not required to evaluate the effectiveness of the Company's internal control over financial reporting pursuant to Section 404 of the Act. However, management has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2008, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework.* Management has concluded that, as of December 31, 2008, the Company's internal control over financial reporting was effective based on those criteria. Effective April 1, 2009, the Company initiated a new software and data system for customer accounts and associated billing, management, operations and record-keeping aspects thereof, following a comprehensive planning, testing and implementation project. There were no changes to the Company's internal controls as a result of the new software implementation. There have been no changes in the Company's internal control over financial reporting that occurred during the nine months ended September 30, 2009, that has materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2008, was audited by PricewaterhouseCoopers LLP, an independent accounting firm, as stated in its report which is included in the 2008 LG&E Annual Report.

Legal Proceedings

For a description of the significant legal proceedings involving LG&E, reference is made to the information under the following captions of the Company's Annual Report for the year ended December 31, 2008: Business, Risk Factors, Legal Proceedings, Management's Discussion and Analysis, Financial Statements and Notes to Financial Statements. Reference is also made to the matters described in Notes 2, 7 and 10 of this quarterly report. Except as described in this quarterly report,.to date, the proceedings reported in the Company's Annual Report for the year ended December 31, 2008 have not materially changed.

Other

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

2009 - 2nd Quarter Financial Statements and Additional Information

Louisville Gas and Electric Company

Financial Statements and Additional Information

(Unaudited)

As of June 30, 2009 and December 31, 2008
and for the three-month and six-month periods ended
June 30, 2009 and 2008

INDEX OF ABBREVIATIONS

AG	Attorney General of Kentucky
APB	Accounting Principles Board
ARO	Asset Retirement Obligation
BART	Best Available Retrofit Technology
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
CCN	Certificate of Public Convenience and Necessity
Clean Air Act	The Clean Air Act, as amended in 1990
Company	LG&E
DSM	Demand Side Management
ECR	Environmental Cost Recovery
EKPC	East Kentucky Power Cooperative, Inc.
E.ON	E.ON AG
E.ON U.S.	E.ON U.S. LLC
E.ON U.S. Services	E.ON U.S. Services Inc.
EPA	U.S. Environmental Protection Agency
FAC	Fuel Adjustment Clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Fidelia	Fidelia Corporation (an E.ON affiliate)
FIN	FASB Interpretation No.
FSP	FASB Staff Position
GHG	Greenhouse Gas
GSC	Gas Supply Clause
IRS	Internal Revenue Service
KCCS	Kentucky Consortium for Carbon Storage
KDAQ	Kentucky Division for Air Quality
Kentucky Commission	Kentucky Public Service Commission
KIUC	Kentucky Industrial Utility Consumers, Inc.
KU	Kentucky Utilities Company
LG&E	Louisville Gas and Electric Company
Mcf	Thousand Cubic Feet
MISO	Midwest Independent Transmission System Operator, Inc.
MMBtu	Million British thermal units
Moody's	Moody's Investors Service, Inc.
Mw	Megawatts
Mwh	Megawatt hours
NAAQS	National Ambient Air Quality Standards
NERC	North American Electric Reliability Corporation
NOx	Nitrogen Oxide
OCI	Other Comprehensive Income
RSG	Revenue Sufficiency Guarantee
S&P	Standard & Poor's Ratings Services
SERC	SERC Reliability Corporation
SFAS	Statement of Financial Accounting Standards
SIP	State Implementation Plan
SO_2	Sulfur Dioxide
TC2	Trimble County Unit 2
VDT	Value Delivery Team Process

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Louisville Gas and Electric Company
Statements of Income
(Unaudited)
(Millions of $)

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
OPERATING REVENUES				
Electric (Note 9)	$ 229	$ 240	$ 462	$ 464
Gas	50	58	242	248
Total operating revenues	279	298	704	712
OPERATING EXPENSES				
Fuel for electric generation	83	82	173	161
Power purchased (Note 9)	14	23	33	47
Gas supply expenses	29	39	179	192
Other operation and maintenance expenses (Note 2)	85	78	208	158
Depreciation and amortization	34	31	67	63
Total operating expenses	245	253	660	621
Operating income	34	45	44	91
Other (income) expense– net (Note 3)	(11)	2	(18)	4
Interest expense (Notes 3 and 6)	5	7	10	15
Interest expense to affiliated companies (Notes 6 and 9)	7	7	14	12
Income before income taxes	33	29	38	60
Federal and state income tax expense (Note 5)	12	10	12	20
Net income	$ 21	$ 19	$ 26	$ 40

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

Statements of Retained Earnings
(Unaudited)
(Millions of $)

	Three Months Ended June 30, *2009*	Three Months Ended June 30, *2008*	Six Months Ended June 30, *2009*	Six Months Ended June 30, *2008*
Balance at beginning of period	$ 710	$ 671	$ 740	$ 690
Net income	21	19	26	40
Cash dividends declared on common stock (Note 9)	45	-	80	40
Balance at end of period	$ 686	$ 690	$ 686	$ 690

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

Louisville Gas and Electric Company
Balance Sheets
(Unaudited)
(Millions of $)

ASSETS	June 30, 2009	December 31, 2008
Current assets:		
Cash and cash equivalents	$ 4	$ 4
Restricted cash	1	2
Accounts receivable, net:		
Customer – less reserves of $3 million and $1 million as of June 30, 2009 and December 31, 2008, respectively	122	180
Other – less reserves of $1 million as of June 30, 2009 and December 31, 2008	11	23
Materials and supplies:		
Fuel (predominantly coal)	55	51
Gas stored underground	29	112
Other materials and supplies	33	32
Regulatory assets (Note 2)	17	43
Prepayments and other current assets	7	7
Total current assets	279	454
Utility plant:		
At original cost	4,218	4,132
Less: reserve for depreciation	1,726	1,690
Total utility plant, net	2,492	2,442
Construction work in progress	350	374
Total utility plant and construction work in progress	2,842	2,816
Deferred debits and other assets:		
Collateral deposit (Note 3)	15	22
Regulatory assets (Note 2):		
Pension and postretirement benefits	250	250
Other	82	89
Other assets	5	6
Total deferred debits and other assets	352	367
Total assets	$ 3,473	$ 3,637

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

Louisville Gas and Electric Company
Balance Sheets (cont.)
(Unaudited)
(Millions of $)

LIABILITIES AND EQUITY	June 30, 2009	December 31, 2008
Current liabilities:		
Current portion of long-term debt (Note 6)	$ 120	$ 120
Notes payable to affiliated companies (Notes 6 and 9)	153	222
Accounts payable	70	100
Accounts payable to affiliated companies (Note 9)	31	38
Deferred income taxes – net (Note 5)	21	10
Customer deposits	22	22
Regulatory liabilities (Note 2)	46	35
Other current liabilities	39	43
Total current liabilities	502	590
Long-term debt:		
Long-term bonds (Note 6)	291	291
Long-term debt to affiliated company (Notes 6 and 9)	485	485
Total long-term debt	776	776
Deferred credits and other liabilities:		
Accumulated deferred income taxes (Note 5)	335	342
Accumulated provision for pensions and related benefits (Note 4)	230	225
Investment tax credit (Note 5)	51	50
Asset retirement obligations	31	31
Regulatory liabilities (Note 2):		
Accumulated cost of removal of utility plant	256	251
Deferred income taxes – net	43	45
Other	6	11
Derivative liability (Note 3)	32	55
Other liabilities	27	27
Total deferred credits and other liabilities	1,011	1,037
Common equity:		
Common stock, without par value -		
Authorized 75,000,000 shares, outstanding 21,294,223 shares	424	424
Additional paid-in capital	84	84
Accumulated other comprehensive loss	(10)	(14)
Retained earnings (Note 9)	686	740
Total common equity	1,184	1,234
Total liabilities and equity	$ 3,473	$ 3,637

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

Louisville Gas and Electric Company
Statements of Cash Flows
(Unaudited)
(Millions of $)

	For the Six Months Ended June 30, 2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 26	$ 40
Items not requiring cash currently:		
Depreciation and amortization	67	62
Provision for pension and postretirement plans	17	7
Derivative liability	(17)	1
Other	6	7
Changes in current assets and liabilities:		
Accounts receivable	71	26
Materials and supplies	78	45
Accounts payable	(36)	(4)
Accrued income taxes	(6)	(4)
Other current assets and liabilities	8	1
Long-term derivative liability	(7)	-
Collateral deposit – interest rate swap (Note 3)	7	-
Pension and postretirement funding (Note 4)	(11)	(2)
Gas supply clause, net	30	(22)
Fuel adjustment clause	5	4
Other	5	5
Net cash provided by operating activities	243	166
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction expenditures	(92)	(116)
Assets transferred to affiliate	-	10
Risk management contracts	(2)	-
Net cash used for investing activities	(94)	(106)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Short-term borrowings from affiliated company – net (Note 6)	(69)	110
Reacquired bonds (Note 6)	-	(131)
Payment of dividends (Note 9)	(80)	(40)
Net cash used for financing activities	(149)	(61)
CHANGE IN CASH AND CASH EQUIVALENTS	-	(1)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	4	4
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 4	$ 3

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

Louisville Gas and Electric Company
Statements of Comprehensive Income
(Unaudited)
(Millions of $)

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Net income	$ 21	$ 19	$ 26	$ 40
Gain on derivative instruments and hedging activities - net of tax expense of $2 million, $3 million, $2 million and $1 million, respectively (Note 3)	2	5	4	2
Comprehensive income	$ 23	$ 24	$ 30	$ 42

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

Louisville Gas and Electric Company
Notes to Financial Statements
(Unaudited)

Note 1 - General

The unaudited financial statements include the accounts of the Company. LG&E's common stock is wholly-owned by E.ON U.S., an indirect wholly-owned subsidiary of E.ON. In the opinion of management, the unaudited interim financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of financial position, results of operations, retained earnings, comprehensive income and cash flows for the periods indicated. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These unaudited financial statements and notes should be read in conjunction with the Company's Financial Statements and Additional Information ("Annual Report") for the year ended December 31, 2008, including the audited financial statements and notes therein.

Certain reclassification entries have been made to the previous years' financial statements to conform to the 2009 presentation with no impact on net assets, liabilities and capitalization or previously reported net income and net cash flows.

RECENT ACCOUNTING PRONOUNCEMENTS

SFAS No. 168

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles,* which is effective for interim and annual periods ending after September 15, 2009. SFAS No. 168 establishes the FASB Accounting Standards Codification ("Codification") as the single source of authoritative nongovernmental U.S. generally accepted accounting principles ("GAAP"). In addition, SFAS No. 168 replaces SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, which developed the Codification and identified the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements that are presented in conformity with GAAP in the United States. SFAS No. 168 will have no effect on the Company's results of operations, financial position or liquidity, however, references to authoritative accounting literature will change beginning in the third quarter.

SFAS No. 165

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events,* which is effective for interim and annual periods ending after June 15, 2009. SFAS No. 165 requires disclosure of the date through which subsequent events have been evaluated, as well as whether that date is the date the financial statements were issued or the date they were available to be issued. The adoption of SFAS No. 165 had no impact on the Company's results of operations, financial position or liquidity, however, additional disclosures were required with the adoption.

FSP SFAS 107-1 and APB 28-1

In April 2009, the FASB issued FSP SFAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments,* which is effective for interim and annual periods ending after June 15, 2009, and requires qualitative and quantitative disclosures about fair values of assets and liabilities on a quarterly basis. The adoption of FSP SFAS 107-1 and APB 28-1 had no impact on the Company's results of operations, financial position or liquidity, however, additional disclosures were required with the adoption. See Note 3, Financial Instruments, for additional disclosures.

FSP SFAS 132(R)-1

In December 2008, the FASB issued FSP SFAS 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets*, which will be effective as of December 31, 2009, and requires additional disclosures related to pension and other postretirement benefit plan assets. Additional disclosures include the investment allocation decision-making process, the fair value of each major category of plan assets as well as the inputs and valuation techniques used to measure fair value and significant concentrations of risk within the plan assets. The adoption of FSP SFAS 132(R)-1 will have no impact on the Company's results of operations, financial position or liquidity, however, additional disclosures will be required with the adoption.

SFAS No. 161

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133,* which is effective for fiscal years, and interim periods within those fiscal years, beginning on or after November 15, 2008. The objective of this statement is to enhance the current disclosure framework in SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended. The adoption of SFAS No. 161 had no impact on LG&E's statements of operations, financial position and cash flows, however, additional disclosures relating to derivatives were required with the adoption effective January 1, 2009.

SFAS No. 160

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements,* which is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The objective of this statement is to improve the relevance, comparability and transparency of financial information in a reporting entity's consolidated financial statements. The Company adopted SFAS No. 160 effective January 1, 2009, and it had no impact on its statements of operations, financial position and cash flows.

SFAS No. 157

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which, except as described below, was effective for fiscal years beginning after November 15, 2007. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 does not expand the application of fair value accounting to new circumstances.

In February 2008, the FASB issued FSP SFAS 157-2, *Effective Date of FASB Statement No. 157,* which delayed the effective date of SFAS No. 157 for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. All other amendments related to SFAS No. 157 have been evaluated and have no impact on the Company's financial statements.

The Company adopted SFAS No. 157 effective January 1, 2008, except as it applies to those nonfinancial assets and liabilities, and it had no impact on the statements of operations, financial position and cash flows, however, additional disclosures relating to its financial derivatives and cash collateral on derivatives, as required, are now provided. Per FSP SFAS 157-2, fair value accounting for all nonrecurring fair value measurements of nonfinancial assets and liabilities was adopted effective January 1, 2009, and it had no impact on the statements of operations, financial position and cash flows. At June 30, 2009, no additional disclosures were required per FSP SFAS 157-2 as LG&E did not have any nonfinancial assets or liabilities measured at fair value subsequent to initial measurement. In April 2009, the FASB issued FSP SFAS 157-4, *Determining Fair Value when the Volume and Level of Activity for the Asset or Liability have Significantly Decreased and Identifying Transactions that are not Orderly,* which is effective for interim and annual periods ending after June 15, 2009. FSP SFAS 157-4 provides additional guidance on determining fair values when there is no active market or where the price inputs being used represent distressed sales. The adoption of FSP SFAS 157-4 had no impact on the Company's financial position, statements of operations and cash flows.

Note 2 - Rates and Regulatory Matters

For a description of each line item of regulatory assets and liabilities and for descriptions of certain matters which may not have undergone material changes relating to the period covered by this quarterly report, reference is made to Note 2 of LG&E's Annual Report for the year ended December 31, 2008.

Electric and Gas Rate Cases

In January 2009, LG&E, the AG, KIUC and all other parties to electric and gas base rate cases filed a settlement agreement with the Kentucky Commission. Under the terms of the settlement agreement, LG&E's base gas rates will increase $22 million annually, and base electric rates will decrease $13 million annually. An Order approving the settlement was received in February 2009, and the new rates were implemented effective February 6, 2009. In connection with the application and effective date of the new rates, the VDT surcredit and merger surcredit terminated, which will result in increased revenues of approximately $21 million annually.

Regulatory Assets and Liabilities

The following regulatory assets and liabilities were included in LG&E's Balance Sheets:

(in millions)	June 30, 2009	December 31, 2008
Current regulatory assets:		
GSC	$ 4	$ 28
ECR	6	4
FAC	2	7
Net MISO exit	1	-
Other	4	4
Total current regulatory assets	$ 17	$ 43
Non-current regulatory assets:		
ARO	$ 30	$ 29
Unamortized loss on bonds	22	23
Net MISO exit	5	12
Hurricane Ike	24	24
Other	1	1
Subtotal non-current other regulatory assets	82	89
Pension and postretirement benefits	250	250
Total non-current regulatory assets	$ 332	$ 339
Current regulatory liabilities:		
GSC	$ 36	$ 30
DSM	10	5
Total current regulatory liabilities	$ 46	$ 35
Non-current regulatory liabilities:		
Accumulated cost of removal of utility plant	$ 256	$ 251
Deferred income taxes – net	43	45
Other	6	11
Total non-current regulatory liabilities	$ 305	$ 307

LG&E does not currently earn a rate of return on the ECR, FAC, GSC and gas performance-based ratemaking (included in "GSC" above) regulatory assets which are separate recovery mechanisms with recovery within twelve months. No return is earned on the pension and postretirement benefits regulatory asset that represents the changes in funded status of the plans. LG&E will recover this asset through pension expense included in the calculation of base rates. No return is currently earned on the ARO asset. When an asset with an ARO is retired, the related ARO regulatory asset will be offset against the associated ARO regulatory liability, ARO asset and ARO liability. A return is earned on the unamortized loss on bonds, and these costs are recovered through amortization over the life of the debt. LG&E currently earns a rate of return on the balance of Mill Creek Ash Pond costs, as well as recovery of these costs. The Company will seek recovery of the Hurricane Ike regulatory asset and KCCS funding, included in other regulatory assets, in the next base rate case. The Company recovers the net MISO exit regulatory asset incurred through April 30, 2008. The Company recovers the remaining regulatory assets, including other regulatory assets comprised of merger surcredit, EKPC FERC transmission settlement agreement and rate case expenses. Other regulatory liabilities include DSM and MISO administrative charges collected via base rates from May 2008 through February 5, 2009. The MISO regulatory liability will be netted against the remaining costs of withdrawing from the MISO, per a Kentucky Commission Order, in the next base rate case.

ECR. In June 2009, the Company filed an application for a new ECR plan with the Kentucky Commission seeking approval to recover investments in environmental upgrades and operations and maintenance costs at the Company's generating facilities. The Company anticipates an order by the end of 2009 and recovery on customer bills through the monthly ECR surcredit beginning February 2010.

In February 2009, the Kentucky Commission approved a settlement agreement in the rate case which provides for an authorized return on equity applicable to the ECR mechanism of 10.63% effective with the February 2009 expense month filing, which represents a slight increase over the previously authorized 10.50%.

In January 2009, the Kentucky Commission initiated a six-month review of LG&E's environmental surcharge for the period ending October 31, 2008. The Kentucky Commission issued an Order in July 2009, approving the charges and credits billed through the ECR during the review periods, as well as approving billing adjustments for under-recovered costs and the rate of return on capital.

FAC. In January 2009, the Kentucky Commission initiated a routine examination of LG&E's FAC for the two-year period November 1, 2006 through October 31, 2008. The Kentucky Commission issued an Order in June 2009, approving the charges and credits billed through the FAC during the review period.

In August 2008, the Kentucky Commission initiated a routine examination of LG&E's FAC for the six-month period November 1, 2007 through April 30, 2008. The Kentucky Commission issued an Order in January 2009, approving the charges and credits billed through the FAC during the review period.

MISO. In accordance with Kentucky Commission Orders approving the MISO exit, LG&E has established a regulatory asset for the MISO exit fee, net of former MISO administrative charges collected via base rates through the base rate case test year ended April 30, 2008. The net MISO exit fee is subject to adjustment for possible future MISO credits, and a regulatory liability for certain revenues associated with former MISO administrative charges, which were collected via base rates until February 6, 2009. The approved 2008 base rate case settlement provided for MISO administrative charges collected through base rates from May 1, 2008 to February 6, 2009, and any future adjustments to the MISO exit fee, to be established as a regulatory liability until the amounts can be amortized in future base rate cases.

In November 2008, the FERC issued Orders in industry-wide proceedings relating to MISO RSG calculation and resettlement procedures. RSG charges are amounts assessed to various participants active in the MISO trading market which generally seek to compensate for uneconomic generation dispatch due to regional transmission or power market operational considerations, with some customer classes eligible for payments, while others may bear charges. The FERC Orders approved two requests for significantly altered formulas and principles, each of which the FERC applied differently to calculate RSG charges for various historical and future periods. Based upon the 2008 FERC Orders, the Company established a reserve during the fourth quarter of 2008 of $2 million relating to potential RSG resettlement costs for the period ended December 31, 2008. As of June 30, 2009, a portion of the resettlement payments had been made. However, in May 2009, the FERC issued an Order on the requests for rehearing on one November 2008 Order which changed the effective date and reduced almost all of the previously accrued RSG resettlement costs. Therefore, these costs were reversed and a receivable was established for amounts already paid of $1 million, which the MISO began refunding back to the Company in June 2009, and which will be fully collected by September 2009. In June 2009, the FERC issued an Order in the rate mismatch RSG proceeding, stating it will not require resettlements of the rate mismatch calculation from April 1, 2005 to November 4, 2007. An accrual had previously been recorded in 2008 for the rate mismatch issue for the time period April 25, 2006 to August 9, 2007, but no accrual had been recorded for the time period November 5, 2007 to November 9, 2008. Accordingly, the accrual for the former time period was reversed and an accrual for the latter time period was recorded in June 2009, with a net effect of less than $1 million of expense. Further developments in the RSG proceeding could occur during 2009. Due to the numerous participants, complex principles at issue and changes from prior precedents, the Company cannot predict the ultimate outcome of this matter nor can it predict the impact of the various proposals that have been made by the parties.

Hurricane Ike. In September 2008, high winds from the remnants of Hurricane Ike passed through the service territory causing significant outages and system damage. In October 2008, LG&E filed an application with the Kentucky Commission requesting approval to establish a regulatory asset, and defer for future recovery, approximately $24 million of expenses related to the storm restoration. In December 2008, the Kentucky Commission issued an Order allowing the Company to establish a regulatory asset of up to $24 million based on its actual costs for storm damages and service restoration due to Hurricane Ike.

CMRG and KCCS Contributions. In July 2008, LG&E and KU, along with Duke Energy Kentucky, Inc. and Kentucky Power Company, filed an application with the Kentucky Commission requesting approval to establish regulatory assets related to contributions to the CMRG for the development of technologies for reducing carbon dioxide emissions and the KCCS to study the feasibility of geologic storage of carbon dioxide. The filing companies proposed that these contributions be treated as regulatory assets to be deferred until recovery is provided in the next base rate case of each company, at which time the regulatory assets will be amortized over the life of each project: four years with respect to the KCCS and ten years with respect to the CMRG. LG&E and KU jointly agreed to provide less than $2 million over two years to the KCCS and up to $2 million over ten years to the CMRG. In October 2008, an Order approving the establishment of the requested regulatory assets was received and LG&E will seek rate recovery in the Company's next base rate case.

Other Regulatory Matters

Trimble County Asset Transfer and Depreciation. LG&E and KU are currently constructing a new base-load, coal fired unit, TC2, which will be jointly owned by LG&E and KU, together with the Illinois Municipal Electric Agency and the Indiana Municipal Power Agency. In July 2009, LG&E and KU notified the Kentucky Commission of the proposed transfer from LG&E to KU of certain ownership interests in certain existing Trimble County generating station assets which are anticipated to provide joint or common use in support of the TC2 generating unit. The undivided ownership interests being transferred are intended to provide KU an ownership interest in these common assets that is proportional to its interest in TC2. It is anticipated that the assets will be transferred at a price equal to the net book value associated with the proportional interests at the time of the transfer. The assets have a net book value of approximately $50 million as of June 2009. This transfer is expected to be made upon the beginning of TC2 unit testing which is estimated to be December 2009.

In August 2009, in a separate proceeding, LG&E and KU jointly filed an application with the Kentucky Commission to approve new depreciation rates for applicable TC2-related generating, pollution control and other plant equipment and assets. The filing requests common depreciation rates for the applicable jointly-owned TC2-related assets, rather than applying differing depreciation rates in place with respect to LG&E's and KU's separately-owned base-load generating assets. A ruling is requested prior to December 2009

Storm Restoration. In January 2009, a significant winter ice storm passed through LG&E's service territory causing approximately 205,000 customer outages, followed closely by a severe wind storm in February 2009, causing approximately 37,000 customer outages. LG&E currently estimates $47 million of operation and maintenance expenses and $10 million of capital expenditures related to the restoration following the two storms. The Company filed an application with the Kentucky Commission in April 2009, requesting approval to establish a regulatory asset, and defer for future recovery, approximately $45 million in incremental operation and maintenance expenses related to the storm restoration. In May 2009, the KPSC issued a procedural schedule and data discovery continues through August 2009. A regulatory asset has not yet been established.

TC2 CCN Application and Transmission Matters. A CCN application for construction of TC2 was approved by the Kentucky Commission in November 2005. CCN applications for two transmission lines associated with the TC2 unit were approved by the Kentucky Commission in September 2005 and May 2006. All regulatory approvals and rights of way for one transmission line have been obtained.

The CCN for the remaining line has been challenged by certain Hardin County, Kentucky property owners. In August 2006, LG&E and KU obtained a successful dismissal of the challenge at the Franklin County Circuit Court, which ruling was reversed by the Kentucky Court of Appeals in December 2007, and the proceeding reinstated. In April 2009, the Kentucky Supreme Court granted a motion for discretionary review filed by LG&E and KU in May 2008. The discretionary review request, which seeks reversal of the appellate court decision and reinstatement of the Circuit Court dismissal of the challenge, may be ruled upon during 2009.

Completion of the transmission lines are also subject to standard construction permit, environmental authorization and real property or easement acquisition procedures and certain Hardin County landowners have raised challenges to the transmission line in some of these forums as well. During 2008, LG&E's affiliate, KU obtained various successful rulings at the Hardin County Circuit Court confirming its condemnation and easement rights. In August 2008, the landowners appealed such rulings to the Kentucky Court of Appeals and received a stay preventing KU from accessing the properties during the appeal. In April 2009, the appellate court denied a KU motion to lift the stay and issued an Order generally (i) retaining the stay until a decision on the merits and (ii) delaying such decision on the merits pending developments in the Supreme Court CCN proceeding mentioned above. After unsuccessfully seeking reconsideration of this ruling by the Court of Appeals and expedited review by the Kentucky Supreme Court in May 2009, KU filed a motion with the Kentucky Supreme Court for discretionary review of the appellate court order affirming the stay in June 2009. That motion is pending.

In a separate proceeding, certain Hardin County landowners have also challenged the same transmission line in federal district court in Louisville, Kentucky, claiming that certain National Historic Preservation Act requirements were not fully complied with by the U.S. Army relating to easements for the line through Fort Knox. LG&E and KU are cooperating with the U.S. Army in its defense in this case.

Settlement discussions with the Hardin County property owners involved in the appeals of the condemnation proceedings have been unsuccessful to date. During the fourth quarter of 2008, LG&E and KU entered into settlements with certain Meade County landowners and obtained dismissals of prior litigation they had brought challenging the same transmission line.

During March 2009, owners of an airfield in Jefferson County, Indiana, filed a petition with the Federal Aviation Administration ("FAA") seeking review of a prior FAA determination regarding certain transmission towers to be constructed at a crossing point of the Ohio River. The FAA previously determined that the towers do not constitute a hazard to air navigation, but such ruling is not deemed final until the review is completed. The receipt of a favorable final FAA determination is necessary for a tall structure permit in Indiana. This matter was resolved favorably through settlement with the owners of the airfield in May 2009.

LG&E and KU are not currently able to predict the ultimate outcome and possible effects, if any, on the construction schedule relating to these transmission line approval, land acquisition and permitting proceedings.

Depreciation Study. In December 2007, LG&E filed a depreciation study with the Kentucky Commission as required by a previous Order. In August 2008, the Kentucky Commission issued an Order consolidating the depreciation study with the base rate case proceeding. The approved settlement agreement in the rate case established new depreciation rates effective February 2009.

Interconnection and Net Metering Guidelines. In May 2008, the Kentucky Commission on its own motion initiated a proceeding to establish interconnection and net metering guidelines in accordance with amendments to existing statutory requirements for net metering of electricity. The jurisdictional electric utilities and intervenors in this case presented proposed interconnection guidelines to the Kentucky Commission in October 2008. In a January 2009 Order, the Kentucky Commission issued the Interconnection and Net Metering Guidelines – Kentucky that were developed by all parties to the proceeding. LG&E does not expect any financial or other impact as a result of this Order. In April 2009, LG&E filed revised net metering tariffs and application forms pursuant to the Kentucky Commission's Order. The Kentucky Commission issued an Order in April 2009, that suspends for five months all net metering tariffs filed by the jurisdictional electric utilities. This suspension is intended to allow sufficient time for review of the filed tariffs by the Kentucky Commission Staff and intervening parties. In June 2009, the Kentucky Commission Staff held a telephonic informal conference with the parties to discuss issues related to the net metering tariffs filed by LG&E. Following this conference, the intervenors and LG&E have resolved all issues and LG&E has filed revised net metering tariffs with the Kentucky Commission.

EISA 2007 Standards. In November 2008, the Kentucky Commission initiated an administrative proceeding to consider new standards as a result of the Energy Independence and Security Act of 2007 ("EISA 2007"), part of which amends the Public Utility Regulatory Policies Act of 1978 ("PURPA"). There are four new PURPA standards and one non-PURPA standard applicable to electric utilities. The proceeding also considers two new PURPA standards applicable to natural gas utilities. EISA 2007 requires state regulatory commissions and nonregulated utilities to begin consideration of the rate design and smart grid investments no later than December 19, 2008, and to complete the consideration by December 19, 2009. The Kentucky Commission has established a procedural schedule that allows for data discovery and testimony through July 2009. A public hearing has not been scheduled in this matter.

Note 3 - Financial Instruments

The cost and estimated fair values of LG&E's non-trading financial instruments as of June 30 follow:

	June 30, 2009		December 31, 2008	
(in millions)	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt (including current portion of $120 million as of June 30, 2009 and December 31, 2008)	$ 411	$ 404	$ 411	$ 392
Long-term debt from affiliate	$ 485	$ 497	$ 485	$ 458
Interest-rate swaps - liability	$ 32	$ 32	$ 55	$ 55

The long-term debt valuations reflect prices quoted by dealers. The fair value of the long-term debt from affiliate is determined using an internal valuation model that discounts the future cash flows of each loan at current market rates. The current market rates are determined based on quotes from investment banks that are actively involved in capital markets for utilities and factor in LG&E's credit ratings and default risk. The fair values of the swaps reflect price quotes from dealers, consistent with SFAS No. 157. The fair values of cash and cash equivalents, accounts receivable, accounts payable and notes payable are substantially the same as their carrying values.

LG&E is subject to the risk of fluctuating interest rates in the normal course of business. LG&E's policies allow for the interest rate risk to be managed through the use of fixed rate debt, floating rate debt and interest rate swaps. At June 30, 2009, a 100 basis point change in the benchmark rate on LG&E's variable rate debt, not effectively hedged by an interest rate swap, would impact pre-tax interest expense by $2 million annually.

LG&E is subject to interest rate and commodity price risk related to on-going business operations. LG&E currently manages these risks using derivative financial instruments, including swaps and forward contracts.

Effective January 1, 2008, LG&E adopted the provisions of SFAS No. 157, excluding the exceptions related to nonfinancial assets and liabilities, which was adopted effective January 1, 2009, consistent with FSP SFAS 157-2. LG&E has classified the applicable financial assets and liabilities that are accounted for at fair value into the three levels of the fair value hierarchy, as defined by SFAS No. 157, as follows:

- Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 - Include other inputs that are directly or indirectly observable in the marketplace.
- Level 3 - Unobservable inputs which are supported by little or no market activity.

Interest Rate Swaps. LG&E uses over-the-counter interest rate swaps to hedge exposure to market fluctuations in certain of its debt instruments. Pursuant to Company policy, use of these financial instruments is intended to mitigate risk, earnings and cash flow volatility and is not speculative in nature.

The fair value of the interest rate swaps is determined by a quote from the counterparty. This value is verified monthly by LG&E using a model that calculates the present value of future payments under the swap utilizing current swap market rates obtained from another dealer active in the swap market and validated by market transactions. Market liquidity is considered, however the valuation does not require an adjustment for market liquidity as the market is very active for the type of swaps used by the Company. LG&E considered the impact of counterparty credit risk by evaluating credit ratings and financial information. All counterparties had strong investment grade ratings at June 30, 2009. LG&E did not have any credit exposure to the swap counterparties, as LG&E was in a liability position at June 30, 2009, therefore, the market valuation required no adjustment for counterparty credit risk. In addition, LG&E and the counterparties have agreed to post margin if the credit exposure exceeds certain thresholds. Using these valuation methodologies, the swap contracts are considered level 2 based on SFAS No. 157 measurement criteria. Cash collateral for interest rate swaps is classified as a collateral deposit which is a long-term asset and is a level 1 measurement based on the funds being held in a demand deposit account.

LG&E was party to various interest rate swap agreements with aggregate notional amounts of $179 million as of June 30, 2009 and December 31, 2008. Under these swap agreements, LG&E paid fixed rates averaging 4.52% and received variable rates based on LIBOR or the Securities Industry and Financial Markets Association's municipal swap index averaging 0.28% and 1.27% at June 30, 2009 and December 31, 2008, respectively. One swap hedging LG&E's $83 million Trimble County 2000 Series A bond has been designated as a cash flow hedge and continues to be highly effective. The remaining three interest rate swaps designated to hedge LG&E's $128 million Jefferson County 2003 Series A bond became ineffective during 2008 as a result of the impact of downgrades of the underlying debt associated with issues involving the bond insurers. One swap with a notional value of $32 million was terminated in December 2008. See Note 6, Short-Term and Long-Term Debt.

The interest rate swaps are accounted for on a mark-to-market basis in accordance with SFAS No. 133, as amended. Financial instruments designated as effective cash flow hedges have resulting gains and losses recorded within other comprehensive income and common equity. The ineffective portion of financial instruments designated as cash flow hedges is recorded to earnings monthly as is the entire change in the market value of the ineffective swaps. The table below shows the pre-tax amount and income statement location of gains and losses from interest rate swaps for the three months and six months ended June 30, 2009:

(in millions)	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Interest rate swaps – change in the ineffective portion deemed highly effective	Other income (expense)– net	$ -	$ 2
Interest rate swaps – change in the mark-to-market of ineffective swaps	Other income (expense) - net	11	17
Total		$ 11	$ 19

For the six months ended June 30, 2008, LG&E recorded a pre-tax loss of $1 million in other comprehensive income to reflect the ineffective portion of the hedge. Amounts recorded in accumulated other comprehensive income will be reclassified into earnings in the same period during which the hedged forecasted transaction affects earnings. The amount amortized from other comprehensive income to income in the three and six month periods ended June 30, 2009 was less than $1 million. The amount expected to be reclassified from other comprehensive income to earnings in the next twelve months is less than $1 million. A deposit in the amount of $15 million, used as collateral for one of the interest rate swaps, is classified as a collateral deposit which is a long-term asset on the balance sheet. The amount of the deposit required is tied to the market value of the swap.

A decline of 100 basis points in the current market interest rates would reduce the fair value of LG&E's interest rate swaps by approximately $30 million. Such a change could affect other comprehensive income if the hedge is effective, or the income statement if the hedge is ineffective.

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

Energy trading and risk management contracts are valued using prices based on active trades on the Intercontinental Exchange. In the absence of a traded price, midpoints of the best bids and offers will be the primary determinants of valuation. When sufficient trading activity is unavailable, other inputs can include prices quoted by brokers or observable inputs other than quoted prices, such as one-sided bids or offers as of the balance sheet date. Using these valuation methodologies, these contracts are considered level 2 based on SFAS No. 157 measurement criteria. Quotes are verified quarterly using an independent pricing source of actual transactions. Quotes for combined off-peak and weekend timeframes are allocated between the two timeframes based on their historical proportional ratios to the integrated cost. No other adjustments are made to the forward prices. No changes to valuation techniques for energy trading and risk management activities occurred during 2009 or 2008. Changes in market pricing, interest rate and volatility assumptions were made during both years.

LG&E maintains credit policies intended to minimize credit risk in wholesale marketing and trading activities by assessing the creditworthiness of potential counterparties prior to entering into transactions with them and continuing to evaluate their creditworthiness once transactions have been initiated. To further mitigate credit risk, LG&E seeks to enter into netting agreements or require cash deposits, letters of credit and parental company guarantees as security from counterparties. LG&E uses S&P, Moody's and definitive qualitative and quantitative data to assess the financial strength of counterparties on an on-going basis. If no external rating exists, LG&E assigns an internally generated rating for which it sets appropriate risk parameters. As risk management contracts are valued based on changes in market prices of the related commodities, credit exposures are revalued and monitored on a daily basis. At June 30, 2009, 100% of the trading and risk management commitments were with counterparties rated BBB-/Baa3 equivalent or better. LG&E has reserved against counterparty credit risk based on the counterparty's credit rating and applying historical default rates within varying credit ratings over time provided by S&P or Moody's. At June 30, 2009 and December 31, 2008, counterparty credit reserves were less than $1 million.

The volume of electricity based financial derivatives outstanding at June 30, 2009 and December 31, 2008, was 371,200 Mwhs and 146,000 Mwhs, respectively. Of the volume outstanding at June 30, 2009, 127,600 Mwhs will settle in 2009 and 243,600 Mwhs will settle in 2010. As of June 30, 2009, estimated wholesale sales are hedged 93% and 63% for 2009 and 2010, respectively.

The following tables set forth by level within the fair value hierarchy, LG&E's financial assets and liabilities that were accounted for at fair value on a recurring basis as of June 30, 2009 and December 31, 2008. No cash collateral related to the energy trading and risk management contracts was required at June 30, 2009. Cash collateral related to the energy trading and risk management contracts was less than $1 million at December 31, 2008. Cash collateral is categorized as other accounts receivable and is a level 1 measurement based on the funds being held in liquid accounts. Energy trading and risk management contracts are considered level 2 based on SFAS No. 157 measurement criteria. Liabilities arising from energy trading and risk management contracts accounted for at fair value at June 30, 2009 and December 31, 2008 total less than $1 million and use level 2 measurements. There are no level 3 measurements for the periods ending June 30, 2009 and December 31, 2008.

June 30, 2009

Recurring Fair Value Measurements (in millions)	Level 1	Level 2	Total
Financial assets:			
Energy trading and risk management contracts	$ -	$ 3	$ 3
Interest rate swap cash collateral	15	-	15
Total Financial Assets	$ 15	$ 3	$ 18
Financial liabilities:			
Interest rate swaps	-	32	32
Total Financial Liabilities	$ -	$ 32	$ 32

December 31, 2008

Recurring Fair Value Measurements (in millions)	Level 1	Level 2	Total
Financial Assets:			
Energy trading and risk management contracts	$ -	$ 1	$ 1
Interest rate swap cash collateral	22	-	22
Total Financial Assets	$ 22	$ 1	$ 23
Financial Liabilities:			
Interest rate swaps	$ -	$ 55	$ 55
Total Financial Liabilities	$ -	$ 55	$ 55

The Company does not net collateral against derivative instruments.

Certain of the Company's derivative instruments contain provisions that require the Company to provide immediate and on-going collateralization on derivative instruments in net liability positions based upon the Company's credit ratings from each of the major credit rating agencies. The aggregate mark-to-market value of all energy trading and risk management contracts with credit risk related contingent features that are in a liability position on June 30, 2009 is less than $1 million, with no collateral posted in the normal course of business. The aggregate mark-to-market value of all interest rate swaps with credit risk related contingent features that are in a liability position on June 30, 2009, is $23 million for which the Company has posted collateral of $15 million in the normal course of business. If the credit risk related contingent features underlying these agreements were triggered on June 30, 2009, due to a one notch downgrade in the Company's credit rating, the Company would be required to post an additional $3 million of collateral to its counterparties for the interest rate swaps and there would be no effect on the energy trading and risk management contracts or collateral required as a result of these contracts.

The table below shows the fair value and balance sheet location of derivatives designated as hedging instruments as of June 30, 2009:

(in millions)	Asset Derivatives Balance Sheet Location	Asset Derivatives Fair Value	Liability Derivatives Balance Sheet Location	Liability Derivatives Fair Value
Interest rate swaps	Other assets	$ -	Long-term derivative liability	$ 18
Total		$ -		$ 18

The table below shows the fair value and balance sheet location of derivatives not designated as hedging instruments as of June 30, 2009:

(in millions)	Asset Derivatives Balance Sheet Location	Asset Derivatives Fair Value	Liability Derivatives Balance Sheet Location	Liability Derivatives Fair Value
Interest rate swaps	Other assets	$ -	Long-term derivative liability	$ 14
Energy trading and risk management contracts (current)	Other current assets	3	Other current liabilities	-
Total		$ 3		$ 14

At June 30, 2009, the fair value of long-term energy trading and risk management contracts not designated as hedging instruments was less than $1 million.

The gain on hedging interest rate swaps recognized in OCI for the three and six month periods ended June 30, 2009, was $4 million and $6 million, respectively. For the three and six month periods ended June 30, 2009, the gain on derivatives reclassified from accumulated OCI to income and the gain on derivatives recognized in income was less than $1 million, and was recorded in interest expense and other (income) expense – net, respectively.

LG&E manages the price volatility of its forecasted electric wholesale sales with the sales of market-traded electric forward contracts. Hedge accounting treatment has not been elected for these transactions, and therefore gains and losses are shown in the statements of income.

The following table presents the effect of derivatives not designated as hedging instruments on income for the three months and six months ended June 30, 2009:

(in millions)	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Energy trading and risk management contracts (realized)	Electric revenues	$ 3	$ 4
Interest rate swaps (realized)	Other income (expense) – net	11	17
Energy trading and risk management contracts (unrealized)	Other income (expense) – net	-	2
Total		$ 14	$ 23

Net unrealized losses were less than $1 million for the three months ended June 30, 2009. Net realized and unrealized gains were less than $1 million for the three and six month periods ended June 30, 2008.

Note 4 - Pension and Other Postretirement Benefit Plans

The following tables provide the components of net periodic benefit cost for pension and other postretirement benefit plans for the three and six months ended June 30. The tables include the costs associated with both LG&E employees and E.ON U.S. Services employees who are providing services to the Company. The E.ON U.S. Services costs that are allocated to LG&E are approximately 44% and 42% of E.ON U.S. Services costs for June 30, 2009 and 2008, respectively.

(in millions)	Pension Benefits Three Months Ended June 30, 2009			2008		
	LG&E	E.ON U.S. Services Allocation to LG&E	Total LG&E	LG&E	E.ON U.S. Services Allocation to LG&E	Total LG&E
Service cost	$ 1	$ 1	$ 2	$ 1	$ 1	$ 2
Interest cost	6	2	8	7	1	8
Expected return on plan assets	(5)	(1)	(6)	(8)	(1)	(9)
Amortization of prior service costs	2	-	2	1	-	1
Amortization of actuarial loss	3	1	4	-	-	-
Benefit cost	$ 7	$ 3	$ 10	$ 1	$ 1	$ 2

(in millions)	Other Postretirement Benefits Three Months Ended June 30,					
	2009			2008		
	LG&E	E.ON U.S. Services Allocation to LG&E	Total LG&E	LG&E	E.ON U.S. Services Allocation to LG&E	Total LG&E
Interest cost	$ 1	$ -	$ 1	$ 1	$ -	$ 1
Amortization of prior service costs	1	-	1	1	-	1
Benefit cost	$ 2	$ -	$ 2	$ 2	$ -	$ 2

(in millions)	Pension Benefits Six Months Ended June 30,					
	2009			2008		
	LG&E	E.ON U.S. Services Allocation to LG&E	Total LG&E	LG&E	E.ON U.S. Services Allocation to LG&E	Total LG&E
Service cost	$ 2	$ 2	$ 4	$ 2	$ 2	$ 4
Interest cost	13	3	16	13	2	15
Expected return on plan assets	(11)	(2)	(13)	(16)	(2)	(18)
Amortization of prior service costs	3	1	4	3	-	3
Amortization of actuarial loss	6	1	7	-	-	-
Benefit cost	$ 13	$ 5	$ 18	$ 2	$ 2	$ 4

(in millions)	Other Postretirement Benefits Six Months Ended June 30,					
	2009			2008		
	LG&E	E.ON U.S. Services Allocation to LG&E	Total LG&E	LG&E	E.ON U.S. Services Allocation to LG&E	Total LG&E
Service cost	$ -	$ 1	$ 1	$ -	$ -	$ -
Interest cost	3	-	3	3	-	3
Amortization of prior service costs	1	-	1	1	-	1
Benefit cost	$ 4	$ 1	$ 5	$ 4	$ -	$ 4

In January and April of 2009, LG&E made contributions to other postretirement benefit plans totaling $3 million. In April 2009, LG&E made a contribution to a pension plan covering its employees of $8 million. In addition, E.ON U.S. Services made a pension plan contribution of $8 million. LG&E's intent is to fund the pension plan in a manner consistent with the requirements of the Pension Protection Act of 2006. LG&E also anticipates making further voluntary contributions to fund Voluntary Employee Beneficiary Association trusts to match the annual postretirement expense and funding the 401(h) plan up to the maximum amount allowed by law.

Note 5 - Income Taxes

A United States consolidated income tax return is filed by E.ON U.S.'s direct parent, E.ON US Investments Corp., for each tax period. Each subsidiary of the consolidated tax group, including LG&E, calculates its separate income tax for each period. The resulting separate-return tax cost or benefit is paid to or received from the parent company or its designee. The Company also files income tax returns in various state jurisdictions. While the federal statute of limitations related to 2005 and later years are open, Revenue Agent Reports for 2005-2007 have been received from the IRS, effectively closing these years to additional audit adjustments. Adjustments made by the IRS for the 2005-2006 tax years were recorded in the 2008 financial statements. The tax year 2007 return was examined under an IRS pilot program named "Compliance Assurance Process" ("CAP"). This program accelerates the IRS's review to begin during the year applicable to the return and ends 90 days after the return is filed. Preliminary adjustments for 2007 were agreed to in January 2009, were comprised of $5 million of depreciable temporary differences, and were recorded in the first quarter of 2009. The tax year 2008 return is also being examined under the CAP program.

Additions and reductions of uncertain tax positions during 2009 and 2008 were less than $1 million. Possible amounts of uncertain tax positions for LG&E that may decrease within the next 12 months total less than $1 million and are based on the expiration of the audit periods as defined in the statutes.

The amount LG&E recognized as interest expense and interest accrued related to unrecognized tax benefits was less than $1 million as of June 30, 2009 and December 31, 2008. The interest expense and interest accrued is based on IRS and Kentucky Department of Revenue large corporate interest rates for underpayment of taxes. At the date of adoption, LG&E accrued less than $1 million in interest expense on uncertain tax positions. No penalties were accrued by LG&E through June 30, 2009.

In June 2006, LG&E and KU filed a joint application with the U.S. Department of Energy ("DOE") requesting certification to be eligible for investment tax credits applicable to the construction of TC2. In November 2006, the DOE and the IRS announced that LG&E and KU were selected to receive the tax credit. A final IRS certification required to obtain the investment tax credit was received in August 2007. In September 2007, LG&E received an Order from the Kentucky Commission approving the accounting of the investment tax credit. LG&E's portion of the TC2 tax credit will be approximately $25 million over the construction period and will be amortized to income over the life of the related property beginning when the facility is placed in service. Based on eligible construction expenditures incurred, LG&E recorded investment tax credits of $1 million and $2 million during the three months ended June 30, 2009 and 2008, and $2 million and $4 million during the six months ended June 30, 2009 and 2008, respectively, decreasing current federal income taxes. In addition, a full depreciation basis adjustment is required for the amount of the credit. The income tax expense impact of this adjustment will begin when the facility is placed in service.

In March 2008, certain environmental and preservation groups filed suit in federal court in North Carolina against the DOE and IRS claiming the investment tax credit program was in violation of certain environmental laws and demanded relief, including suspension or termination of the program. In August 2008, the plaintiffs submitted an amended complaint alleging additional claims for relief. In November 2008, the Court dismissed the suit; however, in January and April 2009, additional motions were filed for consideration for which pleadings are still before the Court. The Company is not currently a party to this proceeding and is not able to predict the ultimate outcome of this matter.

Note 6 - Short-Term and Long-Term Debt

LG&E's long-term debt includes $120 million of pollution control bonds that are classified as current liabilities because these bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events. These bonds include Jefferson County 2001 Series A and B and Trimble County 2001 Series A and B. Maturity dates for these bonds range from 2026 to 2027. The average annualized interest rate for these bonds during the six months ended June 30, 2009, was 1.15%.

Pollution control bonds are obligations of LG&E issued in connection with tax-exempt pollution control revenue bonds issued by various governmental entities, principally counties in Kentucky. A loan agreement obligates LG&E to make debt service payments to the county that equate to the debt service due from the county on the related pollution control revenue bonds. The loan agreement is an unsecured obligation of LG&E.

Several of the LG&E pollution control bonds are insured by monoline bond insurers whose ratings have been reduced due to exposures relating to insurance of sub-prime mortgages. At June 30, 2009, LG&E had an aggregate $574 million (including $163 million of reacquired bonds) of outstanding pollution control indebtedness, of which $135 million is in the form of insured auction rate securities wherein interest rates are reset either weekly or every 35 days via an auction process. Beginning in late 2007, the interest rates on these insured bonds began to increase due to investor concerns about the creditworthiness of the bond insurers. During 2008, interest rates increased, and the Company experienced "failed auctions" when there were insufficient bids for the bonds. When a failed auction occurs, the interest rate is set pursuant to a formula stipulated in the indenture. During the six months ended June 30, 2009 and 2008, the average rate on the auction rate bonds was 0.44% and 4.81%, respectively. The instruments governing these auction rate bonds permit LG&E to convert the bonds to other interest rate modes, such as various short-term variable rates, long-term fixed rates or intermediate-term fixed rates that are reset infrequently. In June 2009, S&P downgraded the credit rating of Ambac from "A" to "BBB". As a result, S&P downgraded the ratings on the Trimble County 2000 Series A, 2002 Series A and 2007 Series A; Jefferson County 2001 Series A and Louisville Metro 2007 Series B bonds from "A" to "BBB+" in June 2009. The S&P ratings of these bonds are now based on the rating of the Company rather than the rating of Ambac since the Company's rating is higher.

During 2008, LG&E converted several series of its pollution control bonds from the auction rate mode to a weekly interest rate mode, as permitted under the loan documents. In connection with these conversions, LG&E purchased the bonds from the remarketing agent. As of June 30, 2009, LG&E continued to hold repurchased bonds in the amount of $163 million. The other repurchased bonds were remarketed during 2008 in an intermediate-term fixed rate mode wherein the interest rate is reset periodically (every three to five years). LG&E will hold some or all of such repurchased bonds until a later date, at which time LG&E may refinance, remarket or further convert such bonds. Uncertainty in markets relating to auction rate securities or steps LG&E has taken or may take to mitigate such uncertainty, such as additional conversion, subsequent restructuring or redemption and refinancing, could result in LG&E incurring increased interest expense, transaction expenses or other costs and fees or experiencing reduced liquidity relating to existing or future pollution control financing structures.

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

($ in millions)	Total Money Pool Available	Amount Outstanding	Balance Available	Average Interest Rate
June 30, 2009	$ 400	$ 153	$ 247	0.30%
December 31, 2008	$ 400	$ 222	$ 178	1.49%

E.ON U.S. maintains revolving credit facilities totaling $313 million at June 30, 2009 and December 31, 2008, to ensure funding availability for the money pool. At June 30, 2009, one facility, totaling $150 million, is with E.ON North America, Inc., while the remaining line, totaling $163 million, is with Fidelia; both are affiliated companies. The balances are as follows:

($ in millions)	Total Available	Amount Outstanding	Balance Available	Average Interest Rate
June 30, 2009	$ 313	$ 269	$ 44	1.62%
December 31, 2008	$ 313	$ 299	$ 14	2.05%

As of June 30, 2009, LG&E maintained bilateral lines of credit, with unaffiliated financial institutions, totaling $125 million which mature in June 2012. At June 30, 2009, there was no balance outstanding under any of these facilities.

There were no redemptions or issuances of long-term debt year-to-date through June 30, 2009.

Note 7 - Commitments and Contingencies

Except as may be discussed in this quarterly report (including Note 2), material changes have not occurred in the current status of various commitments or contingent liabilities from that discussed in LG&E's Annual Report for the year ended December 31, 2008 (including, but not limited to Notes 2, 9 and 14 to the financial statements of LG&E contained therein). See LG&E's Annual Report regarding such commitments or contingencies.

Construction Program. LG&E had $54 million of commitments in connection with its construction program at June 30, 2009.

In June 2006, LG&E and KU entered into a construction contract regarding the TC2 project. The contract is generally in the form of a lump-sum, turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may serve to increase or decrease the ultimate construction price paid or payable to the contractor. The contract also contains standard representations, covenants, indemnities, termination and other provisions for arrangements of this type, including termination for convenience or for cause rights. In March 2009, the parties completed an agreement resolving certain construction cost increases due to higher labor and per diem costs above an established baseline, and certain safety and compliance costs resulting from a change in law. LG&E's share of additional costs from inception of the contract through the expected project completion in 2010 may be approximately $5 million.

TC2 Air Permit. The Sierra Club and other environmental groups filed a petition challenging the air permit issued for the TC2 baseload generating unit which was issued by the KDAQ in November 2005. The filing of the challenge did not stay the permit, so the Company was free to proceed with construction during the pendency of the action. In June 2007, the state hearing officer assigned to the matter recommended upholding the air permit with minor revisions. In September 2007, the Secretary of the Kentucky Environmental and Public Protection Cabinet issued a final Order approving the hearing officer's recommendation and upholding the permit. In September 2007, LG&E administratively applied for a permit revision to reflect minor design changes. In October 2007, the environmental groups submitted comments objecting to the draft permit revisions and, in part, attempting to reassert general objections to the generating unit. In January 2008, the KDAQ issued a final permit revision. The environmental groups did not appeal the final Order upholding the permit or file a petition challenging the permit revision by the applicable deadlines. However, in October 2007, the environmental groups filed a lawsuit in federal court seeking an order for the EPA to grant or deny their pending petition for the EPA to object to the state air permit and in April 2008, they filed a petition seeking an EPA objection to the permit revision. In September 2008, the EPA issued an Order denying nine of eleven claims alleged in one of the petitions, but finding deficiencies in two areas of the permit. As part of a routine permit renewal, the KDAQ revised the permit to address the issues identified in the EPA's Order. In June 2009, the EPA objected to the permit renewal on the grounds that it failed to include a case by case Maximum Achievable Control Technology analysis and required additional changes to language addressing startup and shutdown operations. In August 2009, the EPA issued an order relating to all existing current issues in the TC2 air permit proceeding. The EPA supported the Company's positions on all but two issues. The permit was remanded to the KDAQ to correct deficiencies concerning matters relating to an auxiliary boiler and the appropriate particulate standard to apply. The Company generally believes both of these matters should not have a material adverse effect on its financial condition or results of operations. The Company is currently analyzing the order and possible future actions and cannot predict the final outcome of this proceeding.

Reserve Sharing Developments. LG&E and KU are currently members of the Midwest Contingency Reserve Sharing Group which will terminate on December 31, 2009. LG&E and KU are analyzing alternative follow-on structures for contingency reserve matters, including self-provision of reserves, bi-lateral contractual arrangements and/or formation of or participation in new joint-reserve sharing groups. Contingency reserves, including spinning reserves and supplemental reserves, relate to power or capacity requirements the Companies must have available for certain reliability purposes. Generating or contracting for such reserves has certain operational or financial costs or effects. The Companies cannot currently predict the outcome of these matters.

Environmental Matters. LG&E's operations are subject to a number of environmental laws and regulations, governing, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety.

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

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

In 1997, the EPA established new NAAQS for ozone and fine particulates that required additional reductions in SO_2 and NOx emissions from power plants. In 1998, the EPA issued its final "NOx SIP Call" rule requiring reductions in NOx emissions of approximately 85% from 1990 levels in order to mitigate ozone transport from the midwestern U.S. to the northeastern U.S. To implement the new federal requirements, Kentucky amended its SIP in 2002 to require electric generating units to reduce their NOx emissions to 0.15 pounds weight per MMBtu on a company-wide basis. In 2005, the EPA issued the CAIR which required additional SO_2 emission reductions of 70% and NOx emission reductions of 65% from 2003 levels. The CAIR provided for a two-phase cap and trade program, with initial reductions of NOx and SO_2 emissions due by 2009 and 2010, respectively, and final reductions due by 2015. In 2006, Kentucky proposed to amend its SIP to adopt state requirements similar to those under the federal CAIR. Depending on the level of action determined necessary to bring local nonattainment areas into compliance with the new ozone and fine particulate standards, LG&E's power plants are potentially subject to additional reductions in SO_2 and NOx emissions. In March 2008, the EPA issued a revised NAAQS for ozone, which contains a more stringent standard than that contained in the previous regulation. At present, LG&E is unable to determine what, if any, additional requirements may be imposed to achieve compliance with the new ozone standard.

In July 2008, a federal appeals court issued a ruling finding deficiencies in the CAIR and vacating it. In December 2008, the Court amended its previous Order, directing the EPA to promulgate a new regulation, but leaving the CAIR in place in the interim. Depending upon the course of such matters, the CAIR could be superseded by new or revised NOx or SO_2 regulations with different or more stringent requirements and SIPs which incorporate CAIR requirements could be subject to revision. LG&E is also reviewing aspects of its compliance plan relating to the CAIR, including scheduled or contracted pollution control construction programs. Finally, as discussed below, the remand of the CAIR results in some uncertainty with respect to certain other EPA or state programs and proceedings and LG&E's and KU's compliance plans relating thereto, due to the interconnection of the CAIR with such associated programs. At present, LG&E is not able to predict the outcomes of the legal and regulatory proceedings related to the CAIR and whether such outcomes could have a material effect on the Company's financial or operational conditions.

Hazardous Air Pollutants. As provided in the 1990 amendments to the Clean Air Act, the EPA investigated hazardous air pollutant emissions from electric utilities and submitted a report to Congress identifying mercury emissions from coal-fired power plants as warranting further study. In 2005, the EPA issued the CAMR establishing mercury standards for new power plants and requiring all states to issue new SIPs including mercury requirements for existing power plants. The EPA issued a model rule which provides for a two-phase cap and trade program with initial reductions due by 2010 and final reductions due by 2018. The CAMR provided for reductions of 70% from 2003 levels. The EPA closely integrated the CAMR and CAIR programs to ensure that the 2010 mercury reduction targets would be achieved as a "co-benefit" of the controls installed for purposes of compliance with the CAIR. In addition, in 2006, the Metro Louisville Air Pollution Control District adopted rules aimed at regulating additional hazardous air pollutants from sources including power plants.

In February 2008, a federal appellate court issued a decision vacating the CAMR. The EPA has announced that it intends to promulgate a new rule to replace the CAMR. Depending on the final outcome of the rulemaking, the CAMR could be replaced by new mercury reduction rules with different or more stringent requirements. Kentucky has also repealed its corresponding state mercury regulations. At present, LG&E is not able to predict the outcomes of the legal and regulatory proceedings related to the CAMR and whether such outcomes could have a material effect on the Company's financial or operational conditions.

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

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

Installation of Pollution Controls. Many of the programs under the Clean Air Act utilize cap and trade mechanisms that require a company to hold sufficient emissions allowances to cover its authorized emissions on a company-wide basis and do not require installation of pollution controls on every generating unit. Under cap and trade programs, companies are free to focus their pollution control efforts on plants where such controls are particularly efficient and utilize the resulting emission allowances for smaller plants where such controls are not cost effective. LG&E had previously installed flue gas desulfurization equipment on all of its generating units prior to the effective date of the acid rain program. LG&E's strategy for its Phase II SO_2 requirements, which commenced in 2000, is to use accumulated emission allowances to defer additional capital expenditures and LG&E will continue to evaluate improvements to further reduce SO_2 emissions. In order to achieve the NOx emission reductions mandated by the NOx SIP Call, LG&E installed additional NOx controls, including selective catalytic reduction technology, during the 2000 through 2008 time period at a cost of $197 million. In 2001, the Kentucky Commission granted approval to recover the costs incurred by LG&E for these projects through the environmental surcharge mechanisms. Such monthly recovery is subject to periodic review by the Kentucky Commission.

In order to achieve mandated emissions reductions, LG&E expects to incur additional capital expenditures totaling $100 million during the 2009 through 2011 time period for pollution control equipment, and additional operating and maintenance costs in operating such controls. In 2005, the Kentucky Commission granted approval to recover the costs incurred by the Company for these projects through the ECR mechanism. Such monthly recovery is subject to periodic review by the Kentucky Commission. LG&E believes its costs in reducing SO_2, NOx and mercury emissions to be comparable to those of similarly situated utilities with like generation assets. LG&E's compliance plans are subject to many factors including developments in the emission allowance and fuels markets, future legislative and regulatory enactments, legal proceedings and advances in clean air technology. LG&E will continue to monitor these developments to ensure that its environmental obligations are met in the most efficient and cost-effective manner. See "Ambient Air Quality" above for a discussion of CAIR-related uncertainties.

Potential GHG Controls. In 2005, the Kyoto Protocol for reducing GHG emissions took effect, obligating 37 industrialized countries to undertake substantial reductions in GHG emissions. The U.S. has not ratified the Kyoto Protocol and there are currently no mandatory GHG emission reduction requirements at the federal level. As discussed below, legislation mandating GHG reductions has been introduced in the Congress, but no federal legislation has been enacted to date. In the absence of a program at the federal level, various states have adopted their own GHG emission reduction programs. Such programs have been adopted in various states including 11 northeastern U.S. states and the District of Columbia under the Regional GHG Initiative program and California. Substantial efforts to pass federal GHG legislation are on-going. In April 2007, the U.S. Supreme Court ruled that the EPA has the authority to regulate GHG under the Clean Air Act.

LG&E is monitoring on-going efforts to enact GHG reduction requirements and requirements governing carbon sequestration at the state and federal level and is assessing potential impacts of such programs and strategies to mitigate those impacts. In June 2009, the U.S. House of Representatives passed the American Clean Energy and Security Act of 2009, which is a comprehensive energy bill containing the first-ever nation-wide GHG cap and trade program. If enacted into law, the bill would provide for reductions in GHG emissions of 3% below 2005 levels by 2012, 17% by 2020, and 83% by 2050. In order to cushion potential rate impacts for utility customers, approximately 43% of emissions allowances would initially be allocated at no cost to the electric utility sector, with this allocation gradually declining to 7% in 2029 and zero thereafter. The bill would also establish a renewable electricity standard requiring utilities to meet 20% of their electricity demand through renewable energy and energy efficiency by 2020. The bill contains additional provisions regarding carbon capture and sequestration, clean transportation, smart grid advancement, nuclear and advanced technologies and energy efficiency. Senate action on similar legislation is not expected until later this year.

Separately, at the administrative level, in April 2009, the EPA issued a proposed endangerment finding concluding that GHGs endanger public health and welfare, which is an initial rulemaking step under the Clean Air Act. A final endangerment finding could potentially result in EPA regulations governing GHG emissions from motor vehicles, power plants and other sources.

LG&E is unable to predict whether mandatory GHG reduction requirements will ultimately be enacted through legislation or regulations. As a Company with significant coal-fired generating assets, LG&E could be substantially impacted by programs requiring mandatory reductions in GHG emissions, although the precise impact on the operations of LG&E, including the reduction targets and deadlines that would be applicable, cannot be determined prior to the enactment of such programs. While the Company believes that many costs of complying with mandatory GHG reduction requirements or purchasing emission allowances to meet applicable requirements would likely be recoverable, in whole or in part under the ECR, where such costs are related to the Company's coal-fired generating assets, or other potential cost-recovery mechanisms, this cannot be assured.

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

General Environmental Proceedings. From time to time, LG&E appears before the EPA, various state or local regulatory agencies and state and federal courts regarding matters involving compliance with applicable environmental laws and regulations. Such matters include remediation obligations or activities for former manufactured gas plant sites or elevated polychlorinated biphenyl levels at existing properties; liability under the Comprehensive Environmental Response, Compensation and Liability Act for cleanup at various off-site waste sites; on-going claims regarding alleged particulate emissions from LG&E's Cane Run station and claims regarding GHG emissions from LG&E's generating stations. With respect to the former manufactured gas plant sites, LG&E has estimated that it could incur additional costs of less than $1 million for remaining clean-up activities under existing approved plans or agreements. Based on analysis to date, the resolution of these matters is not expected to have a material impact on the operations of LG&E.

Note 8 - Segments of Business

LG&E's revenues, net income and total assets by business segment follow:

(in millions)	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
LG&E Electric				
Revenues	$ 228	$ 240	$ 461	$ 464
Net income	21	21	15	33
Total assets	2,788	2,632	2,788	2,632
LG&E Gas				
Revenues	51	58	243	248
Net income	-	(2)	11	7
Total assets	685	665	685	665
Total				
Revenues	279	298	704	712
Net income	21	19	26	40
Total assets	3,473	3,297	3,473	3,297

Note 9 - Related Party Transactions

LG&E, subsidiaries of E.ON U.S. and subsidiaries of E.ON engage in related party transactions. Transactions between LG&E and E.ON U.S. subsidiaries are eliminated upon consolidation of E.ON U.S. Transactions between LG&E and E.ON subsidiaries are eliminated upon consolidation of E.ON. These transactions are generally performed at cost and are in accordance with FERC regulations under the Public Utility Holding Company Act of 2005 and the applicable Kentucky Commission regulations. The significant related party transactions are disclosed below.

Electric Purchases

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

(in millions)	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Electric operating revenues from KU	$ 27	$ 25	$ 58	$ 51
Purchased power from KU	5	14	14	29

Interest Charges

See Note 6, Short-Term and Long-Term Debt, for details of intercompany borrowing arrangements. Intercompany agreements do not require interest payments for receivables related to services provided when settled within 30 days.

LG&E's intercompany interest expense was as follows:

(in millions)	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Interest on money pool loans	$ -	$ 1	$ -	$ 2
Interest on Fidelia loans	6	6	13	10

Other Intercompany Billings

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

In addition, LG&E and KU provide services to each other and to E.ON U.S. Services. Billings between LG&E and KU relate to labor and overheads associated with union and hourly employees performing work for the other utility, charges related to jointly-owned generating units and other miscellaneous charges. Billings from LG&E to E.ON U.S. Services include cash received by E.ON U.S. Services on behalf of LG&E, primarily tax settlements, and other payments made by LG&E on behalf of other non-regulated businesses which are reimbursed through E.ON U.S. Services.

Intercompany billings to and from LG&E were as follows:

(in millions)	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
E.ON U.S. Services billings to LG&E	$ 52	$ 60	$ 95	$ 102
LG&E billings to KU	-	4	-	5
KU billings to LG&E	36	14	47	37
LG&E billings to E.ON U.S. Services	-	1	-	3

In March and June 2009, LG&E paid dividends of $35 million and $45 million, respectively to its common shareholder, E.ON U.S.

Note 10 - Subsequent Events

Subsequent events have been evaluated through August 13, 2009, the date of issuance of these statements and these statements contain all necessary adjustments and disclosures resulting from that evaluation.

On July 30, 2009, LG&E and KU notified the Kentucky Commission of the proposed transfer of approximately $50 million net book value of joint use Trimble County generation assets from LG&E to KU. This transfer is expected to be made upon the beginning of TC2 unit testing which is estimated to be December 2009.

On August 7, 2009, LG&E and KU filed an application with the Kentucky Commission to approve new depreciation rates for applicable TC2-related generating, pollution control and other plant equipment and assets. The filing requests common depreciation rates for the applicable jointly-owned TC2-related assets, rather than applying differing depreciation rates in place with respect to LG&E's and KU's separately-owned base-load generating assets. A ruling is requested prior to December 2009.

On August 12, 2009, the EPA issued an order relating to all existing current issues in the TC2 air permit proceeding. The EPA supported the Company's positions on all but two issues. The permit was remanded to the KDAQ to correct deficiencies concerning matters relating to an auxiliary boiler and the appropriate particulate standard to apply. The Company generally believes both of these matters should not have a material adverse effect on its financial condition or results of operations. The Company is currently analyzing the order and possible future actions and cannot predict the final outcome of this proceeding.

Management's Discussion and Analysis

General

The following discussion and analysis by management focuses on those factors that had a material effect on LG&E's financial results of operations and financial condition during the three and six month periods ended June 30, 2009, and should be read in connection with the financial statements and notes thereto.

Some of the following discussion may contain forward-looking statements that are subject to certain risks, uncertainties and assumptions. Such forward-looking statements are intended to be identified in this document by the words "anticipate," "expect," "estimate," "objective," "possible," "potential" and similar expressions. Actual results may vary materially. Factors that could cause actual results to differ materially include: general economic conditions; business and competitive conditions in the energy industry; changes in federal or state legislation; unusual weather; actions by state or federal regulatory agencies; and other factors described from time to time in the Company's reports, including the Annual Report for the year ended December 31, 2008.

Executive Summary

Business

LG&E, incorporated in Kentucky in 1913, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy and the storage, distribution and sale of natural gas. LG&E provides electric service to approximately 391,000 customers in Louisville and adjacent areas in Kentucky covering approximately 700 square miles in 9 counties. Natural gas service is provided to approximately 315,000 customers in its electric service area and 8 additional counties in Kentucky. Approximately 98% of the electricity generated by LG&E is produced by its coal-fired electric generating stations, all equipped with systems to reduce SO_2 emissions. The remainder is generated by a hydroelectric power plant and natural gas and oil fueled combustion turbines. Underground natural gas storage fields help LG&E provide economical and reliable natural gas service to customers.

LG&E is a wholly-owned subsidiary of E.ON U.S., an indirect wholly-owned subsidiary of E.ON, a German corporation. LG&E's affiliate, KU, is a regulated public utility engaged in the generation, transmission, distribution and sale of electric energy in Kentucky, Virginia and Tennessee.

In January 2009, LG&E, the AG, KIUC and all other parties to electric and gas base rate cases filed a settlement agreement with the Kentucky Commission. Under the terms of the settlement agreement, LG&E's base gas rates will increase $22 million annually, and base electric rates will decrease $13 million annually. An Order approving the settlement was received in February 2009, and the new rates were implemented effective February 6, 2009. In connection with the application and effective date of the new rates, the VDT surcredit and merger surcredit terminated, which will result in increased revenues of approximately $21 million annually.

In January 2009, a significant winter ice storm passed through LG&E's service territory causing approximately 205,000 customer outages, followed closely by a severe wind storm in February 2009, causing approximately 37,000 customer outages. LG&E currently estimates $47 million of operation and maintenance expenses and $10 million of capital expenditures related to the restoration following the two storms. The Company filed an application with the Kentucky Commission in April 2009, requesting approval to establish a regulatory asset, and defer for future recovery, approximately $45 million in incremental operation and maintenance expenses related to the storm restoration.

In September 2008, high winds from the remnants of Hurricane Ike passed through the service territory causing significant outages and system damage. In October 2008, LG&E filed an application with the Kentucky Commission requesting approval to establish a regulatory asset, and defer for future recovery, approximately $24 million of expenses related to the storm restoration. In December 2008, the Kentucky Commission issued an Order allowing the Company to establish a regulatory asset of up to $24 million based on its actual costs for storm damages and service restoration due to Hurricane Ike.

Environmental Matters

Protection of the environment is a major priority for LG&E. Federal, state and local regulatory agencies have issued LG&E permits for various activities subject to air quality, water quality and waste management laws and regulations. Recent developments indicate an increased possibility of significant climate-change or greenhouse gas legislation or regulation, particularly at the federal level. While the final terms and impacts of such initiatives cannot be estimated, as a primarily coal-fueled utility, LG&E could be highly affected by such proceedings. Ultimately, environmental matters or potential environmental matters can represent an important element of current or future capital requirements, operating and maintenance expenses or compliance risks for the Company. See Note 7 of Notes to Financial Statements for more information.

Results of Operations

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

Three Months Ended June 30, 2009, Compared to Three Months Ended June 30, 2008

Net Income

Net income for the three months ended June 30, 2009, increased $2 million compared to the same period in 2008. The increase was primarily the result of increased other income – net ($13 million), decreased operating expenses ($8 million), and decreased interest expense ($2 million), partially offset by decreased operating revenues ($19 million) and increased income taxes ($2 million).

Revenues

Electric revenues decreased $11 million in the three months ended June 30, 2009, primarily due to:

- Decreased wholesale sales ($14 million) due to lower sales volumes with third-parties ($17 million) as a result of scheduled coal-fired generation unit outages during April 2009, and lower economic capacity caused by lower spot market pricing in the second quarter of 2009. Third-party prices decreased ($2 million) as a result of lower prices in the spot energy market. These decreases were partially offset by increased sales volumes to KU ($2 million) as a result of excess generation made available by KU. Via a mutual agreement, LG&E sells its lower cost electricity to KU to serve KU's native load and purchases KU's excess economic capacity for LG&E to make wholesale sales. Gains in energy marketing financial swaps ($3 million) offset the lower sales volumes with third-parties.

- Decreased retail sales volumes delivered ($4 million) due to weakened economic conditions
- Decreased base rates ($4 million) due to the application of the Kentucky base rate case settlement in February 2009
- Decreased merger surcredit ($5 million) due to the surcredit termination in February 2009
- Increased ECR surcharge ($2 million) due to increased recoverable capital spending
- Decreased VDT surcredit ($2 million) due to its termination in August 2008
- Increased fuel costs billed to customers through the FAC ($2 million) due to increased fuel prices

Natural gas revenues decreased $8 million in the three months ended June 30, 2009, primarily due to:

- Decreased average cost of gas billed to retail customers through the GSC ($10 million) due to decreased natural gas supply costs
- Increased base rates ($2 million) due to application of the base rate case settlement in February 2009

Expenses

Fuel for electric generation and natural gas supply expense comprise a large component of total operating expenses. Increases or decreases in the costs of fuel and natural gas supply are reflected in retail rates through the FAC and GSC, subject to the approval of the Kentucky Commission.

Fuel for electric generation increased $1 million in the three months ended June 30, 2009, primarily due to increased price per unit for coal and fuel used for generation.

Power purchased expense decreased $9 million in the three months ended June 30, 2009, primarily due to decreased purchased volumes from KU. This is a result of KU's scheduled coal-fired generation unit outages in April 2009, and KU's units held in reserve as a result of low spot market pricing during the second quarter of 2009.

Gas supply expenses decreased $10 million in the three months ended June 30, 2009, due to decreased cost of net gas supply billed to customers due to lower GSC expenses resulting from lower volumes and cost per Mcf.

Other operation and maintenance expense increased $7 million in the three months ended June 30, 2009, primarily due to increased maintenance expense ($5 million) and increased other operation expense ($1 million).

Maintenance expense increased $5 million in the three months ended June 30, 2009, primarily due to:

- Increased distribution expense ($6 million) due to increased tree trimming and maintenance of overhead lines and line transformers and a reclassification of 2009 wind and ice storm expenses from operations expense

- Decreased steam maintenance expense ($2 million) due to timing of scheduled unit outages and routine maintenance

Other operation expense increased $1 million in the three months ended June 30, 2009, primarily due to:

- Increased pension expense ($5 million) due to lower 2008 pension asset investment performance
- Decreased administrative and general expense ($2 million) due to timing of DSM expenditures
- Decreased distribution operation expense ($2 million) due to a reclassification of 2009 wind and ice storm expenses to maintenance expense

Other (income) expense – net increased $13 million due to a gain from the change in the mark-to-market value of ineffective interest rate swaps.

Other interest expense, including interest expense to affiliated companies, decreased $2 million in the three months ended June 30, 2009, primarily due to lower interest rates on bonds.

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

	Three Months Ended June 30,	
	2009	2008
Statutory federal income tax rate	35.0 %	35.0 %
State income taxes, net of federal benefit	2.7	2.9
Qualified production activities deduction	0.7	(1.5)
Amortization of investment tax credits	(2.3)	(3.4)
Other differences	0.3	1.5
Effective income tax rate	36.4 %	34.5 %

The effective income tax rate increased for the three months ended June 30, 2009, compared to the three months ended June 30, 2008, primarily due to an adjustment to the qualified production activities deduction due to changes in the level of taxable income.

Six Months Ended June 30, 2009, Compared to
Six Months Ended June 30, 2008

Net Income

Net income for the six months ended June 30, 2009, decreased $14 million compared to the same period in 2008. The decrease was primarily the result of increased operating expense ($39 million) and decreased revenues ($8 million), partially offset by increased other income – net ($22 million), decreased income taxes ($8 million) and decreased interest expense ($3 million).

Revenues

Electric revenues decreased $2 million in the six months ended June 30, 2009, primarily due to:

- Decreased wholesale sales ($18 million) due to lower sales volumes with third-parties ($23 million) as a result of scheduled coal-fired generation unit outages during January through April 2009 and lower economic capacity caused by lower spot market pricing in March through June 2009. Third-party prices decreased ($5 million) as a result of lower prices in the spot energy market. These decreases were partially offset by increased sales volumes to KU ($5 million) as a result of excess generation made available by KU. Via a mutual agreement, LG&E sells its lower cost electricity to KU to serve KU's native load and purchases KU's excess economic capacity for LG&E to make wholesale sales. Increased fuel costs for sales to KU ($2 million) and gains in energy marketing financial swaps ($3 million) also offset decreased wholesale sales.
- Decreased retail sales volumes delivered ($12 million) due to weakened economic conditions and significant 2009 storm outages
- Decreased base rates ($3 million) due to the application of the Kentucky base rate case settlement in February 2009
- Increased fuel costs billed to customers through the FAC ($13 million) due to increased fuel prices
- Decreased merger surcredit ($9 million) due to a lower rate approved by the Kentucky Commission in June 2008, and the surcredit termination in February 2009
- Increased ECR surcharge ($5 million) due to increased recoverable capital spending
- Decreased VDT surcredit ($3 million) due to its termination in August 2008
- Increased miscellaneous revenue ($2 million) due to late payment charges resulting from weakened economic conditions

Natural gas revenues decreased $6 million in the six months ended June 30, 2009, primarily due to:

- Decreased sales volumes ($16 million) due to weakened economic conditions
- Decreased wholesale sales ($7 million) due to lower demand from wholesale customers
- Increased average cost of gas billed to retail customers through the GSC ($13 million) due to increased natural gas supply costs
- Increased base rates ($2 million) due to the application of the Kentucky base rate case settlement in February 2009
- Increased miscellaneous revenue ($1 million) due to late payment charges resulting from weakened economic conditions
- Decreased VDT surcredit ($1 million) due to its termination in August 2008

Expenses

Fuel for electric generation and natural gas supply expense comprise a large component of total operating expenses. Increases or decreases in the costs of fuel and natural gas supply are reflected in retail rates through the FAC and GSC, subject to the approval of the Kentucky Commission.

Fuel for electric generation increased $12 million in the six months ended June 30, 2009, primarily due to:

- Increased commodity and transportation costs for coal ($14 million)
- Decreased volumes of fuel usage ($2 million) due to decreased native load

Power purchased expense decreased $14 million in the six months ended June 30, 2009, primarily due to:

- Decreased purchased volumes from KU ($15 million) as a result of KU's scheduled coal-fired generation unit outages during January through April 2009, and KU's units held in reserve as a result of low spot market pricing in March through June 2009.
- Increased prices for purchases from KU ($1 million) due to native load demand payments on long term contracts

Gas supply expenses decreased $13 million in the six months ended June 30, 2009, due to:

- Decreased cost of net gas supply billed to customers ($7 million) due to lower GSC expenses resulting from lower volumes and cost per Mcf
- Decreased expense ($6 million) due to a decline in volume of wholesale sales of purchased gas

Other operation and maintenance expense increased $50 million in the six months ended June 30, 2009, primarily due to increased maintenance expense ($36 million) and increased other operation expense ($13 million).

Maintenance expense increased $36 million in the six months ended June 30, 2009, primarily due to:

- Increased distribution expense ($40 million) due to tree trimming, maintenance of overhead lines and line transformers as a result of 2009 winter storm restoration and gas mains maintenance
- Increased maintenance expense ($1 million) due to gas line location and maintenance
- Decreased steam maintenance expense ($6 million) due to timing of scheduled unit outages and routine maintenance

Other operation expense increased $13 million in the six months ended June 30, 2009, primarily due to:

- Increased pension expense ($11 million) due to lower 2008 pension asset investment performance
- Increased administrative and general expense ($4 million) due to consulting fees for software training and increased labor and benefit costs
- Increased distribution expense ($2 million) due to repair of overhead lines and administrative support costs, including increased call center support and public safety response team support, as a result of 2009 winter storm restoration
- Increased payroll tax ($1 million) due to overtime for storm restoration
- Increased property tax ($1 million) due to higher tax assessment resulting from construction expenditures
- Decreased administrative and general expense ($3 million) due to timing of DSM expenditures and reduction in bank service fees
- Decreased transmission expense ($2 million) due to the establishment of regulatory assets approved by the Kentucky Commission for EKPC settlement and MISO refund and lower off-system transmission purchases from KU resulting from units held in reserve as a result of low spot market pricing which reduced excess generation

Other (income) expense -- net increased $22 million, primarily due to:

- Increased ($18 million) due to a gain from the change in the mark-to-market value of ineffective interest rate swaps
- Increased ($2 million) due to a gain on the mark-to-market power purchase swaps resulting from price decreases in 2009 and price increases in 2008
- Increased ($2 million) due to the change in the ineffective portion of the effective interest rate swap

Interest expense, including interest expense to affiliated companies, decreased $3 million in the six months ended June 30, 2009, primarily due to lower interest rates on bonds ($5 million) offset by interest on increased borrowings to affiliated companies ($2 million).

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

	Six Months Ended June 30,	
	2009	2008
Statutory federal income tax rate	35.0 %	35.0 %
State income taxes, net of federal benefit	1.6	2.9
Qualified production activities deduction	(0.6)	(1.5)
Amortization of investment tax credits	(4.0)	(3.3)
Other differences	(0.4)	0.2
Effective income tax rate	31.6 %	33.3 %

The effective income tax rate decreased for the six months ended June 30, 2009, compared to the six months ended June 30, 2008, primarily due to a decrease in state income tax, net of federal benefit, and the impacts from lower levels of pre-tax income.

Liquidity and Capital Resources

LG&E uses net cash generated from its operations, external financing (including financing from affiliates) and/or infusions of capital from its parent to fund construction of plant and equipment and the payment of dividends. As of June 30, 2009, LG&E had a working capital deficiency of $223 million, primarily due to short-term debt from affiliates associated with the repurchase of certain of its tax-exempt bonds totaling $163 million, and $120 million of tax-exempt bonds which allow the investors to put the bonds back to the Company causing them to be classified as current portion of long-term debt. The Company has adequate liquidity facilities to repurchase any bonds put back to the Company. The repurchased bonds are being held until they can be refinanced or restructured. See Note 6 of Notes to Financial Statements. LG&E believes that its sources of funds will be sufficient to meet the needs of its business in the foreseeable future.

Operating Activities

The $77 million increase in net cash from operating activities for the six months ended June 30, 2009 compared to June 30, 2008, was primarily the result of changes in:

- Gas supply clause receivable, net ($52 million) due to the timing of GSC collections
- Accounts receivable ($45 million) primarily due to timing on collection of accounts
- Materials and supplies ($33 million) primarily due to increased volumes

- Collateral deposit – interest rate swap ($7 million) due to decreased collateral required related to decrease in derivative liability
- Other current assets and liabilities ($7 million)
- Fuel adjustment clause receivable ($1 million)

These increases were partially offset by changes in:
- Accounts payable ($32 million) primarily due to payments relating to 2009 winter storm restoration, timing of other payments and lower accruals
- Earnings, net of non-cash items ($18 million)
- Pension and postretirement funding ($9 million)
- Long-term derivative liability ($7 million) primarily due to market conditions
- Accrued income taxes ($2 million)

Investing Activities

Net cash used for investing activities decreased $12 million in the six months ended June 30, 2009 compared to 2008. The primary use of funds for investing activities continues to be for capital expenditures. Capital expenditures were $92 million and $116 million in the six months ended June 30, 2009 and 2008, respectively, a net decrease of $24 million. This decrease was partially offset by a decrease in assets transferred to KU for TC2 of $10 million and realized gains on risk management contracts of $2 million.

Financing Activities

Net cash flows used for financing activities were $149 million and $61 million in the six months ended June 30, 2009 and 2008, respectively, resulting in an increase in net cash used for financing activities of $88 million. The increase in financing cash outflows is due to lower short-term borrowings net of repayments from an affiliated company of $179 million and increased dividend payments of $40 million, partially offset by decreased reacquisition of long-term bonds of $131 million.

See Note 6 of Notes to Financial Statements for information of redemptions, maturities and issuances of long-term debt.

Future Capital Requirements

LG&E's construction program is designed to ensure that there will be adequate capacity and reliability to meet the electric needs of its service area and to comply with environmental regulations. These needs are continually being reassessed and appropriate revisions are made, when necessary, in construction schedules. LG&E expects its capital expenditures for the three year period ending December 31, 2011, to total approximately $690 million, consisting primarily of on-going construction related to distribution assets totaling approximately $345 million, on-going construction related to generation assets totaling approximately $240 million, construction of TC2 totaling approximately $35 million (including $5 million for environmental controls), redevelopment of the Ohio Falls hydroelectric facility totaling approximately $35 million, and information technology projects of approximately $35 million.

Future capital requirements may be affected in varying degrees by factors such as electric energy demand load growth, changes in construction expenditure levels, rate actions by regulatory agencies, new legislation, changes in commodity prices and labor rates, changes in environmental regulations and other regulatory requirements. Credit market conditions can affect aspects of the availability, terms or methods in which the Company funds its capital requirements. LG&E anticipates funding future capital requirements through operating cash flow, debt and/or infusions of capital from its parent.

LG&E has a variety of funding alternatives available to meet its capital requirements. LG&E participates in an intercompany money pool agreement wherein E.ON U.S. and/or KU make funds of up to $400 million available to the Company at market-based rates. See Note 6 of Notes to Financial Statements. Fidelia also provides long-term intercompany funding to LG&E.

Regulatory approvals are required for LG&E to incur additional debt. The FERC authorizes the issuance of short-term debt while the Kentucky Commission authorizes the issuance of long-term debt. In November 2007, LG&E received a two-year authorization from the FERC to borrow up to $400 million in short-term funds. As of June 30, 2009, LG&E has borrowed $153 million of this authorized amount. See Note 6 of Notes to Financial Statements.

A significant portion of LG&E's short-term debt balance ($163 million) is for borrowings incurred to repurchase auction rate tax-exempt bonds. Following the repurchase, the auction rate tax-exempt bonds have been removed from the balance sheet. However, these bonds are being held until they can be refinanced or restructured. Given the uncertainty surrounding the timing of when the bonds could be remarketed to the public due to the current state of the capital markets and the $400 million limit on short-term debt, in October 2008, the Company sought and received authority from the Kentucky Commission to issue up to $100 million of new long-term debt to its affiliate, Fidelia. The Company currently believes this authorization provides the necessary flexibility to address any liquidity needs.

LG&E's debt ratings as of June 30, 2009, were:

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

These ratings reflect the views of Moody's and S&P. A security rating is not a recommendation to buy, sell or hold securities and is subject to revision or withdrawal at any time by the rating agency. See Note 6 of Notes to Financial Statements for a discussion of 2008 and 2009 downgrade actions related to the pollution control revenue bonds caused by a change in the rating of the entity insuring those bonds.

Controls and Procedures

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

LG&E is not subject to the internal control and other requirements of the Sarbanes-Oxley Act of 2002 and associated rules (the "Act") and consequently is not required to evaluate the effectiveness of the Company's internal control over financial reporting pursuant to Section 404 of the Act. However, management has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2008, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework.* Management has concluded that, as of December 31, 2008, the Company's internal control over financial reporting was effective based on those criteria. Effective April 1, 2009, the Company initiated a new software and data system for customer accounts and associated billing, management, operations and record-keeping aspects thereof, following a comprehensive planning, testing and implementation project. There were no changes to the Company's internal controls as a result of the new software implementation. There have been no changes in the Company's internal control over financial reporting that occurred during the six months ended June 30, 2009, that has materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2008, was audited by PricewaterhouseCoopers LLP, an independent accounting firm, as stated in its report which is included in the 2008 LG&E Annual Report.

Legal Proceedings

For a description of the significant legal proceedings involving LG&E, reference is made to the information under the following captions of LG&E's Annual Report for the year ended December 31, 2008: Business, Risk Factors, Legal Proceedings, Management's Discussion and Analysis, Financial Statements and Notes to Financial Statements. Reference is also made to the matters described in Notes 2 and 7 of this quarterly report. Except as described in this quarterly report, to date, the proceedings reported in LG&E's Annual Report for the year ended December 31, 2008 have not materially changed.

Other

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

2009 - 1st Quarter Financial Statements and Additional Information

Louisville Gas and Electric Company

Financial Statements and Additional Information

(Unaudited)

As of March 31, 2009 and December 31, 2008
and for the three-month periods ended
March 31, 2009 and 2008

INDEX OF ABBREVIATIONS

AG	Attorney General of Kentucky
APB	Accounting Principles Board
ARO	Asset Retirement Obligation
BART	Best Available Retrofit Technology
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
CCN	Certificate of Public Convenience and Necessity
Clean Air Act	The Clean Air Act, as amended in 1990
Company	LG&E
DSM	Demand Side Management
ECR	Environmental Cost Recovery
EKPC	East Kentucky Power Cooperative, Inc.
E.ON	E.ON AG
E.ON U.S.	E.ON U.S. LLC (formerly LG&E Energy LLC and LG&E Energy Corp.)
E.ON U.S. Services	E.ON U.S. Services Inc. (formerly LG&E Energy Services Inc.)
EPA	U.S. Environmental Protection Agency
FAC	Fuel Adjustment Clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Fidelia	Fidelia Corporation (an E.ON affiliate)
FIN	FASB Interpretation No.
FSP	FASB Staff PositionGHG Greenhouse Gas
GSC	Gas Supply Clause
IRS	Internal Revenue Service
KCCS	Kentucky Consortium for Carbon Storage
KDAQ	Kentucky Division for Air Quality
Kentucky Commission	Kentucky Public Service Commission
KIUC	Kentucky Industrial Utility Consumers, Inc.
KU	Kentucky Utilities Company
LG&E	Louisville Gas and Electric Company
Mcf	Thousand Cubic Feet
MISO	Midwest Independent Transmission System Operator, Inc.
MMBtu	Million British thermal units
Moody's	Moody's Investors Service, Inc.
Mwh	Megawatt hours
NAAQS	National Ambient Air Quality Standards
NERC	North American Electric Reliability Corporation
NOx	Nitrogen Oxide
OCI	Other Comprehensive Income
RSG	Revenue Sufficiency Guarantee
S&P	Standard & Poor's Ratings Services
SERC	SERC Reliability Corporation
SFAS	Statement of Financial Accounting Standards
SIP	State Implementation Plan
SO_2	Sulfur Dioxide
TC2	Trimble County Unit 2
VDT	Value Delivery Team Process

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Louisville Gas and Electric Company
Statements of Income
(Unaudited)
(Millions of $)

	Three Months Ended March 31, 2009	2008
OPERATING REVENUES		
Electric (Note 9)	$ 233	$ 224
Gas	192	191
Total operating revenues	425	415
OPERATING EXPENSES		
Fuel for electric generation	91	80
Power purchased (Note 9)	19	24
Gas supply expenses	150	153
Other operation and maintenance expenses (Note 2)	123	80
Depreciation and amortization	33	31
Total operating expenses	416	368
Operating income	9	47
Other expense (income) – net	(8)	2
Interest expense (Notes 3 and 6)	5	8
Interest expense to affiliated companies (Notes 6 and 9)	7	6
Income before income taxes	5	31
Federal and state income tax expense (Note 5)	-	10
Net income	$ 5	$ 21

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

Statements of Retained Earnings
(Unaudited)
(Millions of $)

	Three Months Ended March 31, 2009	2008
Balance at beginning of period	$ 740	$ 690
Net income	5	21
Subtotal	745	711
Cash dividends declared on common stock	35	40
Balance at end of period	$ 710	$ 671

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

Louisville Gas and Electric Company
Balance Sheets
(Unaudited)
(Millions of $)

ASSETS	March 31, 2009	December 31, 2008
Current assets:		
Cash and cash equivalents	$ 5	$ 4
Restricted cash	1	2
Accounts receivable – less reserve of $2 million as of March 31, 2009 and December 31, 2008	169	203
Materials and supplies:		
Fuel (predominantly coal)	45	51
Gas stored underground	39	112
Other materials and supplies	32	32
Regulatory assets (Note 2)	27	43
Prepayments and other current assets	9	7
Total current assets	327	454
Utility plant:		
At original cost	4,535	4,506
Less: reserve for depreciation	1,707	1,690
Net utility plant	2,828	2,816
Deferred debits and other assets:		
Restricted cash	17	22
Regulatory assets (Note 2):		
Pension and postretirement benefits	250	250
Other	83	89
Other assets	5	6
Total deferred debits and other assets	355	367
Total assets	$ 3,510	$ 3,637

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

Louisville Gas and Electric Company
Balance Sheets (cont.)
(Unaudited)
(Millions of $)

LIABILITIES AND EQUITY	March 31, 2009	December 31, 2008
Current liabilities:		
Current portion of long-term debt (Note 6)	$ 120	$ 120
Notes payable to affiliated companies (Notes 6 and 9)	148	222
Accounts payable	85	100
Accounts payable to affiliated companies (Note 9)	25	38
Deferred income taxes – net (Note 5)	25	10
Customer deposits	22	22
Regulatory liabilities (Note 2)	45	35
Other current liabilities	44	43
Total current liabilities	514	590
Long-term debt:		
Long-term bonds (Note 6)	291	291
Long-term debt to affiliated company (Notes 6 and 9)	485	485
Total long-term debt	776	776
Deferred credits and other liabilities:		
Accumulated deferred income taxes (Note 5)	324	342
Accumulated provision for pensions and related benefits (Note 4)	232	225
Investment tax credit (Note 5)	50	50
Asset retirement obligations	32	31
Regulatory liabilities (Note 2):		
Accumulated cost of removal of utility plant	254	251
Deferred income taxes – net	44	45
Other	6	11
Derivative liability (Note 3)	47	55
Other liabilities	25	27
Total deferred credits and other liabilities	1,014	1,037
Common equity:		
Common stock, without par value -		
Authorized 75,000,000 shares, outstanding 21,294,223 shares	424	424
Additional paid-in capital (Note 9)	84	84
Accumulated other comprehensive loss	(12)	(14)
Retained earnings	710	740
Total common equity	1,206	1,234
Total liabilities and equity	$ 3,510	$ 3,637

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

Louisville Gas and Electric Company
Statements of Cash Flows
(Unaudited)
(Millions of $)

	For the Three Months Ended March 31, 2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 5	$ 21
Items not requiring cash currently:		
Depreciation and amortization	33	31
Provision for pension and postretirement plans	9	3
Derivative liability	(6)	-
Other	2	1
Changes in current assets and liabilities:		
Accounts receivable	34	5
Materials and supplies	79	67
Accounts payable	(23)	(30)
Accrued income taxes	(6)	3
Other current assets and liabilities	1	17
Long-term derivative liability	(2)	7
Collateral deposit – interest rate swap	5	(2)
Pension and postretirement funding	(2)	(2)
Gas supply clause receivable, net	24	(8)
Fuel adjustment clause receivable	1	7
Other	1	(4)
Net cash provided by operating activities	155	116
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction expenditures	(43)	(67)
Energy trading and risk management contracts	(2)	-
Net cash used for investing activities	(45)	(67)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Short-term borrowings from affiliated company (Note 6)	198	355
Repayment of short-term borrowings from affiliated company (Note 6)	(272)	(325)
Reacquired bonds (Note 6)	-	(40)
Payment of dividends (Note 9)	(35)	(40)
Net cash used for financing activities	(109)	(50)
CHANGE IN CASH AND CASH EQUIVALENTS	1	(1)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	4	4
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 5	$ 3

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

Louisville Gas and Electric Company
Statements of Comprehensive Income
(Unaudited)
(Millions of $)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Net income	$ 5	$ 21
Gain (Loss) on derivative instruments and hedging activities - net of tax (expense) benefit of $(1) million and $2 million, respectively (Note 3)	2	(3)
Comprehensive income	$ 7	$ 18

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

Louisville Gas and Electric Company
Notes to Financial Statements
(Unaudited)

Note 1 - General

The unaudited financial statements include the accounts of the Company. LG&E's common stock is wholly-owned by E.ON U.S., an indirect wholly-owned subsidiary of E.ON. In the opinion of management, the unaudited interim financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of financial position, results of operations, retained earnings, comprehensive income and cash flows for the periods indicated. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These unaudited financial statements and notes should be read in conjunction with the Company's Financial Statements and Additional Information ("Annual Report") for the year ended December 31, 2008, including the audited financial statements and notes therein.

Certain reclassification entries have been made to the previous years' financial statements to conform to the 2009 presentation with no impact on net assets, liabilities and capitalization or previously reported net income and net cash flows.

RECENT ACCOUNTING PRONOUNCEMENTS

FSP SFAS 107-1 and APB 28-1

In April 2009, the FASB issued FSP SFAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments,* which will be effective for interim and annual periods ending after June 15, 2009, and requires qualitative and quantitative disclosures about fair values of assets and liabilities on a quarterly basis. The adoption of FSP SFAS 107-1 and APB 28-1 will have no impact on the Company's results of operations, financial position or liquidity, since the guidance only requires enhanced disclosures.

FSP SFAS 132(R)-1

In December 2008, the FASB issued FSP SFAS 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets*, which will be effective as of December 31, 2009, and requires additional disclosures related to pension and other postretirement benefit plan assets. Additional disclosures include the investment allocation decision-making process, the fair value of each major category of plan assets as well as the inputs and valuation techniques used to measure fair value and significant concentrations of risk within the plan assets. The adoption of FSP SFAS 132(R)-1 will have no impact on the Company's results of operations, financial position or liquidity, since the guidance only requires enhanced disclosures.

SFAS No. 161

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133,* which is effective for fiscal years, and interim periods within those fiscal years, beginning on or after November 15, 2008.

The objective of this statement is to enhance the current disclosure framework in SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities, as amended.* The adoption of SFAS No. 161 had no impact on LG&E's statements of operations, financial position and cash flows, however, additional disclosures relating to derivatives were required with the adoption effective January 1, 2009.

SFAS No. 160

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements,* which is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The objective of this statement is to improve the relevance, comparability and transparency of financial information in a reporting entity's consolidated financial statements. The Company adopted SFAS No. 160 effective January 1, 2009, and it had no impact on its statements of operations, financial position and cash flows.

SFAS No. 157

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which, except as described below, was effective for fiscal years beginning after November 15, 2007. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 does not expand the application of fair value accounting to new circumstances.

In February 2008, the FASB issued FSP SFAS 157-2, *Effective Date of FASB Statement No. 157,* which delayed the effective date of SFAS No. 157 for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. All other amendments related to SFAS No. 157 have been evaluated and have no impact on the Company's financial statements.

The Company adopted SFAS No. 157 effective January 1, 2008, except as it applies to those nonfinancial assets and liabilities, and had no impact on the statements of operations, financial position and cash flows, however, additional disclosures relating to its financial derivatives and cash collateral on derivatives, as required, are now provided. Per FSP SFAS 157-2, fair value accounting for all nonrecurring fair value measurements of nonfinancial assets and liabilities was adopted effective January 1, 2009, and had no impact on the statements of operations, financial position and cash flows. At March 31, 2009, no additional disclosures were required per FSP SFAS 157-2 as LG&E did not have any nonfinancial assets or liabilities measured at fair value subsequent to initial measurement. In April 2009, the FASB issued FSP SFAS 157-4, *Determining Fair Value when the Volume and Level of Activity for the Asset or Liability have Significantly Decreased and Identifying Transactions that are not Orderly,* which will be effective for interim and annual periods ending after June 15, 2009. FSP SFAS 157-4 provides additional guidance on determining fair values when there is no active market or where the price inputs being used represent distressed sales. The Company expects no impact on its financial position, statements of operations and cash flows upon adopting FSP SFAS 157-4.

Note 2 - Rates and Regulatory Matters

For a description of each line item of regulatory assets and liabilities and for descriptions of certain matters which may not have undergone material changes relating to the period covered by this quarterly report, reference is made to Note 2 of LG&E's Annual Report for the year ended December 31, 2008.

Electric and Gas Rate Cases

In January 2009, LG&E, the AG, KIUC and all other parties to electric and gas base rate cases filed a settlement agreement with the Kentucky Commission. Under the terms of the settlement agreement, LG&E's base gas rates will increase $22 million annually, and base electric rates will decrease $13 million annually. An Order approving the settlement was received in February 2009, and the new rates were implemented effective February 6, 2009. In connection with the application and effective date of the new rates, the VDT surcredit and merger surcredit terminated, which will result in increased revenues of approximately $21 million annually.

Regulatory Assets and Liabilities

The following regulatory assets and liabilities were included in LG&E's Balance Sheets:

(in millions)	March 31, 2009	December 31, 2008
Current regulatory assets:		
GSC	$ 10	$ 28
ECR	5	4
FAC	6	7
Net MISO exit	2	-
Other	4	4
Total current regulatory assets	$ 27	$ 43
Non-current regulatory assets:		
ARO	$ 30	$ 29
Unamortized loss on bonds	23	23
Net MISO exit	5	12
Hurricane Ike	24	24
Other	1	1
Subtotal non-current other regulatory assets	83	89
Pension and postretirement benefits	250	250
Total non-current regulatory assets	$ 333	$ 339
Current regulatory liabilities:		
GSC	$ 35	$ 30
DSM	10	5
Total current regulatory liabilities	$ 45	$ 35
Non-current regulatory liabilities:		
Accumulated cost of removal of utility plant	$ 254	$ 251
Deferred income taxes – net	44	45
Other	6	11
Total non-current regulatory liabilities	$ 304	$ 307

LG&E does not currently earn a rate of return on the ECR, FAC, GSC and gas performance-based ratemaking regulatory assets (included in "GSC" above) which are separate recovery mechanisms with recovery within twelve months. No return is earned on the pension and postretirement benefits regulatory asset that represents the changes in funded status of the plans. LG&E will recover this asset through pension expense included in the calculation of base rates. No return is currently earned on the ARO asset. This regulatory asset will be offset against the associated regulatory liability, ARO asset and ARO liability at the time the underlying asset is retired. A return is earned on the unamortized loss on bonds, and these costs are recovered through amortization over the life of the debt. LG&E currently earns a rate of return on the balance of Mill Creek Ash Pond costs, as well as recovery of these costs. The Company will seek recovery of the Hurricane Ike regulatory asset and KCCS funding, included in other regulatory assets, in the next base rate case. The Company recovers the net MISO exit regulatory asset incurred through April 30, 2008, and will seek recovery of subsequent net MISO exit costs in future base rate cases. The Company recovers the remaining regulatory assets, including other regulatory assets comprised of merger surcredit, EKPC FERC transmission settlement agreement and rate case expenses. Other regulatory liabilities include DSM and MISO administrative charges collected via base rates from May 2008 through February 5, 2009. The MISO regulatory liability will be netted against costs of withdrawing from the MISO, per a Kentucky Commission Order, in the next base rate case.

ECR. In February 2009, the Kentucky Commission approved a settlement agreement in the rate case which provides for an authorized return on equity applicable to the ECR mechanism of 10.63% effective with the February 2009 expense month filing, which represents a slight increase over the previously authorized 10.50%.

In January 2009, the Kentucky Commission initiated a six-month review for the period ending October 31, 2008, of LG&E's environmental surcharge. An order is anticipated in the second quarter of 2009.

FAC. In January 2009, the Kentucky Commission initiated a routine examination of LG&E's FAC for the two-year period November 1, 2006 through October 31, 2008. A public hearing was held in March 2009. An order is anticipated in the second quarter of 2009.

In August 2008, the Kentucky Commission initiated a routine examination of LG&E's FAC for the six-month period November 1, 2007 through April 30, 2008. The Kentucky Commission issued an Order in January 2009, approving the charges and credits billed through the FAC during the review period.

MISO. In accordance with Kentucky Commission Orders approving the MISO exit, LG&E has established a regulatory asset for the MISO exit fee, net of former MISO administrative charges collected via base rates through the base rate case test year. The net MISO exit fee is subject to adjustment for possible future MISO credits, and a regulatory liability for certain revenues associated with former MISO administrative charges, which were collected via base rates until February 6, 2009. The approved 2008 base rate case settlement provided for MISO administrative charges collected through base rates from May 1, 2008 to February 6, 2009, and any future adjustments to the MISO exit fee, to be established as a regulatory liability until the amounts can be amortized in future base rate cases.

In November 2008, the FERC issued Orders in industry-wide proceedings relating to MISO RSG calculation and resettlement procedures. RSG charges are amounts assessed to various participants active in the MISO trading market which generally seek to compensate for uneconomic generation dispatch due to regional transmission or power market operational considerations, with some customer classes eligible for payments, while others may bear charges. The FERC Orders approved two requests for significantly altered formulas and principles, each of which the FERC applied differently to calculate RSG charges for various historical and future periods. LG&E and other parties have requested rehearing and a delay in any collection of RSG amounts. During January and February 2009, the FERC issued a deficiency letter in the proceeding relating to one prior Order, which delays collection of additional applicable RSG resettlements by the MISO pending further proceedings. Further developments in the RSG proceeding are expected to occur during 2009. Based upon the recent FERC Orders, the Company established a reserve during the fourth quarter of 2008 of $2 million relating to potential RSG resettlement costs for the period ended December 31, 2008. As of March 31, 2009, a portion of the resettlement payments had been made and the remaining balance was $1 million. In May 2009, the FERC issued an Order on the requests for rehearing on one November 2008 Order. The Order changed the effective date and reduces potential RSG resettlement costs by $1 million. Due to the numerous participants, complex principles at issue and changes from prior precedents, the Company cannot predict the ultimate outcome of this matter nor can it predict the impact of the various proposals that have been made by the parties.

Hurricane Ike. In September 2008, high winds from the remnants of Hurricane Ike passed through the service territory causing significant outages and system damage. In October 2008, LG&E filed an application with the Kentucky Commission requesting approval to establish a regulatory asset, and defer for future recovery, approximately $24 million of expenses related to the storm restoration. In December 2008, the Kentucky Commission issued an Order allowing the Company to establish a regulatory asset of up to $24 million based on its actual costs for storm damages and service restoration due to Hurricane Ike.

CMRG and KCCS Contributions. In July 2008, LG&E and KU, along with Duke Energy Kentucky, Inc. and Kentucky Power Company, filed an application with the Kentucky Commission requesting approval to establish regulatory assets related to contributions to the CMRG for the development of technologies for reducing carbon dioxide emissions and the KCCS to study the feasibility of geologic storage of carbon dioxide. The filing companies proposed that these contributions be treated as regulatory assets to be deferred until recovery is provided in the next base rate case of each company, at which time the regulatory assets will be amortized over the life of each project: four years with respect to the KCCS and ten years with respect to the CMRG. LG&E and KU jointly agreed to provide less than $2 million over two years to the KCCS and up to $2 million over ten years to the CMRG. In October 2008, an Order approving the establishment of the requested regulatory assets was received and LG&E will seek rate recovery in the Company's next base rate case.

Rate Case Expenses. LG&E incurred $1 million in expenses related to the development and support of the 2008 Kentucky base rate case. The Kentucky Commission approved the establishment of a regulatory asset for these expenses and authorized amortization over three years beginning in March 2009.

EKPC FERC Transmission Settlement Agreement. LG&E received approval to establish a regulatory asset for $1 million related to the transmission settlement agreement with EKPC as part of the 2008 base rate case. These costs resulted from LG&E's exit from the MISO and will be amortized over five years.

Other Regulatory Matters

Storm Restoration. In January 2009, a significant winter ice storm passed through LG&E's service territory causing approximately 205,000 customer outages, followed closely by a severe wind storm in February 2009, causing approximately 37,000 customer outages. LG&E currently estimates $47 million of operation and maintenance expenses and $10 million of capital expenditures related to the restoration following the two storms. The Company filed an application with the Kentucky Commission in April 2009, requesting approval to establish a regulatory asset, and defer for future recovery, approximately $45 million in incremental operation and maintenance expenses related to the storm restoration.

TC2 CCN Application and Transmission Matters. A CCN application for construction of the new base-load, coal fired unit known as TC2, which will be jointly owned by LG&E and KU, together with the Illinois Municipal Electric Agency and the Indiana Municipal Power Agency, was approved by the Kentucky Commission in November 2005. CCN applications for two transmission lines associated with the TC2 unit were approved by the Kentucky Commission in September 2005 and May 2006. All regulatory approvals and rights of way for one transmission line have been obtained.

The CCN for the remaining line has been challenged by certain Hardin County, Kentucky property owners. In August 2006, LG&E and KU obtained a successful dismissal of the challenge at the Franklin County circuit court, which ruling was reversed by the Kentucky Court of Appeals in December 2007, and the proceeding reinstated. In April 2009, the Kentucky Supreme Court granted a motion for discretionary review filed by LG&E and KU in May 2008. The discretionary review request, which seeks reversal of the appellate court decision and reinstatement of the circuit court dismissal of the challenge, may be ruled upon during 2009.

Completion of the transmission lines are also subject to standard construction permit, environmental authorization and real property or easement acquisition procedures and certain Hardin County landowners have raised challenges to such transmission line in some of these forums as well. During 2008, LG&E and KU obtained various successful rulings at the Hardin County circuit court establishing their condemnation and easement rights. In August 2008, the landowners appealed such rulings to the Kentucky Court of Appeals and received a stay preventing LG&E and KU access to the properties during the appeal. In May 2009, the appellate court denied an LG&E and KU petition to lift the stay and issued an Order generally (i) retaining the stay until a decision on the merits and (ii) delaying such decision on the merits pending developments in the Supreme Court CCN proceeding mentioned above. In a separate proceeding, certain Hardin County landowners have also challenged the same transmission line in federal district court in Louisville, Kentucky, claiming that certain National Historic Preservation Act requirements were not fully complied with by the U.S. Army relating to easements for the line through Fort Knox. LG&E and KU are cooperating with the U.S. Army in its defense in this case.

LG&E and KU continue to actively engage in settlement negotiations with the Hardin County property owners involved in the appeals of the condemnation proceedings. During the fourth quarter of 2008, LG&E and KU entered into settlements with certain Meade County landowners and obtained dismissals of prior litigation they had brought challenging the same transmission line.

During March 2009, owners of an airfield in Jefferson County, Indiana, filed a petition with the Federal Aviation Administration ("FAA") seeking review of a prior FAA determination regarding certain transmission towers to be constructed at a crossing point of the Ohio River. The FAA previously determined that the towers do not constitute a hazard to air navigation, but such ruling is not deemed final until the review is completed. The receipt of a favorable final FAA determination is necessary for a tall structure permit in Indiana.

LG&E and KU are not currently able to predict the ultimate outcome and possible effects, if any, on the construction schedule relating to these transmission line approval, land acquisition and permitting proceedings.

Depreciation Study. In December 2007, LG&E filed a depreciation study with the Kentucky Commission as required by a previous Order. In August 2008, the Kentucky Commission issued an Order consolidating the depreciation study with the base rate case proceeding. The approved settlement agreement in the rate case established new depreciation rates effective February 2009.

Interconnection and Net Metering Guidelines. In May 2008, the Kentucky Commission on its own motion initiated a proceeding to establish interconnection and net metering guidelines in accordance with amendments to existing statutory requirements for net metering of electricity. The jurisdictional electric utilities and intervenors in this case presented proposed interconnection guidelines to the Kentucky Commission in October 2008. In a January 2009 Order, the Kentucky Commission issued the Interconnection and Net Metering Guidelines – Kentucky that were developed by all parties to the proceeding. LG&E does not expect any impact as a result of this Order. In April 2009, LG&E filed revised net metering tariffs and application forms pursuant to the Kentucky Commission's Order.

EISA 2007 Standards. In November 2008, the Kentucky Commission initiated an administrative proceeding to consider new standards as a result of the Energy Independence and Security Act of 2007 ("EISA 2007"), part of which amends the Public Utility Regulatory Policies Act of 1978 ("PURPA"). There are four new PURPA standards and one non-PURPA standard applicable to electric utilities. The proceeding also considers two new PURPA standards applicable to natural gas utilities. EISA 2007 requires state regulatory commissions and nonregulated utilities to begin consideration of the rate design and smart grid investments no later than December 19, 2008, and to complete the consideration by December 19, 2009. The Kentucky Commission has established a procedural schedule that allows for data discovery and testimony through July 2009. A public hearing has not been scheduled in this matter.

Note 3 - Financial Instruments

LG&E is subject to interest rate and commodity price risk related to on-going business operations. LG&E currently manages these risks using derivative financial instruments including swaps and forward contracts.

Interest Rate Swaps. LG&E uses over-the-counter interest rate swaps to hedge exposure to market fluctuations in certain of its debt instruments. Pursuant to Company policy, use of these financial instruments is intended to mitigate risk, earnings and cash flow volatility and is not speculative in nature.

The fair value of the interest rate swaps is determined by a quote from the counterparty. This value is verified monthly by LG&E using a model that calculates the present value of future payments under the swap utilizing current swap market rates obtained from another dealer active in the swap market and validated by market transactions. Market liquidity is considered, however the valuation does not require an adjustment for market liquidity as the market is very active for swaps such as the Company utilizes. LG&E considered the impact of counterparty credit risk by evaluating credit ratings and financial information. All counterparties had strong investment grade ratings at March 31, 2009. LG&E did not have any credit exposure to the swap counterparties, as LG&E was in a liability position at March 31, 2009, therefore, the market valuation required no adjustment for counterparty credit risk. In addition, LG&E and the counterparties have agreed to post margin if the credit exposure exceeds certain thresholds. Using these valuation methodologies, the swap contracts are considered level 2 based on SFAS No. 157 measurement criteria. Cash collateral for interest rate swaps is classified as restricted cash and is a level 1 measurement based on the funds being held in a demand deposit account.

LG&E was party to various interest rate swap agreements with aggregate notional amounts of $179 million as of March 31, 2009 and December 31, 2008. Under these swap agreements, LG&E paid fixed rates averaging 4.52% and received variable rates based on LIBOR or the Securities Industry and Financial Markets Association's municipal swap index averaging 0.43% and 1.27% at March 31, 2009 and December 31, 2008, respectively. One swap hedging LG&E's $83 million Trimble County 2000 Series A bond has been designated as a cash flow hedge and continues to be highly effective. The remaining three interest rate swaps designated to hedge LG&E's $128 million Jefferson County 2003 Series A bond became ineffective during 2008 as a result of the impact of downgrades of the underlying debt associated with issues involving the bond insurers. One swap with a notional value of $32 million was terminated in December 2008. See Note 6, Short-Term and Long-Term Debt.

The interest rate swaps are accounted for on a mark-to-market basis in accordance with SFAS No. 133, as amended. Financial instruments designated as effective cash flow hedges have resulting gains and losses recorded within other comprehensive income and common equity. The ineffective portion of financial instruments designated as cash flow hedges is recorded to earnings monthly as is the entire change in the market value of the ineffective swaps. For the three month periods ended March 31, 2009 and 2008, LG&E recorded a pre-tax gain of less than $1 million and a pre-tax loss of $6 million in other expense (income) – net, respectively, to reflect the change in the ineffective portion of the interest rate swaps deemed highly effective. For the three months ended March 31, 2009, LG&E recorded a pre-tax gain of $6 million in other expense (income) – net, for the change in the mark-to-market value of the ineffective interest rate swaps. There were no ineffective swaps during the three months ended March 31, 2008. Amounts recorded in accumulated other comprehensive income will be reclassified into earnings in the same period during which the hedged forecasted transaction affects earnings. The amount expected to be reclassified from other comprehensive income to earnings in the next twelve months is less than $1 million. A deposit in the amount of $17 million, used as collateral for one of the interest rate swaps, is classified as restricted cash on the balance sheet. The amount of the deposit required is tied to the market value of the swap.

A decline of 100 basis points in the current market interest rates would reduce the fair value of LG&E's interest rate swaps by approximately $35 million. Such a change could affect other comprehensive income if the hedge is effective, or the income statement if the hedge is ineffective.

Energy Trading and Risk Management Activities. LG&E conducts energy trading and risk management activities to maximize the value of power sales from physical assets it owns.

Energy trading activities are principally forward financial transactions to manage price risk and are accounted for as non-hedging derivatives on a mark-to-market basis in accordance with SFAS No. 133, as amended.

Energy trading and risk management contracts are valued using prices based on active trades on the Intercontinental Exchange. In the absence of a traded price, midpoints of the best bids and offers will be the primary determinants of valuation. When sufficient trading activity is unavailable, other inputs can include prices quoted by brokers or observable inputs other than quoted prices, such as one-sided bids or offers as of the balance sheet date. Using these valuation methodologies, these contracts are considered level 2 based on SFAS No. 157 measurement criteria. Quotes are verified quarterly using an independent pricing source of actual transactions. Quotes for combined off-peak and weekend timeframes are allocated between the two timeframes based on their historical proportional ratios to the integrated cost. No other adjustments are made to the forward prices. No changes to valuation techniques for energy trading and risk management activities occurred during 2009 or 2008. Changes in market pricing, interest rate and volatility assumptions were made during both years.

LG&E maintains credit policies intended to minimize credit risk in wholesale marketing and trading activities by assessing the creditworthiness of potential counterparties prior to entering into transactions with them and continuing to evaluate their creditworthiness once transactions have been initiated. To further mitigate credit risk, LG&E seeks to enter into netting agreements or require cash deposits, letters of credit and parental company guarantees as security from counterparties. LG&E uses S&P, Moody's and definitive qualitative and quantitative data to assess the financial strength of counterparties on an on-going basis. If no external rating exists, LG&E assigns an internally generated rating for which it sets appropriate risk parameters. As risk management contracts are valued based on changes in market prices of the related commodities, credit exposures are revalued and monitored on a daily basis. At March 31, 2009, 100% of the trading and risk management commitments were with counterparties rated BBB-/Baa3 equivalent or better. LG&E has reserved against counterparty credit risk based on the counterparty's credit rating and applying historical default rates within varying credit ratings over time provided by S&P or Moody's. At March 31, 2009 and December 31, 2008, counterparty credit reserves were less than $1 million.

LG&E manages the price volatility of its forecasted electric wholesale sales with the sales of market-traded electric forward contracts. Hedge accounting treatment has not been elected for these transactions, and therefore gains and losses are shown in the statements of income. Unrealized gains and losses are included in other expense (income) – net, whereas realized gains and losses are included in electric revenues. Net unrealized gains were less than $1 million in the three months ended March 31, 2009 and 2008. Net realized gains were $1 million in the three months ended March 31, 2009 and 2008. The volume of electricity based financial derivatives outstanding at March 31, 2009 and December 31, 2008, was 550,000 Mwhs and 350,000 Mwhs, respectively. Of the volume outstanding at March 31, 2009, 330,000 Mwhs will settle in 2009 and 220,000 Mwhs will settle in 2010. As of March 31, 2009, estimated wholesale sales are hedged 91% and 56% for 2009 and 2010, respectively.

Effective January 1, 2008, LG&E adopted the provisions of SFAS No. 157, excluding the exceptions related to nonfinancial assets and liabilities, which was adopted effective January 1, 2009, consistent with FSP SFAS 157-2. LG&E has classified the applicable financial assets and liabilities that are accounted for at fair value into the three levels of the fair value hierarchy, as defined by SFAS No. 157, as follows:

- Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 - Include other inputs that are directly or indirectly observable in the marketplace.
- Level 3 - Unobservable inputs which are supported by little or no market activity.

The following table sets forth by level within the fair value hierarchy, LG&E's financial assets and liabilities that were accounted for at fair value on a recurring basis as of March 31, 2009. No cash collateral was required related to the energy trading and risk management contracts at March 31, 2009. Cash collateral is categorized as restricted cash and is a level 1 measurement based on the funds being held in liquid accounts. Energy trading and risk management contracts are considered level 2 based on SFAS No. 157 measurement criteria. There are no level 3 measurements for this period.

Recurring Fair Value Measurements (in millions)	Level 1	Level 2	Total
Financial assets:			
Energy trading and risk management contracts	$ -	$ 4	$ 4
Interest rate swap cash collateral	17	-	17
Total financial assets	$ 17	$ 4	$ 21
Financial liabilities:			
Energy trading and risk management contracts	$ -	$ 1	$ 1
Interest rate swaps	-	47	47
Total financial liabilities	$ -	$ 48	$ 48

FSP FIN 39-1, *Amendment of FASB Interpretation No. 39*, which was effective as of the beginning of 2008, permits companies to offset fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a liability) against fair value amounts recognized for derivative instruments that are executed with the same counterparty under the same master netting arrangement. The Company did not elect to adopt FSP FIN 39-1 for any of its eligible financial instruments or other items.

Certain of the Company's derivative instruments contain provisions that require the Company to provide immediate and on-going collateralization on derivative instruments in net liability positions based upon the Company's credit ratings from each of the major credit rating agencies. The aggregate mark-to-market value of all energy trading and risk management contracts with credit risk related contingent features that are in a liability position on March 31, 2009 is less than $1 million, with no collateral posted in the normal course of business. The aggregate mark-to-market value of all interest rate swaps with credit risk related contingent features that are in a liability position on March 31, 2009, is $31 million for which the Company has posted collateral of $17 million in the normal course of business. If the credit risk related contingent features underlying these agreements were triggered on March 31, 2009, due to a drop in the Company's credit rating, the Company would be required to post an additional $3 million of collateral to its counterparties for the interest rate swaps and there would be no effect on the energy trading and risk management contracts or collateral required as a result of these contracts.

The table below shows the fair value and balance sheet location of derivatives designated as hedging instruments as of March 31, 2009:

(in millions)	Asset Derivatives Balance Sheet Location	Fair Value	Liability Derivatives Balance Sheet Location	Fair Value
Interest rate swaps	Other assets	$ -	Long-term derivative liability	$ 22
Total		$ -		$ 22

The table below shows the fair value and balance sheet location of derivatives not designated as hedging instruments as of March 31, 2009:

(in millions)	Asset Derivatives Balance Sheet Location	Fair Value	Liability Derivatives Balance Sheet Location	Fair Value
Interest rate swaps	Other assets	$ -	Long-term derivative liability	$ 25
Energy trading and risk management contracts (current)	Other current assets	4	Other current liabilities	1
Total		$ 4		$ 26

At March 31, 2009, the fair value of long-term energy trading and risk management contracts not designated as hedging instruments was less than $1 million.

The gain on hedging interest rate swaps recognized in OCI for the three months ended March 31, 2009, was $2 million. For the three months ended March 31, 2009, the gain on derivatives reclassified from accumulated OCI to income and the gain on derivatives recognized in income was less than $1 million, and was recorded in interest expense and other expense (income) – net, respectively.

The following table presents the effect of derivatives not designated as hedging instruments on income for the three months ended March 31, 2009:

(in millions)	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain (Loss) Recognized in Income on Derivatives
Energy trading and risk management contracts (realized)	Electric revenues	$ 1
Interest rate swaps (realized)	Other (expense) income – net	6
Energy trading and risk management contracts (unrealized)	Other (expense) income - net	-
Total		$ 7

Note 4 - Pension and Other Postretirement Benefit Plans

The following tables provide the components of net periodic benefit cost for pension and other postretirement benefit plans for the three months ended March 31. The tables include the costs associated with both LG&E employees and E.ON U.S. Services employees who are providing services to the Company. The E.ON U.S. Services costs that are allocated to LG&E are approximately 44% and 42% of E.ON U.S. Services costs for March 31, 2009 and 2008, respectively.

(in millions)	Pension Benefits					
	2009			2008		
	LG&E	E.ON U.S. Services Allocation to LG&E	Total LG&E	LG&E	E.ON U.S. Services Allocation to LG&E	Total LG&E
Service cost	$ 1	$ 1	$ 2	$ 1	$ 1	$ 2
Interest cost	7	2	9	6	1	7
Expected return on plan assets	(6)	(1)	(7)	(7)	(1)	(8)
Amortization of prior service costs	1	-	1	1	-	1
Amortization of actuarial loss	3	-	3	-	-	-
Benefit cost at end of year	$ 6	$ 2	$ 8	$ 1	$ 1	$ 2

	Other Postretirement Benefits					
	2009			2008		
	LG&E	E.ON U.S. Services Allocation to LG&E	Total LG&E	LG&E	E.ON U.S. Services Allocation to LG&E	Total LG&E
Service cost	$ -	$ 1	$ 1	$ -	$ -	$ -
Interest cost	1	-	1	1	-	1
Amortization of prior service costs	1	-	1	1	-	1
Benefit cost at end of year	$ 2	$ 1	$ 3	$ 2	$ -	$ 2

In January 2009, LG&E made a contribution to other postretirement benefit plans of $2 million. In April 2009, LG&E made a contribution to a pension plan covering its employees of $8 million. In addition, E.ON U.S. Services made a pension plan contribution of $8 million. LG&E's intent is to fund the pension plan in a manner consistent with the requirements of the Pension Protection Act of 2006. LG&E also anticipates making further voluntary contributions to fund Voluntary Employee Beneficiary Association trusts to match the annual postretirement expense and funding the 401(h) plan up to the maximum amount allowed by law.

Note 6 - Short-Term and Long-Term Debt

LG&E's long-term debt includes $120 million of pollution control bonds that are classified as current liabilities because these bonds are subject to tender for purchase at the option of the holder and to mandatory tender for purchase upon the occurrence of certain events. These bonds include Jefferson County 2001 Series A and B and Trimble County 2001 Series A and B. Maturity dates for these bonds range from 2026 to 2027. The average annualized interest rate for these bonds during the three months ended March 31, 2009, was 1.40%.

Pollution control bonds are obligations of LG&E issued in connection with tax-exempt pollution control revenue bonds issued by various governmental entities, principally counties in Kentucky. A loan agreement obligates LG&E to make debt service payments to the county that equate to the debt service due from the county on the related pollution control revenue bonds. The loan agreement is an unsecured obligation of LG&E.

Several of the LG&E pollution control bonds are insured by monoline bond insurers whose ratings have been under pressure due to exposures relating to insurance of sub-prime mortgages. At March 31, 2009, LG&E had an aggregate $574 million (including $163 million of reacquired bonds) of outstanding pollution control indebtedness, of which $135 million is in the form of insured auction rate securities wherein interest rates are reset either weekly or every 35 days via an auction process. Beginning in late 2007, the interest rates on these insured bonds began to increase due to investor concerns about the creditworthiness of the bond insurers. During 2008, interest rates increased, and the Company experienced "failed auctions" when there were insufficient bids for the bonds. When a failed auction occurs, the interest rate is set pursuant to a formula stipulated in the indenture. During the three months ended March 31, 2009 and 2008, the average rate on the auction rate bonds was 0.47% and 4.82%, respectively. The instruments governing these auction rate bonds permit LG&E to convert the bonds to other interest rate modes, such as various short-term variable rates, long-term fixed rates or intermediate-term fixed rates that are reset infrequently. There were no changes to the Company's bond ratings from S&P or Moody's during the three months ended March 31, 2009.

During 2008, LG&E converted several series of its pollution control bonds from the auction rate mode to a weekly interest rate mode, as permitted under the loan documents. In connection with these conversions, LG&E purchased the bonds from the remarketing agent. As of March 31, 2009, LG&E continued to hold repurchased bonds in the amount of $163 million. The other repurchased bonds were remarketed during 2008 in an intermediate-term fixed rate mode wherein the interest rate is reset periodically (every three to five years). LG&E will hold some or all of such repurchased bonds until a later date, at which time LG&E may refinance, remarket or further convert such bonds. Uncertainty in markets relating to auction rate securities or steps LG&E has taken or may take to mitigate such uncertainty, such as additional conversion, subsequent restructuring or redemption and refinancing, could result in LG&E incurring increased interest expense, transaction expenses or other costs and fees or experiencing reduced liquidity relating to existing or future pollution control financing structures.

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

($ in millions)	Total Money Pool Available	Amount Outstanding	Balance Available	Average Interest Rate
March 31, 2009	$ 400	$ 148	$ 252	0.75%
December 31, 2008	$ 400	$ 222	$ 178	1.49%

E.ON U.S. maintains revolving credit facilities totaling $313 million at March 31, 2009 and December 31, 2008, to ensure funding availability for the money pool. At March 31, 2009, one facility, totaling $150 million, is with E.ON North America, Inc., while the remaining line, totaling $163 million, is with Fidelia; both are affiliated companies. The balances are as follows:

($ in millions)	Total Available	Amount Outstanding	Balance Available	Average Interest Rate
March 31, 2009	$ 313	$ 246	$ 67	2.66%
December 31, 2008	$ 313	$ 299	$ 14	2.05%

As of March 31, 2009, LG&E maintained bilateral lines of credit, with unaffiliated financial institutions, totaling $125 million which mature in June 2012. At March 31, 2009, there was no balance outstanding under any of these facilities.

There were no redemptions or issuances of long-term debt year-to-date through March 31, 2009.

Note 7 - Commitments and Contingencies

Except as may be discussed in this quarterly report (including Note 2), material changes have not occurred in the current status of various commitments or contingent liabilities from that discussed in LG&E's Annual Report for the year ended December 31, 2008 (including, but not limited to Notes 2, 9 and 14 to the financial statements of LG&E contained therein). See LG&E's Annual Report regarding such commitments or contingencies.

Construction Program. LG&E had $32 million of commitments in connection with its construction program at March 31, 2009.

In June 2006, LG&E and KU entered into a construction contract regarding the TC2 project. The contract is generally in the form of a lump-sum, turnkey agreement for the design, engineering, procurement, construction, commissioning, testing and delivery of the project, according to designated specifications, terms and conditions. The contract price and its components are subject to a number of potential adjustments which may serve to increase or decrease the ultimate construction price paid or payable to the contractor. The contract also contains standard representations, covenants, indemnities, termination and other provisions for arrangements of this type, including termination for convenience or for cause rights. In March 2009, the parties completed an agreement resolving certain construction cost increases due to higher labor and per diem costs above an established baseline, and certain safety and compliance costs resulting from a change in law. LG&E's share of additional costs from inception of the contract through the expected project completion in 2010 may be approximately $5 million.

TC2 Air Permit. The Sierra Club and other environmental groups filed a petition challenging the air permit issued for the TC2 baseload generating unit which was issued by the KDAQ in November 2005. The filing of the challenge did not stay the permit, so the Company was free to proceed with construction during the pendency of the action. In June 2007, the state hearing officer assigned to the matter recommended upholding the air permit with minor revisions. In September 2007, the Secretary of the Kentucky Environmental and Public Protection Cabinet issued a final Order approving the hearing officer's recommendation and upholding the permit. In September 2007, LG&E administratively applied for a permit revision to reflect minor design changes. In October 2007, the environmental groups submitted comments objecting to the draft permit revisions and, in part, attempting to reassert general objections to the generating unit. In January 2008, the KDAQ issued a final permit revision. The environmental groups did not appeal the final Order upholding the permit or file a petition challenging the permit revision by the applicable deadlines. However, in October 2007, the environmental groups filed a lawsuit in federal court seeking an order for the EPA to grant or deny their pending petition for the EPA to "veto" the state air permit and in April 2008, they filed a petition seeking veto of the permit revision. In September 2008, the EPA issued an Order denying nine of eleven claims alleged in one of the petitions, but finding deficiencies in two areas of the permit. The KDAQ revised the permit to address the issues identified in the EPA's Order, although the Sierra Club subsequently submitted comments objecting to the revisions. Although the Company does not expect material changes in the permit as a result of the various petitions, the EPA has yet to rule on several additional claims which are subject to a July 2009 deadline. The Company is currently unable to determine the final outcome of this matter or the impact of an unfavorable determination upon the Company's financial condition or results of operations.

Environmental Matters. LG&E's operations are subject to a number of environmental laws and regulations, governing, among other things, air emissions, wastewater discharges, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety.

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

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

In 1997, the EPA established new NAAQS for ozone and fine particulates that required additional reductions in SO_2 and NOx emissions from power plants. In 1998, the EPA issued its final "NOx SIP Call" rule requiring reductions in NOx emissions of approximately 85% from 1990 levels in order to mitigate ozone transport from the midwestern U.S. to the northeastern

U.S. To implement the new federal requirements, Kentucky amended its SIP in 2002 to require electric generating units to reduce their NOx emissions to 0.15 pounds weight per MMBtu on a company-wide basis. In 2005, the EPA issued the CAIR which required additional SO_2 emission reductions of 70% and NOx emission reductions of 65% from 2003 levels. The CAIR provided for a two-phase cap and trade program, with initial reductions of NOx and SO_2 emissions due by 2009 and 2010, respectively, and final reductions due by 2015. In 2006, Kentucky proposed to amend its SIP to adopt state requirements similar to those under the federal CAIR. Depending on the level of action determined necessary to bring local nonattainment areas into compliance with the new ozone and fine particulate standards, LG&E's power plants are potentially subject to additional reductions in SO_2 and NOx emissions. In March 2008, the EPA issued a revised NAAQS for ozone, which contains a more stringent standard than that contained in the previous regulation. At present, LG&E is unable to determine what, if any, additional requirements may be imposed to achieve compliance with the new ozone standard.

In July 2008, a federal appeals court issued a ruling finding deficiencies in the CAIR and vacating it. In December 2008, the Court amended its previous Order, directing the EPA to promulgate a new regulation, but leaving the CAIR in place in the interim. Depending upon the course of such matters, the CAIR could be superseded by new or revised NOx or SO_2 regulations with different or more stringent requirements and SIPs which incorporate CAIR requirements could be subject to revision. LG&E is also reviewing aspects of its compliance plan relating to the CAIR, including scheduled or contracted pollution control construction programs. Finally, as discussed below, the remand of the CAIR results in some uncertainty with respect to certain other EPA or state programs and proceedings and LG&E's and KU's compliance plans relating thereto, due to the interconnection of the CAIR with such associated programs. At present, LG&E is not able to predict the outcomes of the legal and regulatory proceedings related to the CAIR and whether such outcomes could have a material effect on the Company's financial or operational conditions.

Hazardous Air Pollutants. As provided in the 1990 amendments to the Clean Air Act, the EPA investigated hazardous air pollutant emissions from electric utilities and submitted a report to Congress identifying mercury emissions from coal-fired power plants as warranting further study. In 2005, the EPA issued the CAMR establishing mercury standards for new power plants and requiring all states to issue new SIPs including mercury requirements for existing power plants. The EPA issued a model rule which provides for a two-phase cap and trade program with initial reductions due by 2010 and final reductions due by 2018. The CAMR provided for reductions of 70% from 2003 levels. The EPA closely integrated the CAMR and CAIR programs to ensure that the 2010 mercury reduction targets would be achieved as a "co-benefit" of the controls installed for purposes of compliance with the CAIR. In addition, in 2006, the Metro Louisville Air Pollution Control District adopted rules aimed at regulating additional hazardous air pollutants from sources including power plants.

In February 2008, a federal appellate court issued a decision vacating the CAMR. The EPA has announced that it intends to promulgate a new rule to replace the CAMR. Depending on the final outcome of the rulemaking, the CAMR could be replaced by new mercury reduction rules with different or more stringent requirements. Kentucky has also repealed its corresponding state mercury regulations. At present, LG&E is not able to predict the outcomes of the legal and regulatory proceedings related to the CAMR and whether such outcomes could have a material effect on the Company's financial or operational conditions.

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

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

Installation of Pollution Controls. Many of the programs under the Clean Air Act utilize cap and trade mechanisms that require a company to hold sufficient emissions allowances to cover its authorized emissions on a company-wide basis and do not require installation of pollution controls on every generating unit. Under cap and trade programs, companies are free to focus their pollution control efforts on plants where such controls are particularly efficient and utilize the resulting emission allowances for smaller plants where such controls are not cost effective. LG&E had previously installed flue gas desulfurization equipment on all of its generating units prior to the effective date of the acid rain program. LG&E's strategy for its Phase II SO_2 requirements, which commenced in 2000, is to use accumulated emission allowances to defer additional capital expenditures and LG&E will continue to evaluate improvements to further reduce SO_2 emissions. In order to achieve the NOx emission reductions mandated by the NOx SIP Call, LG&E installed additional NOx controls, including selective catalytic reduction technology, during the 2000 through 2008 time period at a cost of $197 million. In 2001, the Kentucky Commission granted approval to recover the costs incurred by LG&E for these projects through the environmental surcharge mechanisms. Such monthly recovery is subject to periodic review by the Kentucky Commission.

In order to achieve mandated emissions reductions, LG&E expects to incur additional capital expenditures totaling $100 million during the 2009 through 2011 time period for pollution control equipment, and additional operating and maintenance costs in operating such controls. In 2005, the Kentucky Commission granted approval to recover the costs incurred by the Company for these projects through the ECR mechanism. Such monthly recovery is subject to periodic review by the Kentucky Commission. LG&E believes its costs in reducing SO_2, NOx and mercury emissions to be comparable to those of similarly situated utilities with like generation assets. LG&E's compliance plans are subject to many factors including developments in the emission allowance and fuels markets, future legislative and regulatory enactments, legal proceedings and advances in clean air technology. LG&E will continue to monitor these developments to ensure that its environmental obligations are met in the most efficient and cost-effective manner. See "Ambient Air Quality" above for a discussion of CAIR-related uncertainties.

Potential GHG Controls. In 2005, the Kyoto Protocol for reducing GHG emissions took effect, obligating 37 industrialized countries to undertake substantial reductions in GHG emissions. The U.S. has not ratified the Kyoto Protocol and there are currently no mandatory GHG emission reduction requirements at the federal level. Legislation mandating GHG reductions has been introduced in the Congress, but no federal legislation has been enacted to date. In the absence of a program at the federal level, various states have adopted their own GHG emission reduction programs. Such programs have been adopted in various states including 11 northeastern U.S. states and the District of Columbia under the Regional GHG Initiative program and California. Substantial efforts to pass federal GHG legislation are on-going. In April 2007, the U.S. Supreme Court ruled that the EPA has the authority to regulate GHG under the Clean Air Act.

LG&E is monitoring on-going efforts to enact GHG reduction requirements and requirements governing carbon sequestration at the state and federal level and is assessing potential impacts of such programs and strategies to mitigate those impacts. In March 2009, proposed GHG legislation was introduced into Congress recommending the establishment of a cap and trade program to reduce GHG emissions by 3% below 2005 levels by 2012, 20% by 2020, and 83% by 2050. The current draft of the legislation does not indicate in detail whether the cap and trade program will ultimately include allocations, if any, of GHG emission allowances to existing industries, and if so, using what allocation costs, proportions or mechanisms. In addition, the legislation provides for a renewable portfolio standard requiring utilities to generate 25% of their load from renewable energy sources by 2025, promotes the development of carbon capture and storage technology and provides for a low carbon fuel standard. On April 17, 2009, the EPA released a proposed endangerment finding concluding that GHGs endanger public health and welfare, which is an initial rulemaking step under the Clean Air Act. A final endangerment finding could potentially result in EPA regulations governing GHG emissions from motor vehicles, power plants and other sources.

LG&E is unable to predict whether mandatory GHG reduction requirements will ultimately be enacted through legislation or regulations. As a Company with significant coal-fired generating assets, LG&E could be substantially impacted by programs requiring mandatory reductions in GHG emissions, although the precise impact on the operations of LG&E, including the reduction targets and deadlines that would be applicable, cannot be determined prior to the enactment of such programs.

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

General Environmental Proceedings. From time to time, LG&E appears before the EPA, various state or local regulatory agencies and state and federal courts regarding matters involving compliance with applicable environmental laws and regulations. Such matters include remediation obligations or activities for former manufactured gas plant sites or elevated polychlorinated biphenyl levels at existing properties; liability under the Comprehensive Environmental Response, Compensation and Liability Act for cleanup at various off-site waste sites; on-going claims regarding alleged particulate emissions from LG&E's Cane Run station and claims regarding GHG emissions from LG&E's generating stations. With respect to the former manufactured gas plant sites, LG&E has estimated that it could incur additional costs of less than $1 million for remaining clean-up activities under existing approved plans or agreements. Based on analysis to date, the resolution of these matters is not expected to have a material impact on the operations of LG&E.

Note 8 - Segments of Business

LG&E's revenues, net income and total assets by business segment for the three months ended March 31, follow:

(in millions)	2009	2008
LG&E Electric		
Revenues	$ 233	$ 224
Net income	(6)	11
Total assets	2,780	2,680
LG&E Gas		
Revenues	192	191
Net income	11	10
Total assets	730	604
Total		
Revenues	425	415
Net income	5	21
Total assets	3,510	3,284

Note 9 - Related Party Transactions

LG&E, subsidiaries of E.ON U.S. and subsidiaries of E.ON engage in related party transactions. Transactions between LG&E and E.ON U.S. subsidiaries are eliminated upon consolidation of E.ON U.S. Transactions between LG&E and E.ON subsidiaries are eliminated upon consolidation of E.ON. These transactions are generally performed at cost and are in accordance with FERC regulations under the Public Utility Holding Company Act of 2005 and the applicable Kentucky Commission regulations. The significant related party transactions are disclosed below.

Electric Purchases

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

(in millions)	2009	2008
Electric operating revenues from KU	$ 31	$ 27
Purchased power from KU	9	14

restoration following the two storms. The Company filed an application with the Kentucky Commission in April 2009, requesting approval to establish a regulatory asset, and defer for future recovery, approximately $45 million in incremental operation and maintenance expenses related to the storm restoration.

In September 2008, high winds from the remnants of Hurricane Ike passed through the service territory causing significant outages and system damage. In October 2008, LG&E filed an application with the Kentucky Commission requesting approval to establish a regulatory asset, and defer for future recovery, approximately $24 million of expenses related to the storm restoration. In December 2008, the Kentucky Commission issued an Order allowing the Company to establish a regulatory asset of up to $24 million based on its actual costs for storm damages and service restoration due to Hurricane Ike.

Environmental Matters

Protection of the environment is a major priority for LG&E. Federal, state and local regulatory agencies have issued LG&E permits for various activities subject to air quality, water quality and waste management laws and regulations. Recent developments indicate an increased possibility of significant climate-change or greenhouse gas legislation or regulation, particularly at the federal level. While the final terms and impacts of such initiatives cannot be estimated, as a primarily coal-fueled utility, LG&E could be highly affected by such proceedings. Ultimately, environmental matters or potential environmental matters can represent an important element of current or future capital requirements, operating and maintenance expenses or compliance risks for the Company. See Note 7 of Notes to Financial Statements for more information.

Results of Operations

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

Three Months Ended March 31, 2009, Compared to
Three Months Ended March 31, 2008

Net Income

Net income for the three months ended March 31, 2009, decreased $16 million compared to the same period in 2008. The decrease was primarily the result of increased operating expense ($48 million), partially offset by increased revenues ($10 million), increased other income – net ($10 million), decreased income taxes ($10 million) and decreased interest expense ($2 million).

Revenues

Electric revenues increased $9 million in the three months ended March 31, 2009, primarily due to:

- Increased fuel costs billed to customers through the FAC ($12 million) due to increased fuel prices
- Decreased merger surcredit ($4 million) due to a lower rate approved by the Kentucky Commission in June 2008 and the surcredit termination in February 2009
- Increased ECR surcharge ($3 million) due to increased recoverable capital spending
- Decreased VDT surcredit ($2 million) due to its termination in August 2008

- Decreased retail sales volumes delivered ($8 million) due to weakening economic conditions, significant 2009 storm outages and a 3% decrease in heating degree days
- Decreased wholesale sales ($5 million) due to lower sales volumes with third-parties ($7 million) and decreased third-party prices ($3 million) as a result of lower prices in the spot energy market. Decreased sales were partially offset by increased volumes to KU ($3 million) as a result of excess generation made available by KU via a mutual agreement. LG&E sells its lower cost electricity to KU to serve its native load and purchases KU's excess economic capacity for wholesale sales. Both LG&E and KU experienced lower wholesale sales due to more scheduled coal-fired generation unit outages during the first quarter of 2009, and KU units held in reserve as a result of low spot market pricing in March 2009. Wholesale sales also increased due to higher fuel costs for sales to KU ($1 million) and gains in energy marketing financial swaps ($1 million).

Natural gas revenues increased $1 million in the three months ended March 31, 2009, primarily due to:

- Increased average cost of gas billed to retail customers through the GSC ($22 million) due to increased natural gas supply costs
- Decreased VDT surcredit ($1 million) due to its termination in August 2008
- Increased base rates ($1 million) due to application of the base rate case settlement in February 2009
- Decreased sales volumes ($15 million) due to weakening economic conditions and a 3% decrease in heating degree days
- Decreased wholesale sales ($7 million) due to lower demand from wholesale customers

Expenses

Fuel for electric generation and natural gas supply expense comprise a large component of total operating expenses. Increases or decreases in the costs of fuel and natural gas supply are reflected in retail rates through the FAC and GSC, subject to the approval of the Kentucky Commission.

Fuel for electric generation increased $11 million in the three months ended March 31, 2009, primarily due to:

- Increased commodity and transportation costs for coal ($13 million)
- Decreased volumes of coal usage ($3 million) due to decreased native load

Power purchased expense decreased $5 million in the three months ended March 31, 2009, primarily due to:

- Decreased purchased volumes from KU via a mutual agreement ($6 million) whereby LG&E purchases KU's excess economic capacity for wholesale sales. Energy available for purchase was reduced due to KU's increased scheduled coal-fired generation unit outages and KU's units held in reserve as a result of low spot market pricing in March 2009.
- Increased prices for purchases from KU ($1 million) due to higher fuel costs

Gas supply expenses decreased $3 million in the three months ended March 31, 2009, due to:

- Decreased expense ($6 million) due to a decline in volume of wholesale sales of purchased gas

- Increased cost of net gas supply billed to customers ($3 million) due to higher GSC expenses partially offset by lower volumes and cost per Mcf

Other operation and maintenance expense increased $43 million in the three months ended March 31, 2009, due to increased maintenance expense ($32 million) and increased other operation expense ($11 million).

Maintenance expense increased $32 million in the three months ended March 31, 2009, primarily due to:

- Increased distribution expense ($34 million) due to tree trimming and maintenance of overhead lines and line transformers as a result of 2009 winter storm restoration
- Increased transmission expense ($1 million) due to maintenance of overhead conductors and devices resulting from 2009 winter storm restoration
- Decreased boiler and electric maintenance expense ($4 million) due to decreased scheduled unit outages

Other operation expense increased $11 million in the three months ended March 31, 2009, primarily due to:

- Increased pension expense ($5 million) due to lower 2008 pension asset investment performance
- Increased distribution expense ($4 million) due to repair of overhead lines and administrative support costs, including increased call center support and public safety response team support, as a result of 2009 winter storm restoration
- Increased administrative and general expense ($2 million) due to consulting fees for software training and increased labor and benefit costs
- Increased property taxes ($1 million) due to an increase in property tax rates
- Decreased transmission expense ($1 million) due to the establishment of regulatory assets approved by the Kentucky Commission for EKPC settlement and MISO refund

Interest expense, including interest expense to affiliated companies, decreased $2 million in the three months ended March 31, 2009, primarily due to lower interest rates on bonds ($3 million) offset by interest on increased borrowings to affiliated companies ($1 million).

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

	Three Months Ended March 31, 2009	2008
Statutory federal income tax rate	35.0 %	35.0 %
State income taxes, net of federal benefit	(6.4)	2.7
Qualified production activities deduction	(10.2)	(1.4)
Amortization of investment tax credits	(17.2)	(3.2)
Other differences	(1.2)	(0.9)
Effective income tax rate	0.0 %	32.2 %

The effective income tax rate decreased for the three months ended March 31, 2009, compared to the three months ended March 31, 2008, due to decreased pretax income resulting from the 2009 winter storm expenses. The variances between the individual line items are primarily due to

Controls and Procedures

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

LG&E is not subject to the internal control and other requirements of the Sarbanes-Oxley Act of 2002 and associated rules (the "Act") and consequently is not required to evaluate the effectiveness of the Company's internal control over financial reporting pursuant to Section 404 of the Act. However, management has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2008 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework*. Management has concluded that, as of December 31, 2008, the Company's internal control over financial reporting was effective based on those criteria. There has been no change in the Company's internal control over financial reporting that occurred during the three months ended March 31, 2009, that has materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2008, was audited by PricewaterhouseCoopers LLP, an independent accounting firm, as stated in its report which is included in the 2008 LG&E Annual Report.

Legal Proceedings

For a description of the significant legal proceedings involving LG&E, reference is made to the information under the following captions of LG&E's Annual Report for the year ended December 31, 2008: Business, Risk Factors, Legal Proceedings, Management's Discussion and Analysis, Financial Statements and Notes to Financial Statements. Reference is also made to the matters described in Notes 2 and 7 of this quarterly report. Except as described in this quarterly report, to date, the proceedings reported in LG&E's Annual Report for the year ended December 31, 2008 have not materially changed.

Other

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